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The Kaufman Report

Trade what you see, not what you think.

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Thursday February 12, 2009 **Closing prices of February 11, 2009**

Stocks rallied Wednesday after Tuesday's 90% panic selling down day. The rally was on decreasing volume, with only seven of the ten S&P sectors advancing. Only two, Financials +5.2%, and Health Care +1.16% were up over 1%. We said Tuesday night "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 S&P 500, which is below all important moving averages, barely held its trend line. 804.30 on the S&P 500 seems like the most widely watched support level ever seen. The Nasdaq bounced just above moving averages, but the Dow Industrials is clinging to minor price support after Tuesday's close which was the lowest since 11/20. Therefore, while there may be rallies caused by headlines, the path of least resistance is down.

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 (189.08) was up 0.735% Wednesday. Average price per share was down 0.54%. Volume was 89% of its 10-day average and 96% of its 30-day average. 60.76% of the S&P 1500 stocks were up, with up volume at 68.23% and up points at 65.20%. Up Dollars was 80.03% of total dollars, and was 94% of its 10-day moving average. Down Dollars was 15% of its 10-day moving average. The index is up 0.98% in February, down 7.73% quarter-to-date and year-to-date, and down 46.94% from the peak of 356.38 on 10/11/07. Average price per share is $22.51, down 47.93% from the peak of $43.23 on 6/4/07.

The Put/Call Ratio was 0.927. Monday's 0.668 was the lowest since 1/30/06. The Kaufman Options Indicator is 1.00, about neutral.

The spread between the reported earnings yield and 10-year bond yield is 55%, and 174% 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 $8.07, a drop of 57.92%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.32, a drop of 34.76%. The spread between reported and projected earnings is the widest in years.

374 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 58.7% had positive surprises, 8.8% were line, and 32.4% have been negative, a high number. The year-over-year change has been -38.7% on a share-weighted basis, -19.0% market cap-weighted and -24.2% non-weighted. Ex-financial stocks these numbers are -15.6%, -5.3%, and -5.4 %, 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

2/11 – The December trade deficit was $39.9 billion, wider than the $35.7 billion estimate. It was the lowest in almost six years. Exports and imports each declined for the 5th straight month, highlighting the effects of the synchronized global contraction. This is causing rumblings of protectionism worldwide, which would not be a good thing for the global economy.

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.

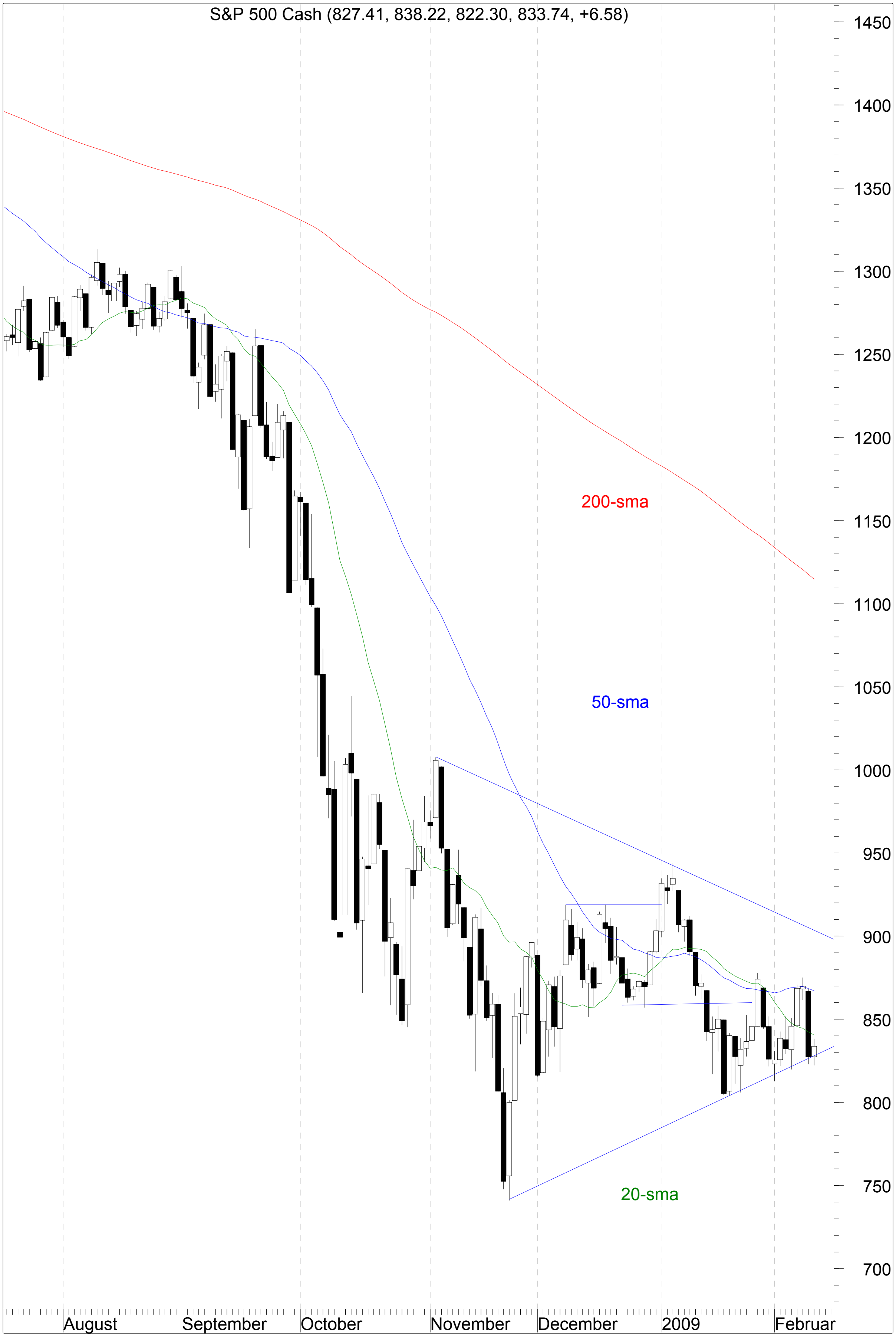
2/5/09 – Initial Jobless Claims increased by 35,000 for the week ending 1/31 to 626,000, the highest number since October 1982. Continuing Claims hit a record 4.788 million for the week ending 1/24. Silver lining: Productivity rose 3.2% in the fourth quarter versus a 1.6% forecast. U.S. December Factory 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.

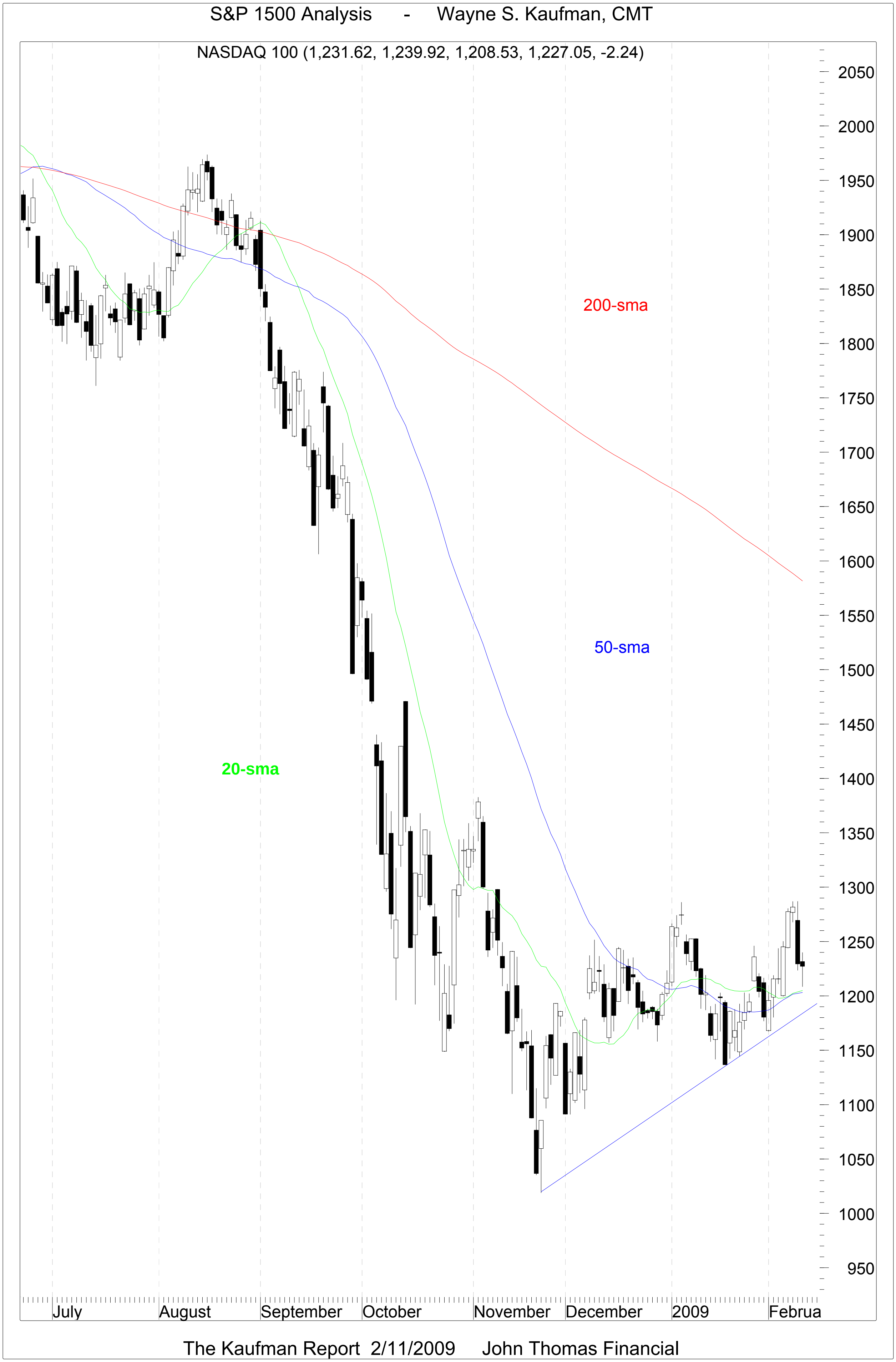
2/3/09 – U.S Pending Home Sales rose for the first time in four months. The December increase of 6.3% beat the estimate of 0.0%. November showed a drop of 4%. According to the U.S. Census Bureau, a record 19 million U.S. houses were vacant at the end of 2008 for a 2.9% vacancy rate (vacant for sale),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

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



The S&P 500 is barely hanging on to the lower trend line of the triangle. It is below all the important moving averages. Supports are at 812.87 and 804.30.



The Nasdaq 100 is still above its 20 and 50-sma.

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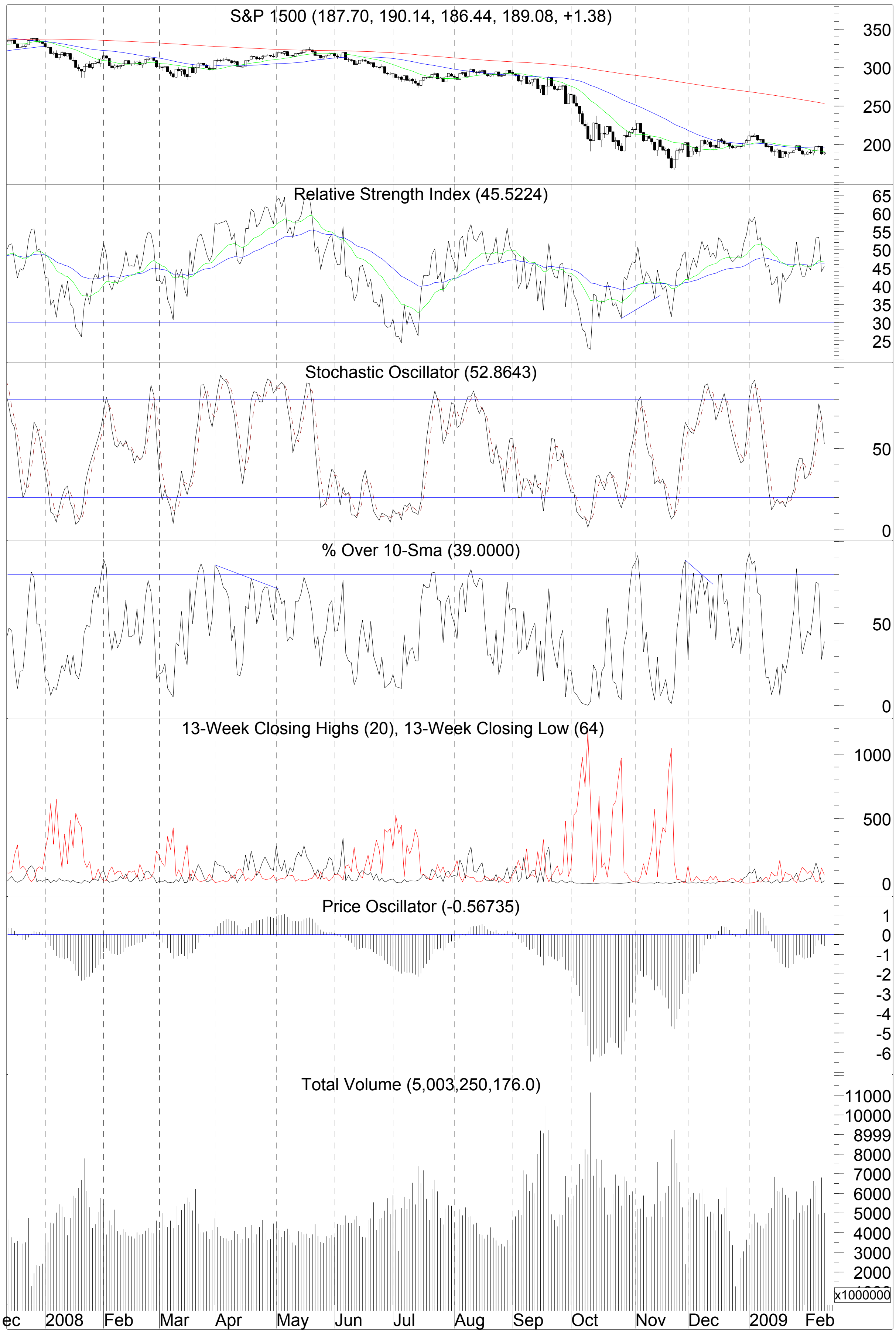
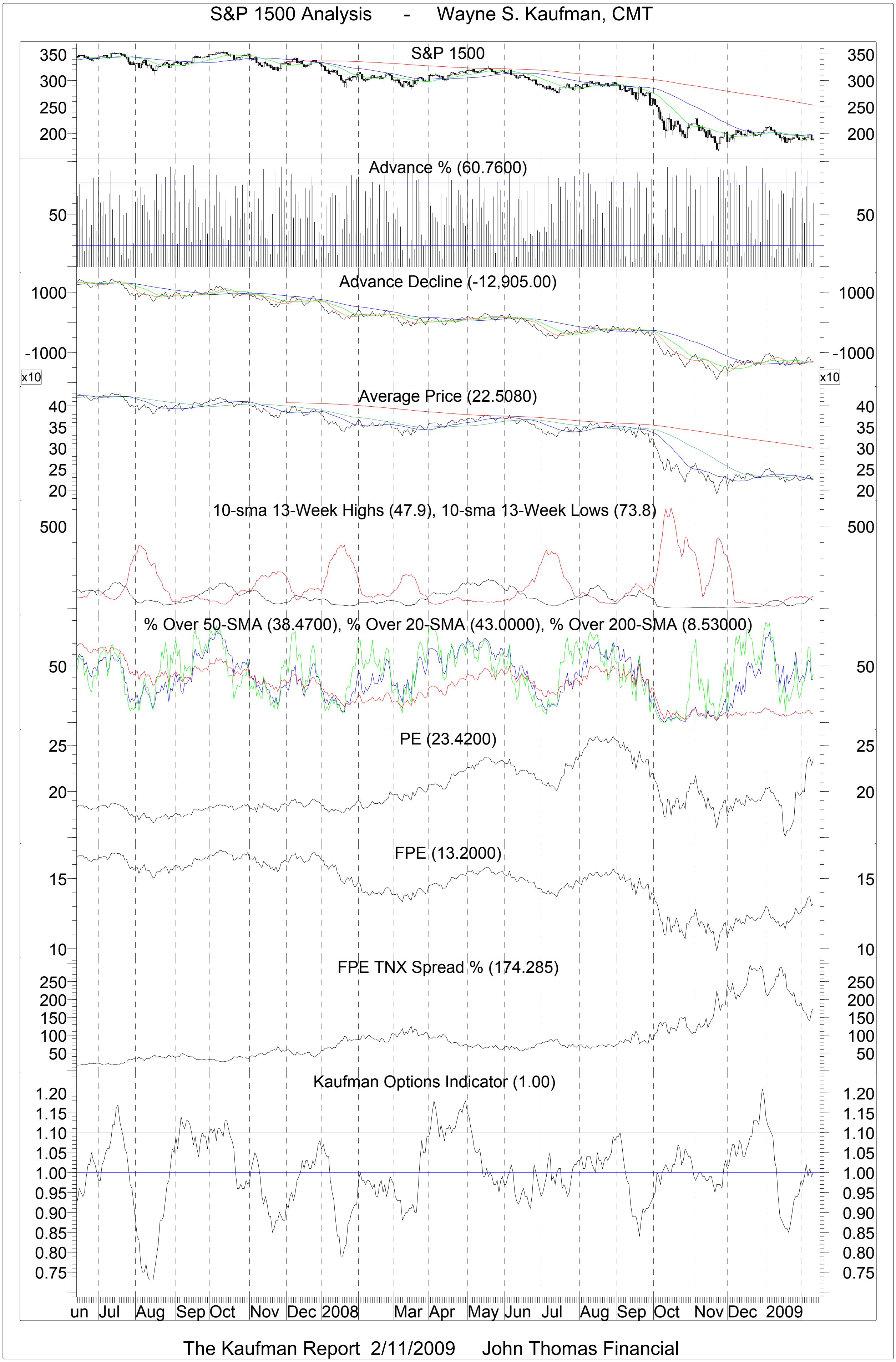


Our short-term momentum indicators are neutral, but seem likely to move towards oversold levels.

New lows were higher than new highs Wednesday in spite of indexes trading higher.

Our price oscillator remains negative.

Volume decreased during Wednesday's rally.



60.76% of stocks traded higher Wednesday.

P/E ratios remain high.

Our options indicator is neutral, so if supports are broken this indicator is nowhere near the levels important bottoms are made.