

Friday August 7, 2009

Closing prices of August 6, 2009

We said yesterday stocks may finally be starting the universally awaited pullback or consolidation. They were weak again Thursday with the S&P 500 printing a new rally high but reversing to finish down on the day. 99 stocks in the S&P 1500 made 26-week intra-day highs but closed lower on the day, showing investors rushing to take profits and a number that foreshadows more weakness. Our proprietary options indicator is still showing bullishness on the part of options buyers, leaving stocks vulnerable to a sharp drop. With little in the way of support levels nearby and momentum indicators turning down from high levels **caution is advised 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.**

Friday's Payrolls Report will be important 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 concerned by the earnings picture. Aggregate earnings from continuing operations and earnings before charges continue to drop. **Since July 1<sup>st</sup> earnings before charges have dropped 42.7% and earnings from continuing operations have fallen 9.41%.** Forecast earnings have gone up 1.17% in that time, and they are up 7.9% 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 (227.47) was down 0.612 % Thursday. Average price per share was down 0.91%. Volume was 112% of its 10-day average and 122% of its 30-day average. 28.87% of the S&P 1500 stocks were up, with up volume at 53.87% and up points at 22.93%. Up Dollars was 12.95% of total dollars, and was 22% of its 10-day moving average. Down Dollars was 233% of its 10-day moving average.

Percent over 10-sma: 54.13%. 13-Week Closing Highs:124. 13-Week Closing Lows: 21.  
Put/Call Ratio: 0.915. Kaufman Options Indicator: 1.07.

P/E Ratios: **107.25 (before charges)**, 17.54 (continuing operations), 17.08 (analyst estimates).  
P/E Yield 10-year Bond Yield Spreads: **-75% (earnings bef. charges)**, 52% (earnings continuing ops), and 56% (projected earnings).

441 of the S&P 500 have reported 2<sup>nd</sup> quarter earnings. According to Bloomberg, 71.9% had positive surprises, 8.4% were in line, and 19.7% have been negative. The year-over-year change has been -30.6% on a share-weighted basis, -24.1% market cap-weighted and -27.9% non-weighted. Ex-financial stocks these numbers are -29.4%, -24.0%, and -27.4 %, respectively.

## IMPORTANT DISCLOSURES

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	Daily	WTD	MTD	QTD	YTD
Industrials	0.59%	2.48%	2.48%	11.95%	3.35%
Utilities	0.18%	-1.19%	-1.19%	2.45%	-1.72%
Consumer Discretionary	-0.11%	1.49%	1.49%	11.00%	19.35%
Materials	-0.59%	3.52%	3.52%	17.30%	31.70%
Financials	-0.69%	7.54%	7.54%	16.98%	11.42%
Information Technology	-0.71%	-0.24%	-0.24%	8.88%	35.09%
Energy	-0.76%	0.23%	0.23%	4.54%	1.15%
Consumer Staples	-0.86%	-1.48%	-1.48%	4.59%	1.00%
Health Care	-1.00%	-1.73%	-1.73%	3.93%	2.94%
Telecom Services	-1.15%	-2.84%	-2.84%	0.65%	-6.12%

	Daily	WTD	MTD	QTD	YTD
Retailing	1.12%	1.44%	1.44%	11.52%	28.81%
Capital Goods	1.06%	3.24%	3.24%	13.06%	3.75%
Utilities	0.18%	-1.19%	-1.19%	2.45%	-1.72%
Food, Beverage & Tobacco	-0.01%	-0.15%	-0.15%	5.87%	8.06%
Consumer Durables & Apparel	-0.02%	2.25%	2.25%	18.05%	16.70%
Food & Staples Retailing	-0.39%	-0.39%	-0.39%	3.54%	-2.18%
Diversified Financials	-0.42%	6.66%	6.66%	16.31%	28.06%
Media	-0.45%	1.33%	1.33%	8.42%	10.47%
Software & Services	-0.55%	0.32%	0.32%	4.06%	26.78%
Materials	-0.59%	3.52%	3.52%	17.30%	31.70%
Transportation	-0.61%	0.68%	0.68%	11.54%	4.32%
Banks	-0.68%	10.89%	10.89%	16.79%	-9.15%
Technology Hardware & Equipment	-0.71%	-0.33%	-0.33%	11.32%	41.51%
Energy	-0.76%	0.23%	0.23%	4.54%	1.15%
Commercial & Professional Services	-0.76%	-0.14%	-0.14%	1.96%	-3.45%
Health Care Equip & Services	-0.95%	-1.54%	-1.54%	4.05%	11.27%
Pharmaceuticals, Biotech & Life Sciences	-1.02%	-1.82%	-1.82%	3.88%	-0.48%
Semiconductors & Equipment	-1.13%	-1.37%	-1.37%	14.12%	37.19%
Consumer Services	-1.15%	1.36%	1.36%	4.39%	5.45%
Telecom Services	-1.15%	-2.84%	-2.84%	0.65%	-6.12%
Real Estate	-1.20%	9.80%	9.80%	21.34%	1.28%
Insurance	-1.36%	5.44%	5.44%	17.44%	3.10%
Automobiles & Components	-2.61%	1.56%	1.56%	31.73%	91.67%
Household & Personal Products	-3.18%	-5.37%	-5.37%	2.99%	-8.77%

S&P 500 Cash (1,004.06, 1,008.00, 992.49, 997.08, -5.64)



Two days of selling with no support nearby leaves the S&P 500 looking vulnerable to a further drop.

Fibonacci retracements of the last rally leg would take the index to 955 (38.2%) and 939 (50%).

Momentum indicators are turning down from high levels.

NASDAQ 100 (1,618.01, 1,623.25, 1,595.36, 1,600.29, -14.15)

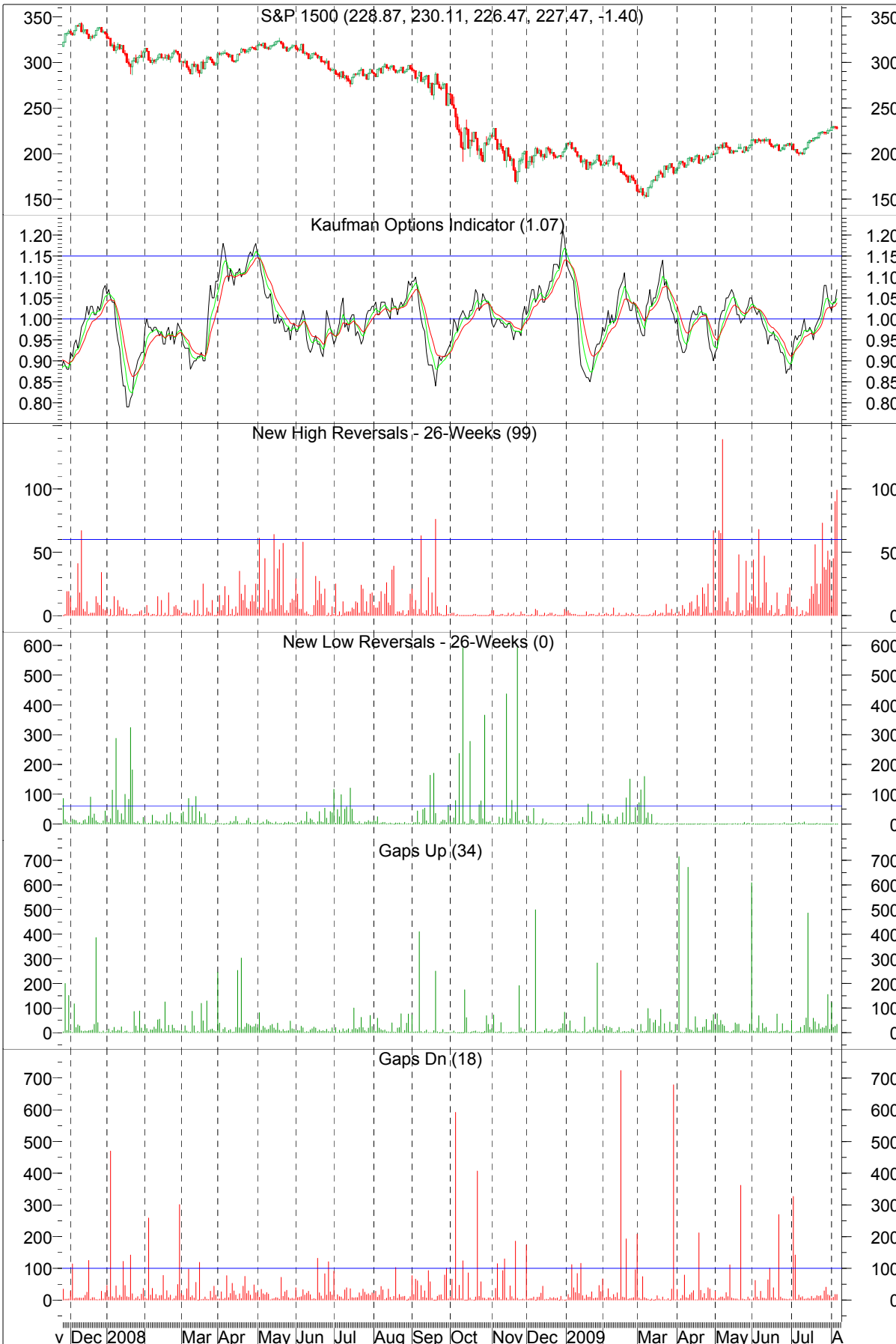


The Nasdaq 100 followed through to the downside Thursday after Wednesday's bearish engulfing candle. The bearish shooting star candle on 7/31 was a warning about future weakness. With momentum indicators turning down from high levels investors need to be defensive.

Fibonacci retracement levels of the last rally leg would take the index down to 1542 (38.2%) and 1514 (50%).

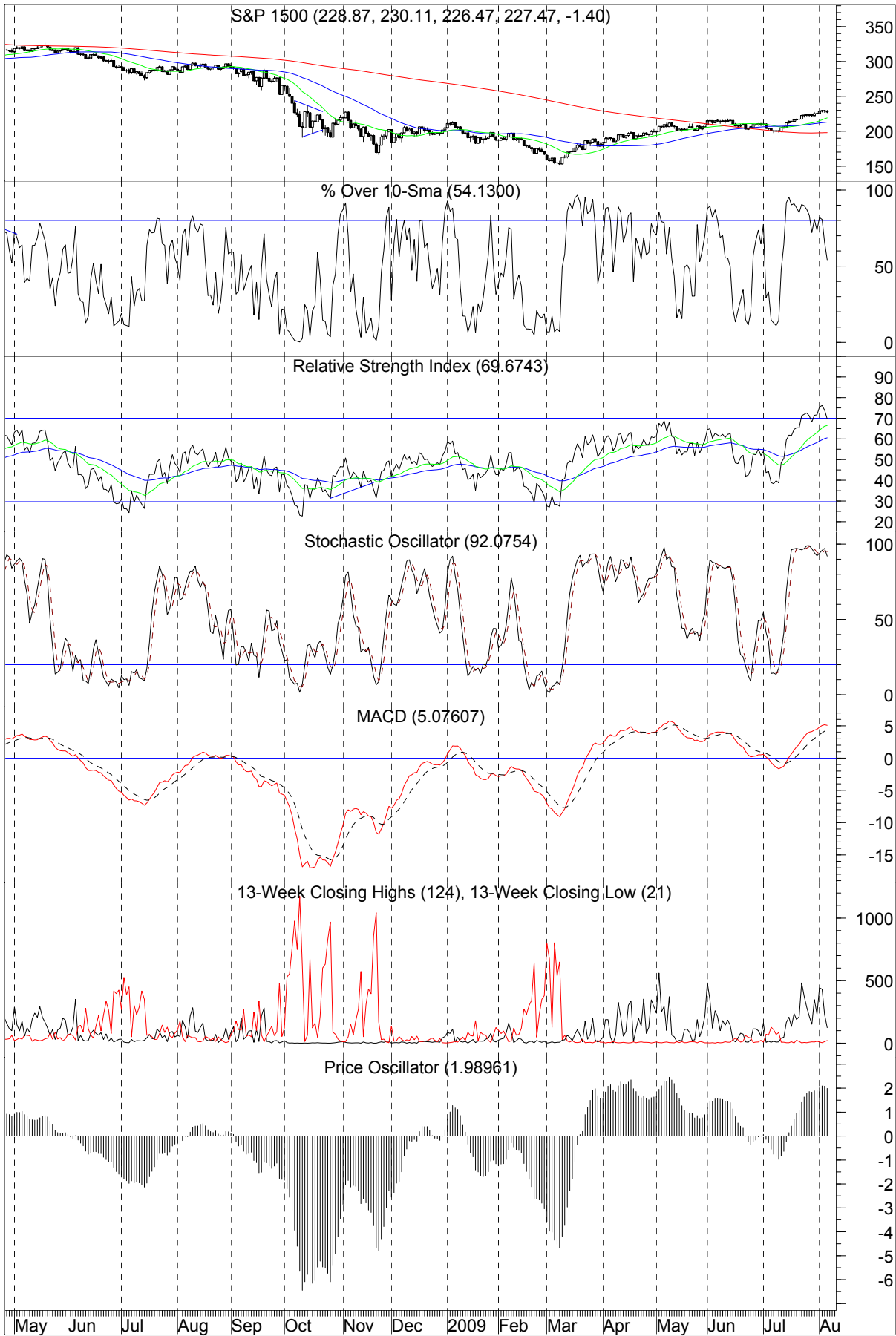
Momentum indicators are turning down from high levels, which leaves stocks vulnerable.

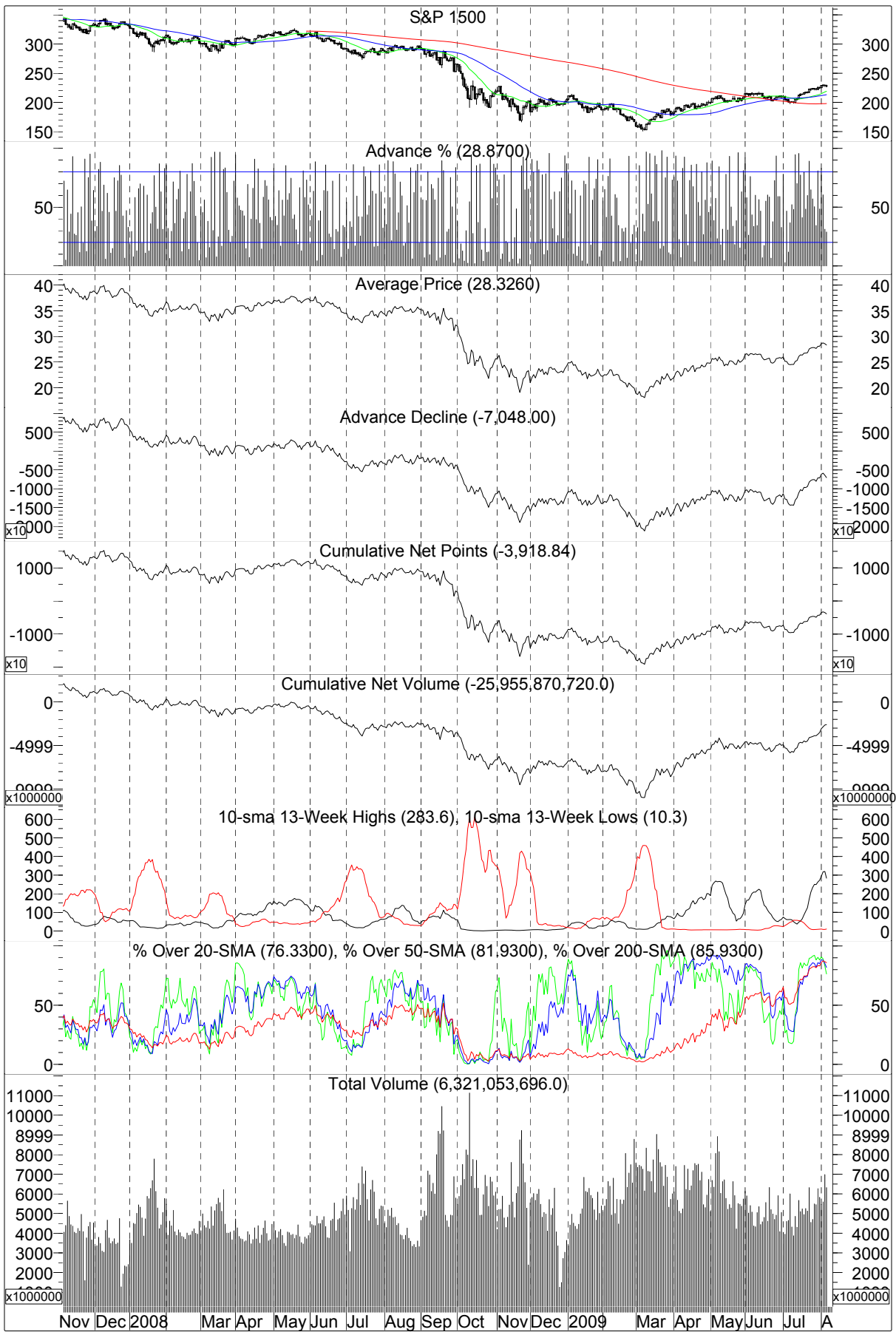
The Kaufman Report - Wayne S. Kaufman, CMT

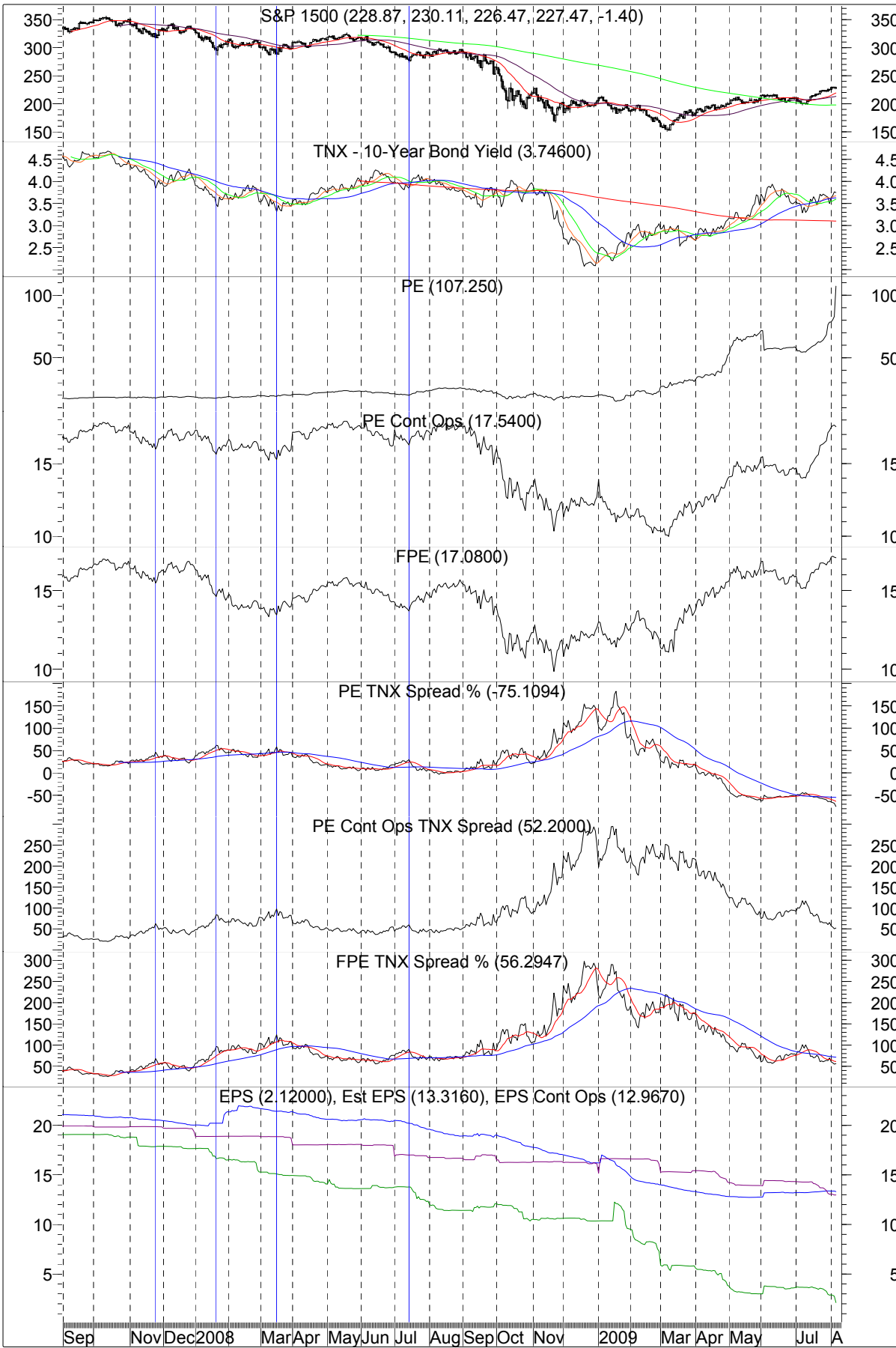


Our proprietary options indicator is showing optimism at 1.07, a level that leaves stocks vulnerable to a sharp drop.

99 new high reversals Thursday shows investors rushing to take profits and foreshadows more weakness to come.







P/E ratios have vaulted out of their recent ranges. Good news needs to keep coming to justify them.

Aggregate earnings before and after charges continue to move inexorably lower.