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The Kaufman Report

Trade what you see, not what you think.

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Wednesday August 26, 2009

The following opinion expresses the views of the editor and not those of John Thomas Financial

Monday's papers were filled with glowing accounts of an historic event in the world of sports. In the ninth inning of the Phillies versus Mets baseball game Sunday afternoon second baseman Eric Bruntlett gave the Phillies a victory by ending the game with an unassisted triple play. Unassisted triple plays are very rare, with only fifteen ever recorded in major league play. Even rarer is a game ending triple play, with that having occurred only twice, the last time on May 31, 1927 by the Detroit Tigers first baseman Johnny Neun.

Amidst the glowing accounts was little mention that had Bruntlett not misplayed two ground balls during that fateful inning the game would have ended without Bruntlett having the chance to make a play for the ages. Still, even though his feckless attempts to field ground balls resembled a three-year old with a fork trying to stab a noodle, a fortuitous line drive hit directly at him allowed Bruntlett to go down in history as a defensive hero.

Wednesday's papers will be filled with glowing accounts of an historic event in the world of finance. Ben Bernanke was nominated by Barack Obama to a second term as chairman of the Federal Reserve. Like Eric Bruntlett, Bernanke is being feted for saving the day and keeping the financial system from a collapse unlike any the world has seen since the years just after Johnny Neun's famous play. President Obama acclaimed Bernanke's success and said "Ben approached a financial system on the verge of collapse with calm and wisdom, with bold action and out-of-the-box thinking that has helped put the brakes on our economic free fall."

Amid the glowing accounts was little mention that like Bruntlett, Bernanke's own ineptitude helped create the situation that allowed him to become a hero. In 2007 Mr. Bernanke testified before a Senate committee that the then inverted yield curve "does not necessarily predict slowing in the economy or a recession." Mr. Bernanke said he believed "the yield curve can be inverted for a considerable period without significant implications for the economy as a whole."

Along with his completely incorrect interpretation of the yield curve, as recently as August and September of 2008 the FOMC statements showed strong concerns about the threat of inflation. That one didn't work out so well either. Finally, during the entire housing bubble/derivatives/securitization/credit ratings/etc. debacle where was Mr. Bernanke? Strike three, you're out!

So, like Eric Bruntlett, Ben Bernanke set the table for his own game saving play. Now, having done the obvious and flooded the system with liquidity, Mr. Bernanke is being hailed as a hero. President Obama nominated him for two possible reasons. One, if he got rid of Bernanke and the economy suffered another rout in 2010 Obama would be excoriated. Two, Obama may be an adherent of the time honored wisdom that "the devil you know is better than the devil you don't know."

Either way, let's all hope that history doesn't repeat itself and the economy does not go into the long-term trend that followed the first unassisted triple play in 1927. That would certainly be damaging to the reputations of Bernanke, Summers, Romer, Geithner, Bernstein, and Obama. Or maybe not. After all, they can always blame it on Bush.

IMPORTANT DISCLOSURES

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Wednesday August 26, 2009 **Closing prices of August 25, 2009**

Stocks were mixed Tuesday as they rallied on news of better than expected home prices and President Obama's appointment of Ben Bernanke to another term as chairman of the FOMC. Unfortunately they sold off in the afternoon as an overbought condition began to take its toll. Bearish candles were printed on the daily charts of both the S&P 500 and the Nasdaq 100.

With September's well-known reputation as the weakest month of the year and October being famous for market crashes there are many market forecasters who are predicting another plummet in equities during this time period. While we are expecting a big increase in volatility, unless the recent reluctance on the part of investors to part with their stocks changes, we do not expect pullbacks to be too deep. Still, with stocks overbought and sellers coming in at these levels investors need to be cautious in the near-term.

Caution is advised regarding entry points and we repeat our advice that investors use stop losses to make sure losses remain manageable. Very aggressive traders can enter short keeping in mind shorting is counter trend at this time and they may need to cover quickly.

Based on the S&P 500 the short-term, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

The S&P 1500 (234.66) was up 0.261% Tuesday. Average price per share was up 0.47%. Volume was 100% of its 10-day average and 91% of its 30-day average. 60.20% of the S&P 1500 stocks were up, with up volume at 51.31% and up points at 66.94%. Up Dollars was 75.39% of total dollars, and was 65% of its 10-day moving average. Down Dollars was 35% of its 10-day moving average.

Percent over 10-sma: 80.73%. 13-Week Closing Highs: 43. 13-Week Closing Lows: 12.
Put/Call Ratio: 0.808. Kaufman Options Indicator: 0.98.

P/E Ratios: **107.69 (before charges),** 19.01 (continuing operations), 17.61 (analyst estimates).
*P/E Yield 10-year Bond Yield Spreads: **-73% (earnings bef. charges),** 52% (earnings continuing ops), and 65% (projected earnings).*

489 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.3% had positive surprises, 8.6% were in line, and 19.1% have been negative. The year-over-year change has been -28.9% on a share-weighted basis, -21.3% market cap-weighted and -25.4% non-weighted. Ex-financial stocks these numbers are -27.8%, -23.0%, and -27.3 %, respectively.

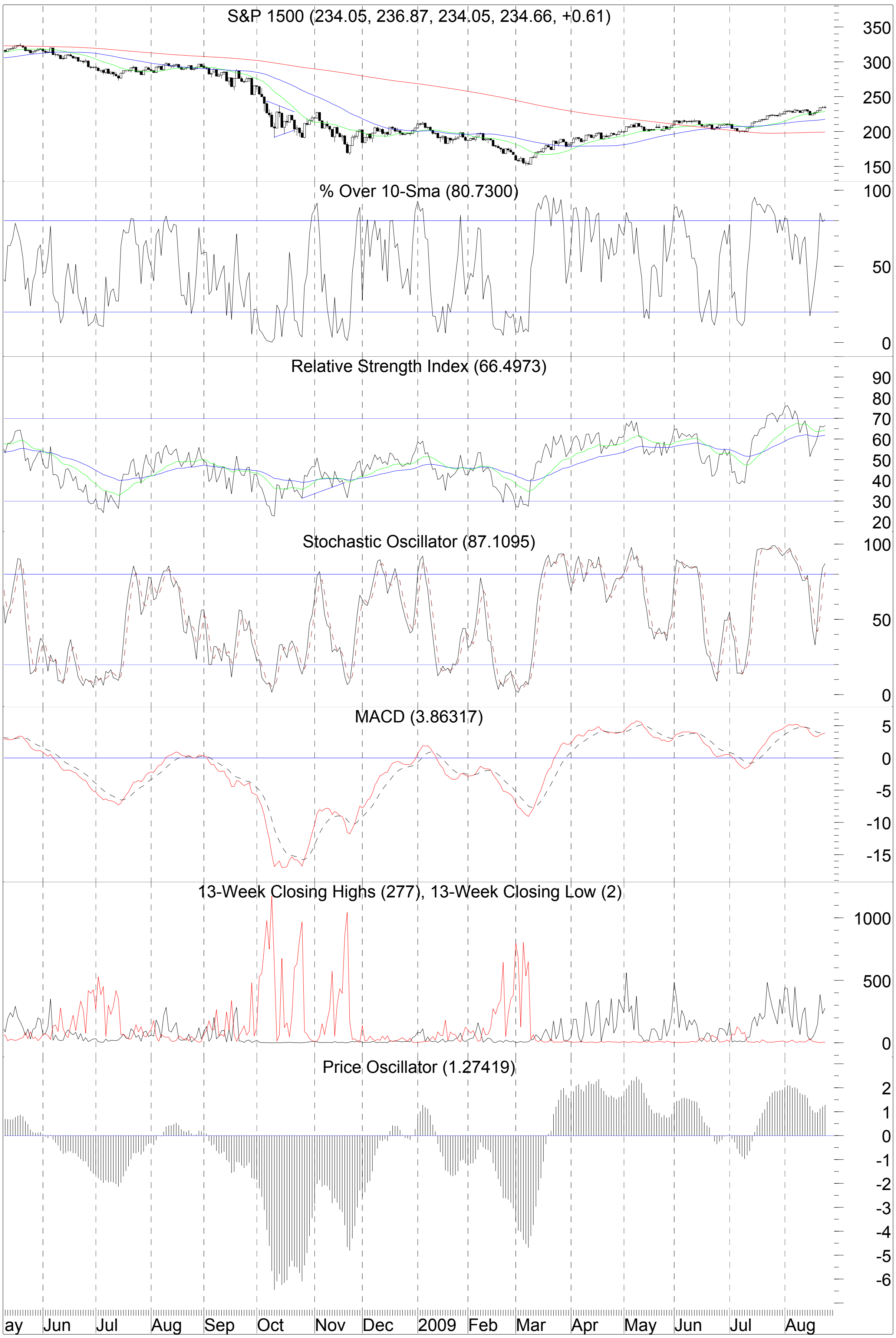
	Daily	WTD	5-Days	MTD	QTD	YTD
Bank of New York Mellon ADR	0.54%	0.39%	3.97%	3.75%	14.43%	23.23%
S&P Midcap 400	0.49%	0.09%	3.80%	5.11%	14.19%	22.64%
S&P Smallcap 600	0.41%	0.25%	4.58%	4.31%	14.96%	14.79%
NYSE Composite	0.39%	0.31%	4.04%	4.25%	13.41%	16.33%
Dow Jones Industrials	0.32%	0.35%	3.49%	4.01%	12.93%	8.69%
Nasdaq 100	0.31%	0.13%	3.37%	2.28%	11.01%	35.34%
Nasdaq Composite	0.31%	0.16%	3.49%	2.31%	10.31%	28.36%
S&P 1500	0.26%	0.18%	3.89%	4.19%	12.12%	14.51%
S&P 500	0.24%	0.18%	3.87%	4.10%	11.82%	13.81%

	Daily	WTD	5-Days	MTD	QTD	YTD
Consumer Discretionary	1.21%	0.26%	4.08%	4.35%	14.13%	22.71%
Financials	1.12%	0.19%	4.93%	12.17%	22.03%	16.22%
Industrials	0.65%	0.77%	4.52%	5.95%	15.75%	6.85%
Health Care	0.35%	0.73%	3.76%	3.28%	9.23%	8.19%
Consumer Staples	0.15%	0.01%	2.31%	0.85%	7.06%	3.38%
Information Technology	0.11%	0.03%	3.04%	2.53%	11.90%	38.84%
Telecom Services	0.08%	0.27%	3.55%	-1.45%	2.10%	-4.77%
Materials	-0.37%	-1.20%	2.81%	2.69%	16.36%	30.64%
Utilities	-0.48%	-0.31%	3.00%	1.65%	5.40%	1.10%
Energy	-1.36%	-0.07%	5.49%	2.44%	6.84%	3.38%

	Daily	WTD	5-Days	MTD	QTD	YTD
Automobiles & Components	2.30%	-1.76%	-0.51%	-3.57%	25.07%	81.98%
Retailing	1.78%	0.20%	3.51%	3.51%	13.81%	31.45%
Insurance	1.62%	1.41%	7.23%	14.72%	27.78%	12.17%
Consumer Durables & Apparel	1.51%	0.93%	4.06%	5.32%	21.59%	20.20%
Food & Staples Retailing	1.40%	1.45%	3.23%	4.74%	8.88%	2.86%
Diversified Financials	1.20%	0.63%	4.80%	11.89%	22.01%	34.34%
Real Estate	1.18%	0.19%	5.62%	10.62%	22.25%	2.04%
Consumer Services	1.08%	-0.02%	3.37%	5.37%	8.51%	9.62%
Semiconductors & Equipment	0.85%	-0.14%	1.98%	-0.14%	15.54%	38.90%
Capital Goods	0.78%	1.15%	5.03%	6.31%	16.43%	6.84%
Banks	0.43%	-2.06%	3.08%	11.25%	17.17%	-8.85%
Transportation	0.43%	-0.21%	2.98%	4.56%	15.83%	8.34%
Health Care Equip & Services	0.38%	1.09%	4.14%	5.68%	11.68%	19.43%
Pharmaceuticals, Biotech & Life Sciences	0.34%	0.57%	3.60%	2.24%	8.18%	3.63%
Household & Personal Products	0.32%	-0.19%	2.11%	-2.23%	6.40%	-5.75%
Media	0.27%	0.68%	6.32%	6.17%	13.60%	15.74%
Software & Services	0.12%	0.64%	3.95%	4.20%	8.08%	31.69%
Telecom Services	0.08%	0.27%	3.55%	-1.45%	2.10%	-4.77%
Commercial & Professional Services	-0.11%	-0.23%	3.84%	6.42%	8.67%	2.89%
Technology Hardware & Equipment	-0.12%	-0.40%	2.64%	2.03%	13.96%	44.87%
Materials	-0.37%	-1.20%	2.81%	2.69%	16.36%	30.64%
Utilities	-0.48%	-0.31%	3.00%	1.65%	5.40%	1.10%
Food, Beverage & Tobacco	-0.56%	-0.62%	1.93%	0.41%	6.45%	8.66%
Energy	-1.36%	-0.07%	5.49%	2.44%	6.84%	3.38%

The S&P 500 printed its second bearish candle in a row Tuesday after making another post-March rally high. Tuesday's shooting star shows buyers being met by sellers and should be viewed by investors a a sign to be cautious.

After making another post-March rally high, the Nasdaq 100 sold off and Tuesday and printed a doji candle on the daily chart. Doji are signs of indecision that frequently mark the end of trends. This doji resembles a bearish shooting star and a gravestone doji, both of which mark the ends of up moves.



The percent over 10-sma is still overbought at 80.73%.

The RSI has a negative divergence.

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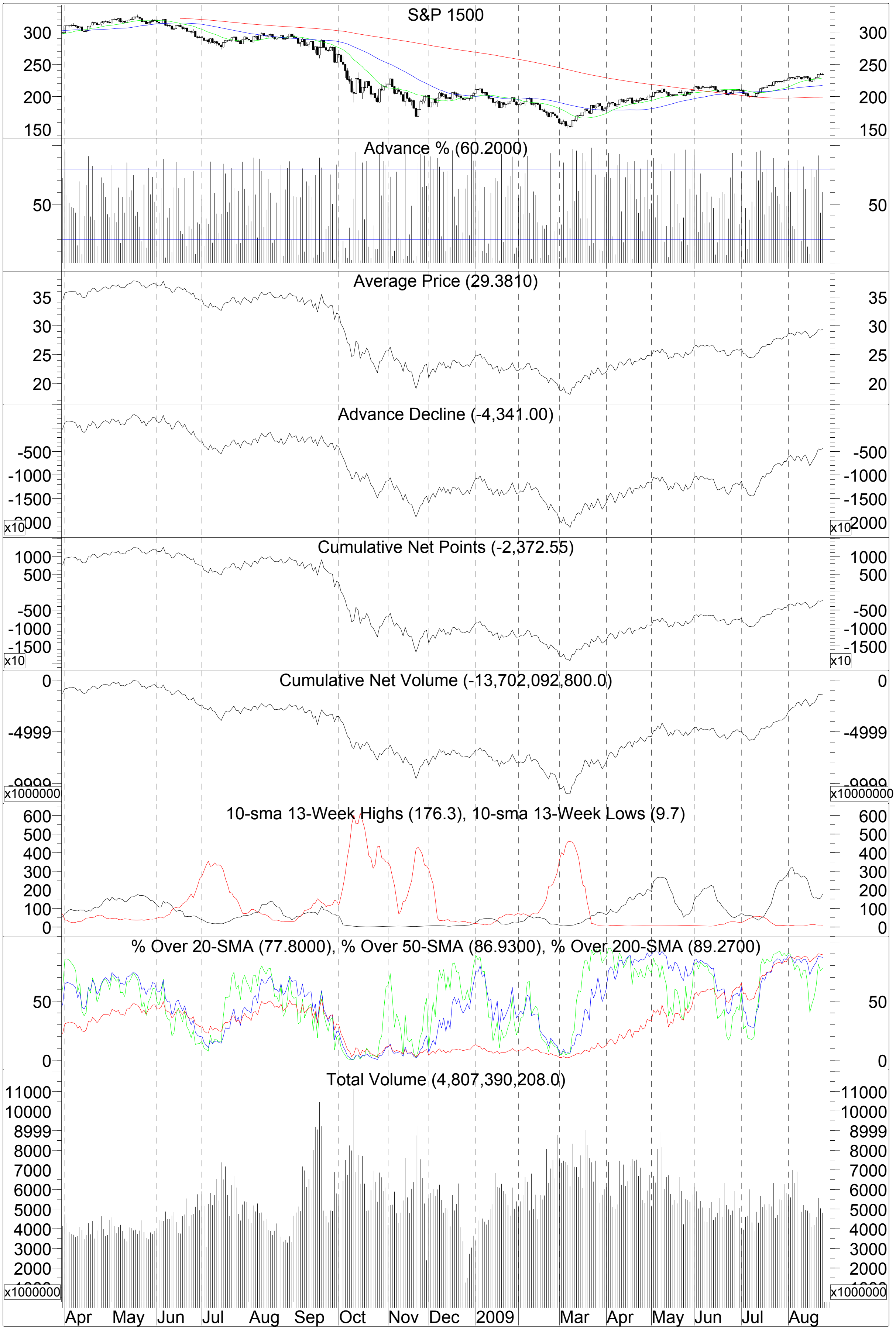
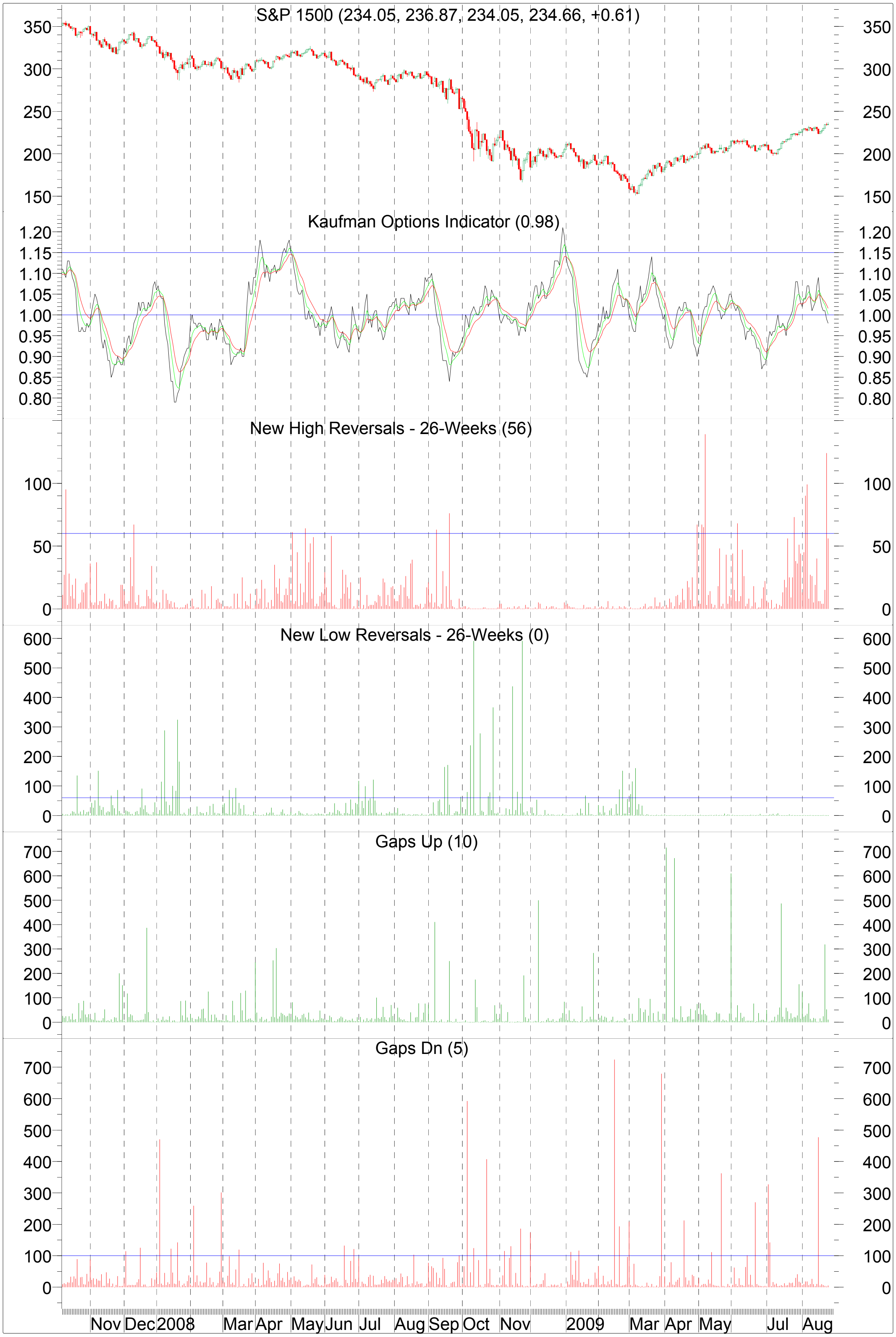


On Friday 90.00% of stocks in the S&P 1500 were over their own 200-sma, an amazing number.



Our proprietary options indicator is beginning to show pessimism on the part of options buyers. Pessimism is actually good for the market. Still, this indicator can go much lower.

The big increase in new high reversals Monday (124) and Tuesday (56) shows an increased desire to take profits on the part of investors.