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The Kaufman Report

Trade what you see, not what you think.

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Wednesday February 11, 2009 **Closing prices of February 10, 2009**

We said Monday night "with indicators nearing overbought levels, options buyers becoming very optimistic, and P/E ratios vaulting to high levels, the recent rally should be due for a pause at any time." Instead of a pause we got a panic, as stocks plunged Tuesday in response to Treasury Secretary Geithner's plans (or lack of) for rescuing banks. It was a 90% down day on expanding volume as all ten S&P sectors fell at least 2.99%, led by Financials -10.88% and Industrials -5.37%. Bounces at trend lines and price support levels are probable, but with short-term indicators not yet oversold, P/E ratios still high as earnings continue to move lower, and options buyers not yet pessimistic, investment and trading decisions must be made with an acute awareness of the current trend of the market.

The short-term, intermediate-term, and the long-term trends remain down. This continues to be an opportunistic trader's market, prone to infuriating whipsaws, with adept traders able to take advantage long or short. However, a tradable trend may begin at any time. Investors should not hesitate to sell lagging stocks and sectors and move into leaders.

The S&P 1500 (187.70) was down 4.871% Tuesday. Average price per share was down 4.52%. Volume was 118% of its 10-day average and 132% of its 30-day average. 3.55% of the S&P 1500 stocks were up, with up volume at 2.23% and up points at 1.12%. Up Dollars was 2/100 of 1% of total dollars, and was 1/10 of 1% of its 10-day moving average. Down Dollars was 368% of its 10-day moving average. The index is up 0.25% in February, down 8.41% quarter-to-date and year-to-date, and down 47.33% from the peak of 356.38 on 10/11/07. Average price per share is $22.39, down 48.21% from the peak of $43.23 on 6/4/07.

The Put/Call Ratio was 0.876. Monday's 0.668 was the lowest since 1/30/06. The Kaufman Options Indicator is 0.99, about neutral.

The spread between the reported earnings yield and 10-year bond yield is 52%, and 166% based on projected earnings*. *The dividend yield on the S&P 500 recently moved above the 10-year bond yield for the first time since 1958.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $8.22, a drop of 57.14%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.36, a drop of 34.58%.

360 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 57.9% had positive surprises, 8.9% were line, and 33.1% have been negative, a high number. The year-over-year change has been -39.2% on a share-weighted basis, -19.2% market cap-weighted and -24.7% non-weighted. Ex-financial stocks these numbers are -15.6%, -5.4%, and -5.3%, respectively.

Federal Funds futures are pricing in a probability of 88% that the Fed will *leave rates unchanged*, and a probability of 12.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 82.7% that the Fed will *leave rates unchanged* on April 29th and a probability of 16.6% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

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Economic News

2/10/09 – Wholesale inventories in December fell 1.4% versus a projected drop of 0.7%. Inventories have dropped four straight months, the longest streak in almost seven years. At current demand levels there is a 1.27 month supply of inventory, the highest since 2002. This points to further reductions in production. Factory inventories fell 1.4% in January. Retail inventories will be reported 2/12.

2/6/09 – The Unemployment Rate in January hit 7.6%, slightly above the 7.5% estimate. This was up from 7.2% in December and the highest since 1992. Payrolls fell by 598,000 (estimate 540,000), the biggest decline since December 1974. This is the first time since the beginning of payroll records in 1939 that job losses exceeded 500,000 for three consecutive months. Average Hourly Earnings increased 3.9% year-over-year.

2/5/09 – Initial Jobless Claims increased by 35,000 for the week ending 1/31 to 626,000, the highest number since October 1982. Continuing Claims hit a record 4.788 million for the week ending 1/24. Silver lining: Productivity rose 3.2% in the fourth quarter versus a 1.6% forecast. U.S. December Factory Orders dropped 3.9% versus a -3.1% estimate. Excluding transportation equipment (cars and aircraft) orders fell 4.4%.

2/4/09 – ADP Employer Services report showed a loss of 522,000 jobs in January, less than the 535,000 forecast and much lower than the December loss of 659,000. The Institute of Supply Management index of non-manufacturing businesses rose to 42.9 in January from 40.6 in December, and was above the estimate of 39.0.

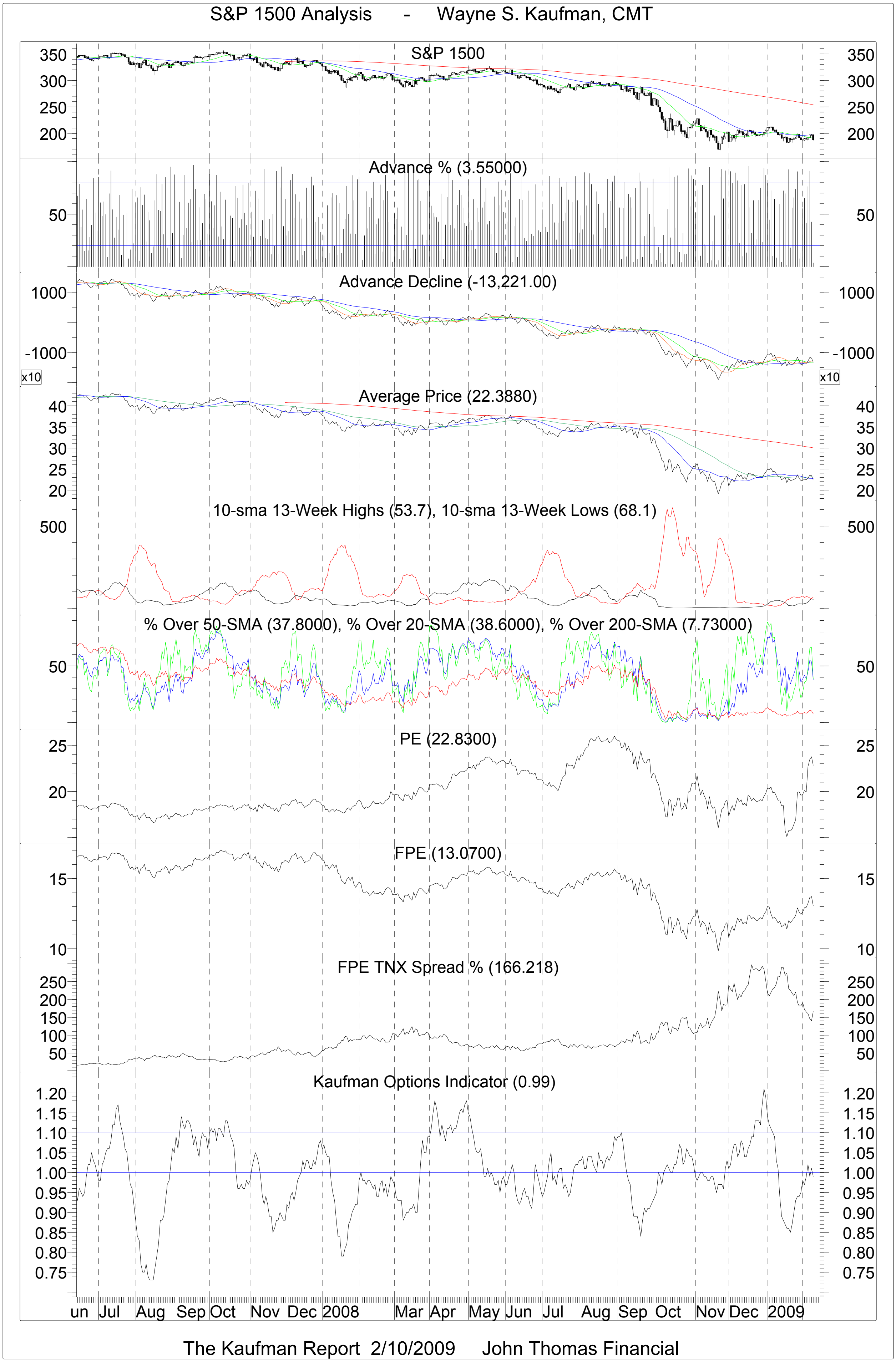
2/3/09 – U.S Pending Home Sales rose for the first time in four months. The December increase of 6.3% beat the estimate of 0.0%. November showed a drop of 4%. According to the U.S. Census Bureau, a record 19 million U.S. houses were vacant at the end of 2008 for a 2.9% vacancy rate (vacant for sale), the highest ever. Purchases of New Homes in December, reported last week, dropped 14.7% versus November.

2/2/09 – Personal Income fell 0.2% in December, better than the -4% estimate, the third straight decline. The last three-month decline was January 1954. Personal spending in December fell 1% versus the .9% estimate, for a record sixth consecutive month. Consumer spending rose 3.6% for 2008, the smallest gain since 1961. Consumer Spending dropped at a 3.5% annual pace in Q4 versus 3.8% in Q3, the first ever declines above 3% in consecutive quarters. Silver lining: the decrease in spending pushed the savings rate up to 3.6% in December from 2.8% in November.

The S&P 500 plunged to the lower trend line of the triangle. The next support is the 812.87 of 2/2, and after that the 804.30 of 1/21.

S&P 1500 Analysis - Wayne S. Kaufman, CMT

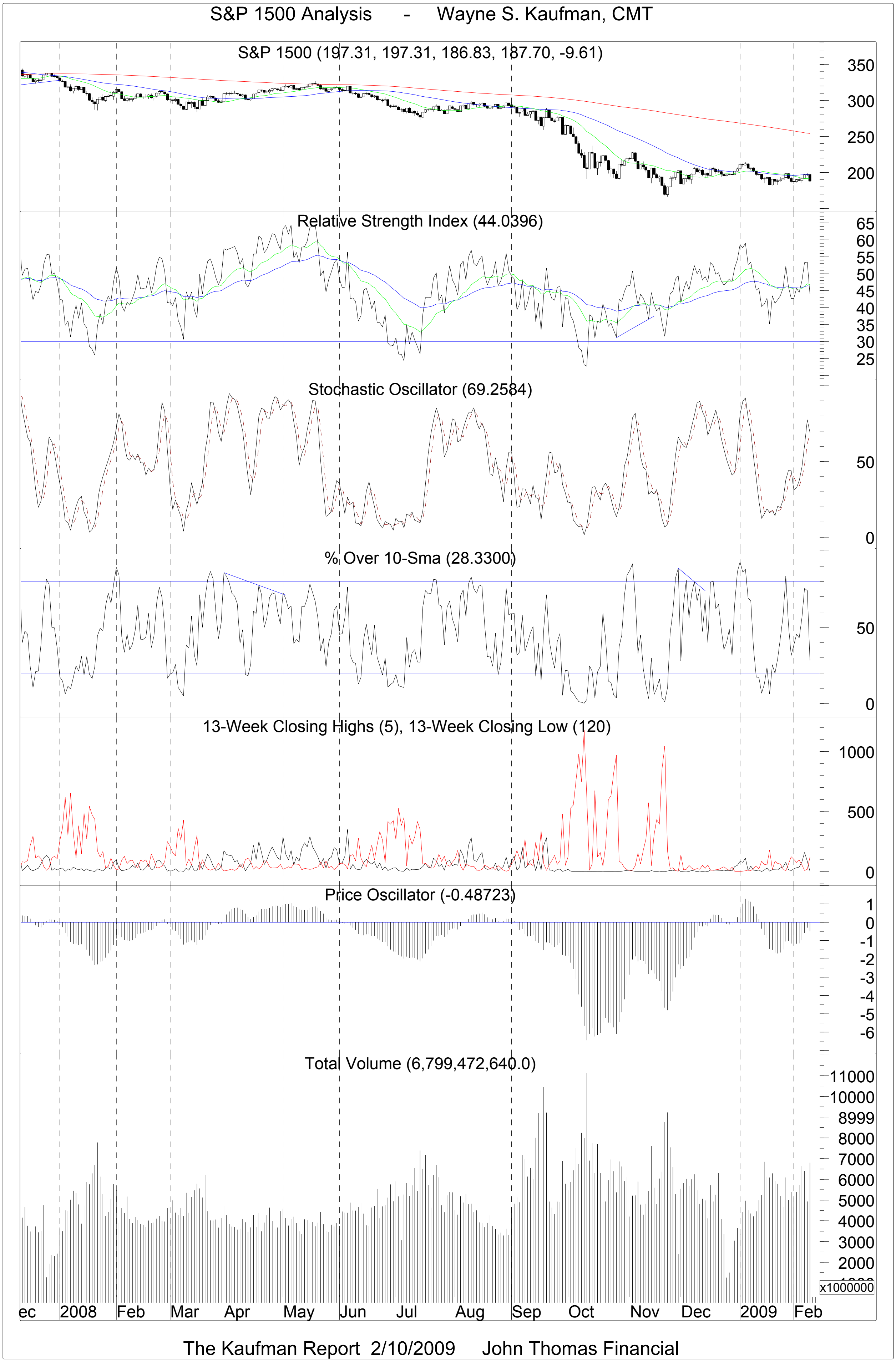
The Nasdaq 100 is still above its 20 and 50-sma at 1202 and 1203 respectively, and has support after that at the 2/2 low of 1168.



3.55% of stocks traded higher Tuesday.

P/E ratios are still high compared to their recent ranges.

Our proprietary options indicator is about neutral.



The RSI is neutral but can go lower, and the stochastic is still at high levels. The percent over 10-sma is moving towards the oversold zone.

Our price oscillator remains slightly in negative territory.

Volume expanded during Tuesday's sell off.