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The Kaufman Report

Trade what you see, not what you think.

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Friday February 13, 2009 **Closing prices of February 12, 2009**

We said Wednesday night that "while there may be rallies caused by headlines, the path of least resistance is down." Reports that the U.S. will unveil a support package for the housing market reversed a broad selloff Thursday that drove stocks near their January lows and caused a sharp rebound leaving stocks slightly higher on the day. A hammer candle was printed on the S&P 500 daily chart, which is a bottoming candle. The Nasdaq 100 held at important moving averages and never pierced its uptrend line. Six of the ten S&P sectors closed up on the day led by Consumer Staples +1.24% and Materials +1.14%. The losers were Finance -1.31% and Industrials -1.1%. Unfortunately, the S&P 500 is still below resistance levels, P/E ratios are still high as earnings continue to drop, and options buyers are becoming optimistic again. The next few sessions should tell us if yesterday's action was just short-covering, another false breakout/breakdown, or the start of a sustainable rally. We believe it is the former until proven otherwise. We also start to wonder if the government is running out of ammunition. With options expiring next week we can look forward to more volatility.

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 (189.49) was up 0.217% Thursday. Average price per share was up 0.52%. Volume was 100% of its 10-day average and 108% of its 30-day average. 57.84% of the S&P 1500 stocks were up, with up volume at 47.77% and up points at 60.68%. Up Dollars was 64.24% of total dollars, and was 71% of its 10-day moving average. Down Dollars was 35% of its 10-day moving average. The index is up 1.20% in February, down 7.53% quarter-to-date and year-to-date, and down 46.83% from the peak of 356.38 on 10/11/07. Average price per share is $22.63, down 47.65% from the peak of $43.23 on 6/4/07.

Put/Call Ratio: 0.90. Monday's 0.668 was the lowest since 1/30/06. Kaufman Options Indicator: 1.04, highest since 1.09 on 1/8.

The spread between the reported earnings yield and 10-year bond yield is 55%, and 177% 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 $8.02, a drop of 58.19%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.31, a drop of 34.81%. The spread between reported and projected earnings is the widest in years. If investors believed the estimates stocks would be much higher.

387 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 58.8% had positive surprises, 9.1% were line, and 32.1% have been negative, a high number. The year-over-year change has been -37.7% on a share-weighted basis, -18.5% market cap-weighted and -22.9% non-weighted. Ex-financial stocks these numbers are -15.1%, -5.0%, and -4.6 %, respectively.

Federal Funds futures are pricing in a probability of 94% that the Fed will *leave rates unchanged*, and a probability of 6.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 90.2% that the Fed will *leave rates unchanged* on April 29th and a probability of 9.5% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

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Economic News

2/12/09 – Jobless claims for w/e 2/7 623k versus 610k estimate. The 4-week moving average of 607,500 is the most since November 1982. Continuing claims w/e 1/30 4,810k versus estimate 4,800k, the up the 4th week in a row, and another record. Business Inventories for December -1.3% versus -0.09% estimate, biggest drop since 2001. Sales -3.2% after -5.7% in November. 1.4 months of inventory highest since April 2001. January Retail Sales +1% versus -0.8% estimate rose for the first time since July. Gasoline sales +2.6%, sales at auto dealers and parts stores up 1.6% for the first gain since August.

2/11/09 – China exports fell 17.5% year-over-year in January, the most in 13 years. Imports plunged by a record 43.1%. The $39.1 billion trade surplus was China's 2nd biggest ever. Numbers may be skewed by the Chinese New Year.

2/11/09 – The U.S. 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.

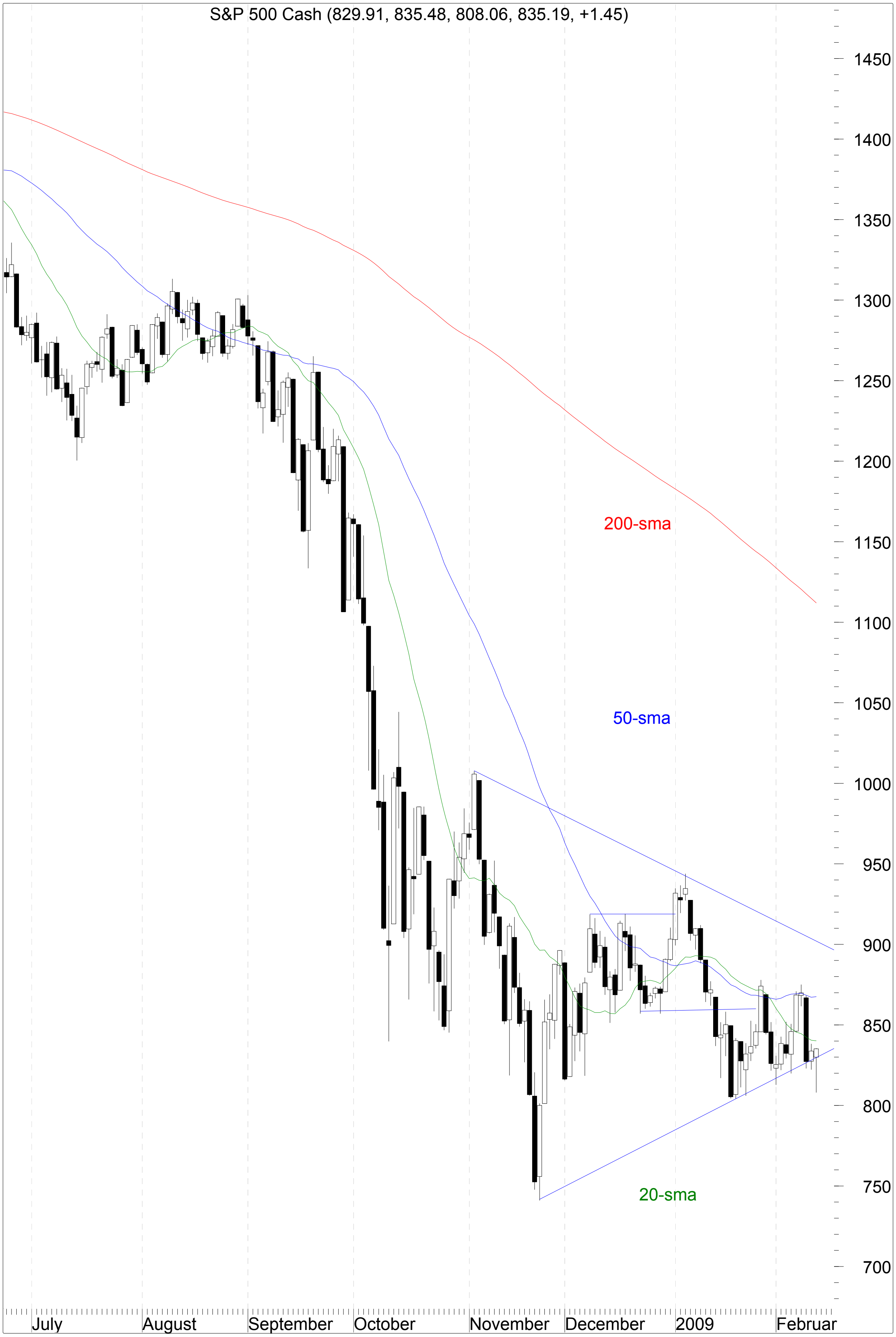
2/5/09 – Initial Jobless Claims increased by 35,000 for the week ending 1/31 to 626,000, the highest number since October 1982. Continuing Claims hit a record 4.788 million for the week ending 1/24. Silver lining: Productivity rose 3.2% in the fourth quarter versus a 1.6% forecast. U.S. December Factory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

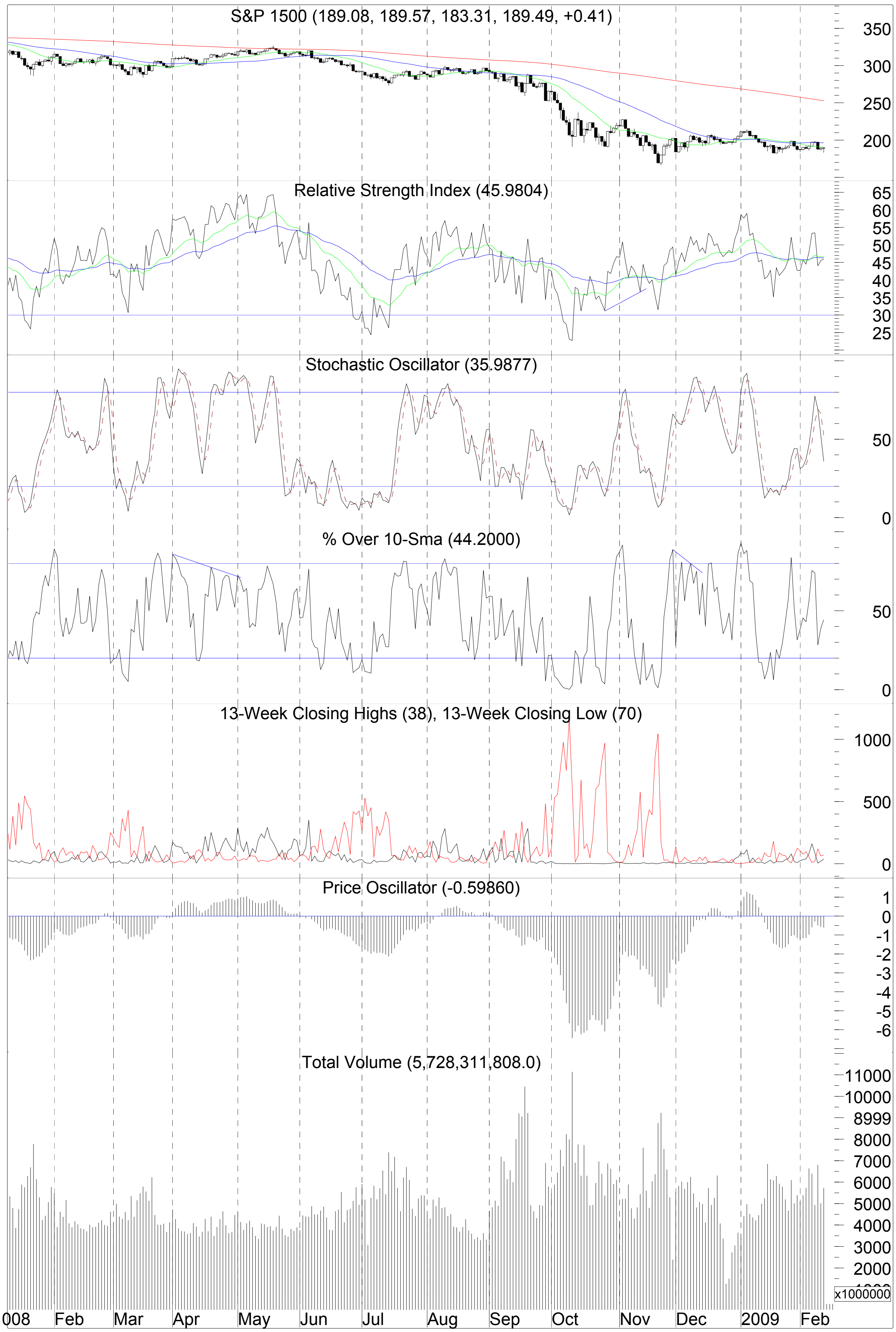


The S&P 500 broke decisively through the lower trend line of the triangle on an intra-day basis but rebounded to print a hammer on the daily chart. It also broke through the 812.87 support of 2/12 but stopped at 808.06, just above the 1/21 low of 804.30. Thursday's action confirms a double top at the 875 - 878 area. Short-term resistance is at 838 - 843.

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

The Nasdaq 100 bounced off the area of its 20 and 50-day moving averages to print a bullish engulfing candle on the daily chart. So far it is maintaining its up trend.

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

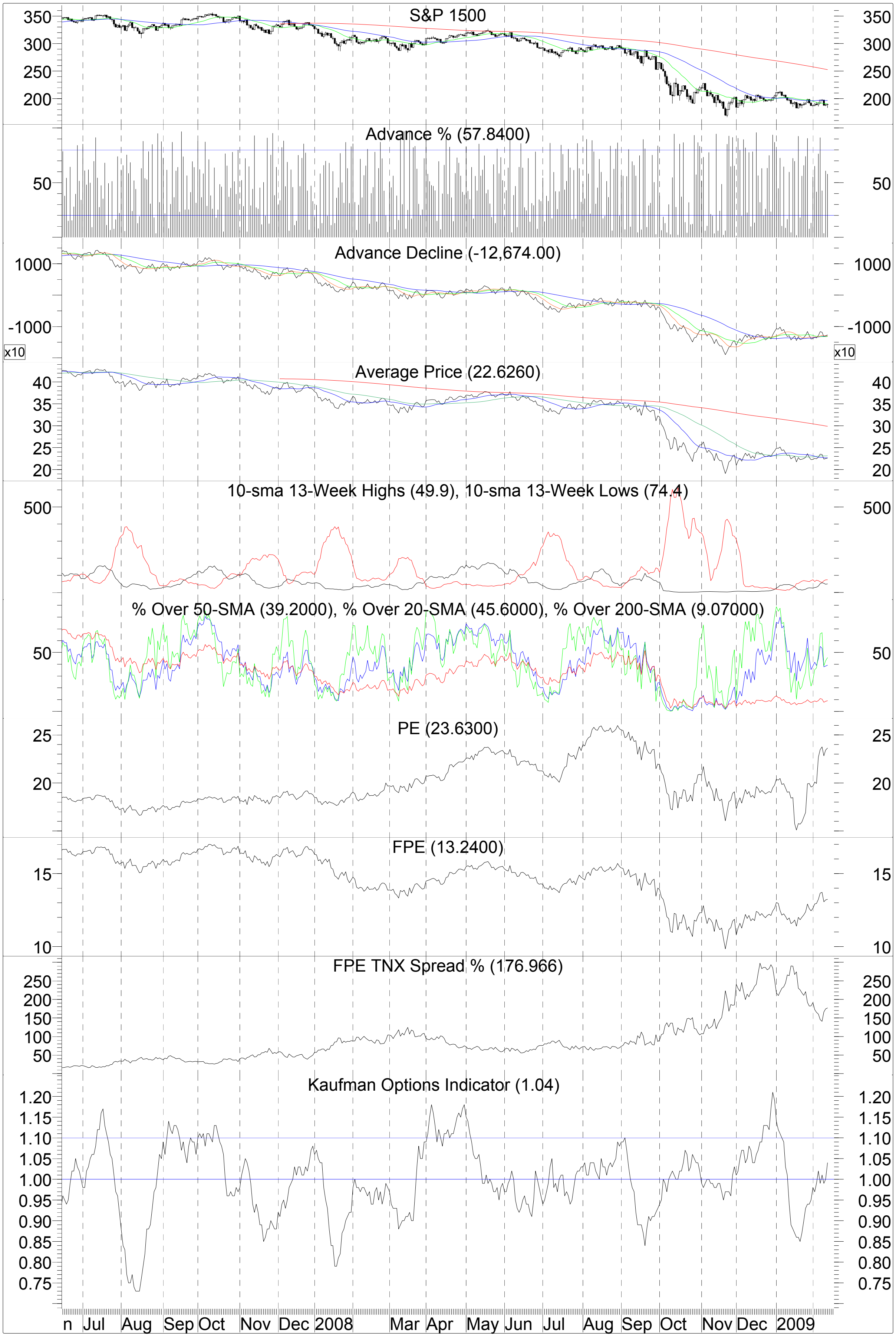


Our short-term momentum indicators are neutral but still appear headed lower.

Our price oscillator remains negative.

Volume was expanded on Thursday.

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



57.84% of stocks traded higher Thursday.

The P/E ratio is at a high level, while the forward P/E is high versus its recent range.

Our proprietary options indicator is the highest since 1/8. It is not yet overbullish, but these are not levels where we usually see important bottoms made.