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The Kaufman Report

Trade what you see, not what you think.

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Thursday August 6, 2009 **Closing prices of August 5, 2009**

Stocks were weak Wednesday and may finally be starting the universally awaited pullback or consolidation. Whether or not we see real weakness or just sector rotation remains to be seen. The Nasdaq 100 was weaker than the Dow Industrials and S&P 500, and it printed a bearish engulfing candle on the daily chart. We repeat our advice that investors use stop losses to make sure losses remain manageable.

While money started coming out of technology it continued to flow into Financials, which was the leading sector on the day with a 3.33% gain. Materials was the only other sector up on the day with a gain of 0.75%. The other eight sectors were down, led by Telecom which was down 1.82%. With former lagging groups like Banks, Real Estate, and Insurance moving sharply higher recently maybe the leaders just need a pause.

Thursday's Jobless Claims and Friday's Payrolls Report will be important factors regarding the depth of any further weakness we see in stocks. We will be looking at Average Weekly Hours to try to get clues regarding future employment trends. Until employers start to ask more from current workers, new hiring will not be in the picture.

We continue to be baffled by the earnings picture. Aggregate earnings from continuing operations and earnings before charges continue to drop. **Since July 1st earnings before charges have dropped 25.4% and earnings from continuing operations have fallen 9.41%.** Forecast earnings have gone up 1.17% in that time, and they are up 5.07% since bottoming in May. Obviously this is creating hope in the minds of investors. Hopefully this will not turn out to be another example of overly optimistic analysts, who were very late in lowering numbers as the recession started and progressed.

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. Very aggressive traders can short overbought conditions keeping in mind shorting is counter-trend and they may need to cover quickly.

The S&P 1500 (228.87) was down 0.314% Wednesday. Average price per share was down 0.56%. Volume was 123% of its 10-day average and 136% of its 30-day average. 31.29% of the S&P 1500 stocks were up, with up volume at 66.16% and up points at 34.12%. Up Dollars was 20.86% of total dollars, and was 25% of its 10-day moving average. Down Dollars was 270% of its 10-day moving average.

Percent over 10-sma: 65.67%. 13-Week Closing Highs: 230. 13-Week Closing Lows: 13.
Put/Call Ratio: 0.739. Kaufman Options Indicator: 1.04.

P/E Ratios: 82.96 (before charges), 17.65 (continuing operations), 17.12 (analyst estimates).
*P/E Yield 10-year Bond Yield Spreads: **-68% (earnings bef. charges),** 51% (earnings continuing ops), and 55% (projected earnings).*

416 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.4% had positive surprises, 8.4% were in line, and 19.2% have been negative. The year-over-year change has been -30.8% on a share-weighted basis, -24.1% market cap-weighted and -27.9% non-weighted. Ex-financial stocks these numbers are -29.5%, -23.9%, and -27.1 %, respectively.

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	Daily	WTD	MTD	QTD	YTD
Financials	3.33%	8.29%	8.29%	17.80%	12.19%
Materials	0.75%	4.14%	4.14%	18.00%	32.48%
Consumer Discretionary	-0.59%	1.61%	1.61%	11.13%	19.49%
Industrials	-0.68%	1.88%	1.88%	11.30%	2.75%
Information Technology	-0.87%	0.47%	0.47%	9.65%	36.06%
Utilities	-0.93%	-1.37%	-1.37%	2.27%	-1.90%
Consumer Staples	-1.00%	-0.62%	-0.62%	5.50%	1.88%
Energy	-1.04%	1.00%	1.00%	5.34%	1.93%
Health Care	-1.25%	-0.74%	-0.74%	4.98%	3.98%
Telecom Services	-1.82%	-1.71%	-1.71%	1.82%	-5.03%

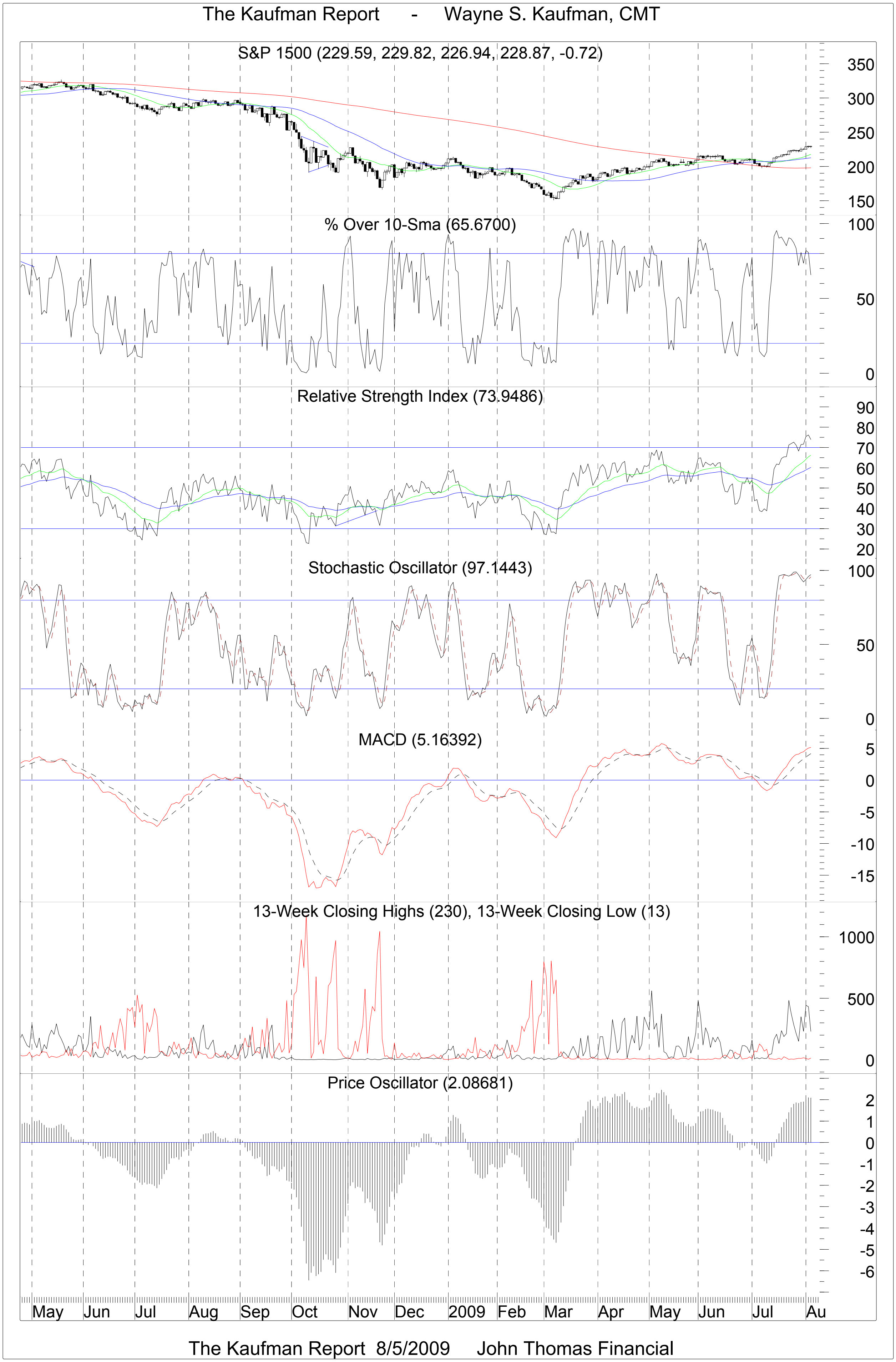
	Daily	WTD	MTD	QTD	YTD
Banks	4.42%	11.64%	11.64%	17.58%	-8.53%
Real Estate	3.86%	11.14%	11.14%	22.82%	2.51%
Diversified Financials	3.50%	7.11%	7.11%	16.80%	28.60%
Insurance	1.34%	6.90%	6.90%	19.07%	4.52%
Materials	0.75%	4.14%	4.14%	18.00%	32.48%
Automobiles & Components	0.46%	4.28%	4.28%	35.26%	96.80%
Consumer Durables & Apparel	-0.10%	2.27%	2.27%	18.07%	16.72%
Food & Staples Retailing	-0.20%	0.00%	0.00%	3.95%	-1.80%
Consumer Services	-0.32%	2.54%	2.54%	5.60%	6.68%
Retailing	-0.38%	0.31%	0.31%	10.28%	27.38%
Commercial & Professional Services	-0.50%	0.63%	0.63%	2.75%	-2.71%
Capital Goods	-0.56%	2.16%	2.16%	11.88%	2.67%
Software & Services	-0.66%	0.87%	0.87%	4.64%	27.49%
Food, Beverage & Tobacco	-0.82%	-0.13%	-0.13%	5.88%	8.08%
Technology Hardware & Equipment	-0.84%	0.38%	0.38%	12.11%	42.52%
Utilities	-0.93%	-1.37%	-1.37%	2.27%	-1.90%
Energy	-1.04%	1.00%	1.00%	5.34%	1.93%
Transportation	-1.15%	1.30%	1.30%	12.23%	4.97%
Health Care Equip & Services	-1.19%	-0.60%	-0.60%	5.05%	12.34%
Pharmaceuticals, Biotech & Life Sciences	-1.27%	-0.80%	-0.80%	4.96%	0.55%
Media	-1.46%	1.79%	1.79%	8.92%	10.97%
Semiconductors & Equipment	-1.53%	-0.24%	-0.24%	15.42%	38.76%
Telecom Services	-1.82%	-1.71%	-1.71%	1.82%	-5.03%
Household & Personal Products	-2.19%	-2.26%	-2.26%	6.37%	-5.78%

The Kaufman Report - Wayne S. Kaufman, CMT

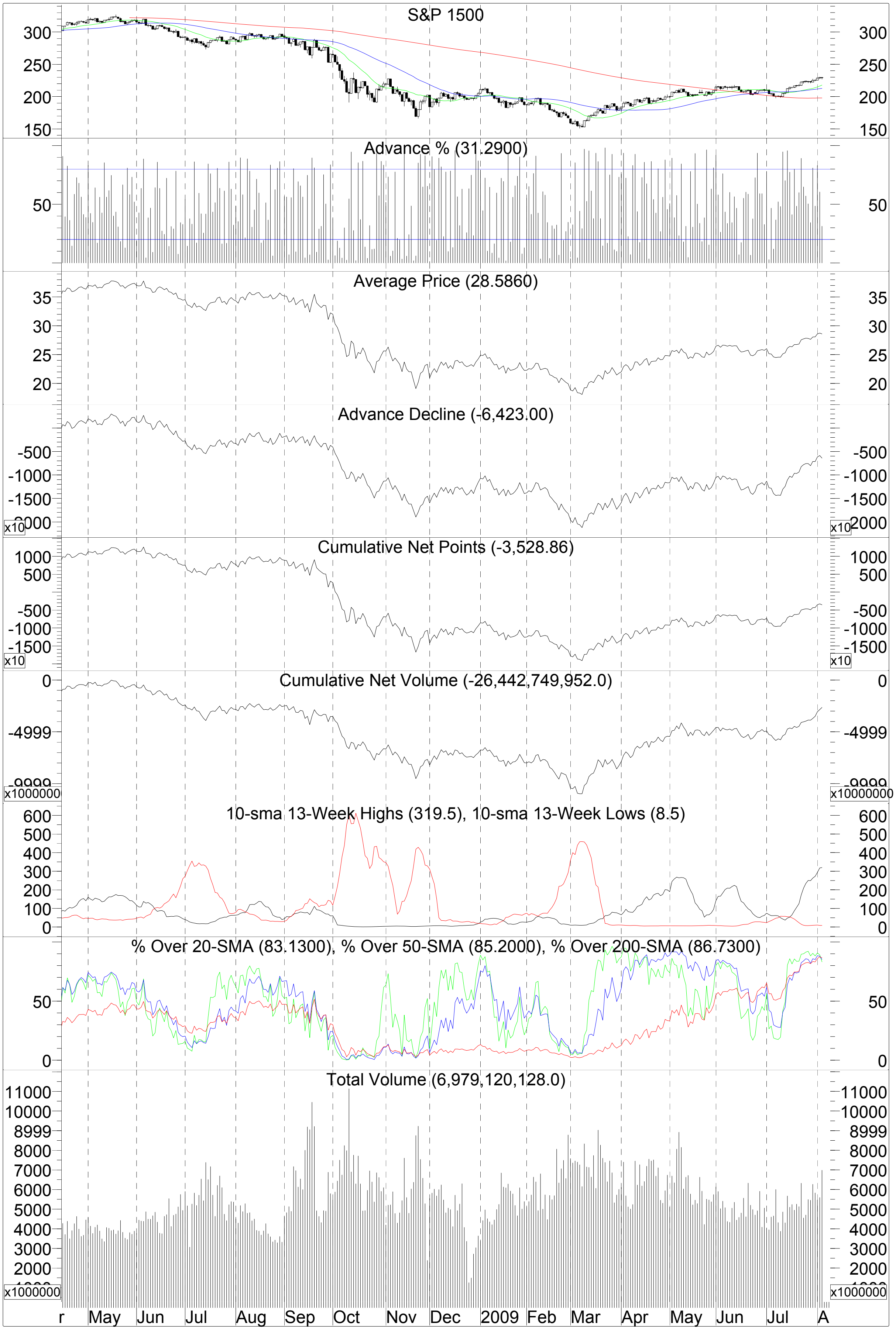
The Kaufman Report 8/5/2009 John Thomas Financial

The S&P 500 printed another bearish hanging man candle on Wednesday. A hanging man needs confirmation in the next session, and the market shrugged off the one on 7/28.

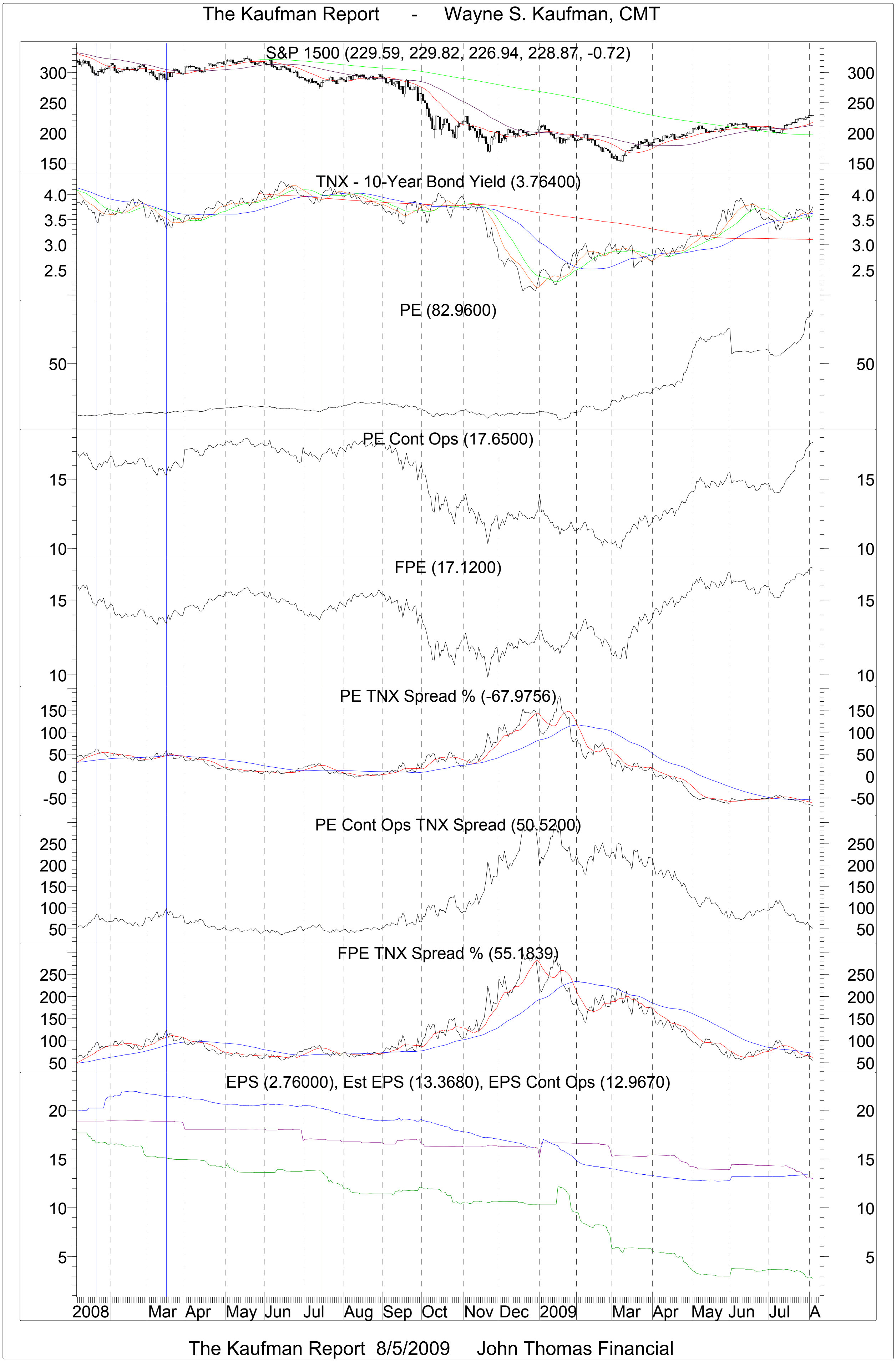
The Nasdaq 100 printed a bearish engulfing candle on the daily chart Wednesday, so if we are going to get the universally awaited pullback this is the time. In spite of Monday's and Tuesday's rally days, the bearish shooting star candle of June 30th is proving too tough for the bulls to overcome.



The percent over 10-sma has dropped to 65.67. Other momentum indicators remain at high levels.



Volume expanded Wednesday.



P/E ratios are at very high levels.

Earnings before and after charges continue their inexorable move lower.