John Thomas Financial
14 Wall Street, 5th Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Friday February 20, 2009 **Closing prices of February 19, 2009**

Stocks disregarded an oversold condition and traded lower for the fourth consecutive day Thursday. We said last week that this whipsaw market could produce a tradable trend at any time, and since February 9th the S&P 500 is down 10.98%. The Dow Jones Industrials, which last week made its lowest weekly close since 3/7/03, made new multi-year intra-day and closing lows Thursday, as did the Dow Transports. This confirmed the recent Dow Theory sell signal. The DJIA and the S&P 500 both need to rally to prevent their lowest monthly closes since 1997. The lack of any type of oversold bounce causes us to reiterate our frequent warning from last October that a market that doesn't respond to oversold conditions is dangerous.

We recently wondered if the government is running out of ammunition. Based on the market's responses to all the recent government plans maybe we should hope that is the case. Our elected officials should have to take their own version of the Hippocratic Oath, keeping in mind that when dealing with a sick patient their first responsibility is to do no harm.

The short-term, intermediate-term, and the long-term trends remain down. This continues to be an opportunistic trader's market, with adept traders able to take advantage long or short. Investors should not hesitate to sell lagging stocks and sectors and move into leaders.

The S&P 1500 (176.57) was down 1.236% Thursday. Average price per share was down 1.37%. Volume was 100% of its 10-day average and 104% of its 30-day average. 29.05% of the S&P 1500 stocks were up, with up volume at 23.9% and up points at 22.16%. Up Dollars was 10.9% of total dollars, and was 23% of its 10-day moving average. Down Dollars was 96% of its 10-day moving average. The index is down 5.7% in February, down 13.84% quarter-to-date and year-to-date, and down 50.45% from the peak of 356.38 on 10/11/07. Average price per share is $21.05, down 51.31% from the peak of $43.23 on 6/4/07.

Put/Call Ratio: 1.14. 0.668 on 2/9 was the lowest since 1/30/06. Kaufman Options Indicator: 1.11, highest since 1.11 on 1/6.

The spread between the reported earnings yield and 10-year bond yield is 64%, and 181% 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 $8.27, a drop of 56.88%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.20, a drop of 35.31%. The spread between reported and projected earnings is near widest level in years. If investors believed the estimates stocks would be much higher.

421 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 59.0% had positive surprises, 9.3% were line, and 31.7% have been negative, a high number. The year-over-year change has been -35.5% on a share-weighted basis, -17.9% market cap-weighted and -24.0% non-weighted. Ex-financial stocks these numbers are -15.3%, -5.6%, and -7.9 %, respectively.

Federal Funds futures are pricing in a probability of 98.0% that the Fed will *leave rates unchanged,* and a probability of 0.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 88.4% that the Fed will *leave rates unchanged* on April 29th and a probability of 9.8% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

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

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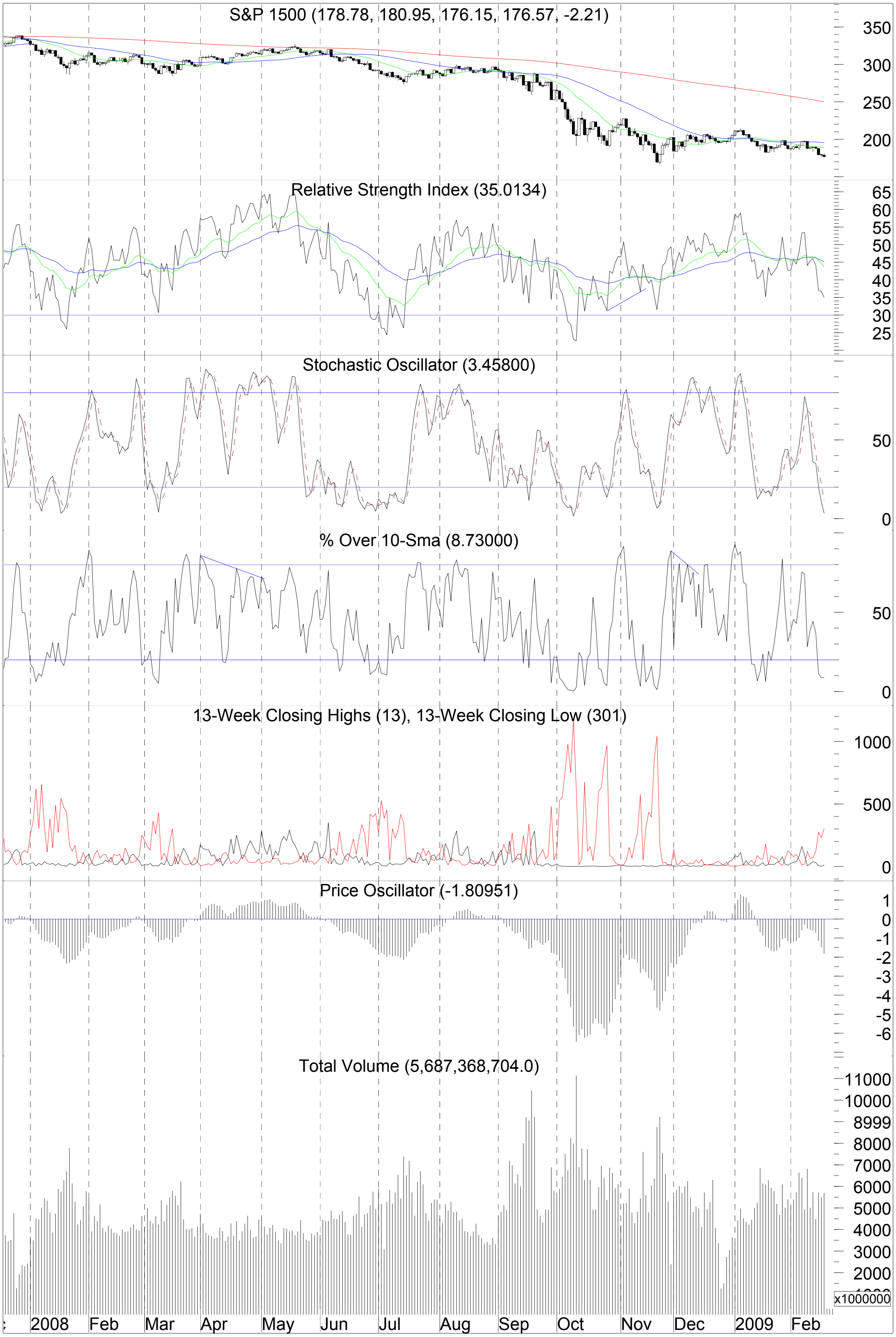
The S&P 500 has followed through to the down side after breaking the lower trend line of the triangle. It made the lowest close since November 20th. There is some resistance at 801, and strong resistance at 803 - 804 to 808. Unless we see a rally soon, it can have its lowest monthly close since March 1997.

The Dow Jones Industrial Average made new multi-year intra-day and closing lows Thursday. The Dow Transports did also, confirming the recent Dow Theory sell signal.

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

We said last week that if the Nasdaq 100 broke its trend line that would be bad for the market in general. Now there is resistance the 1204 - 1206 area.

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



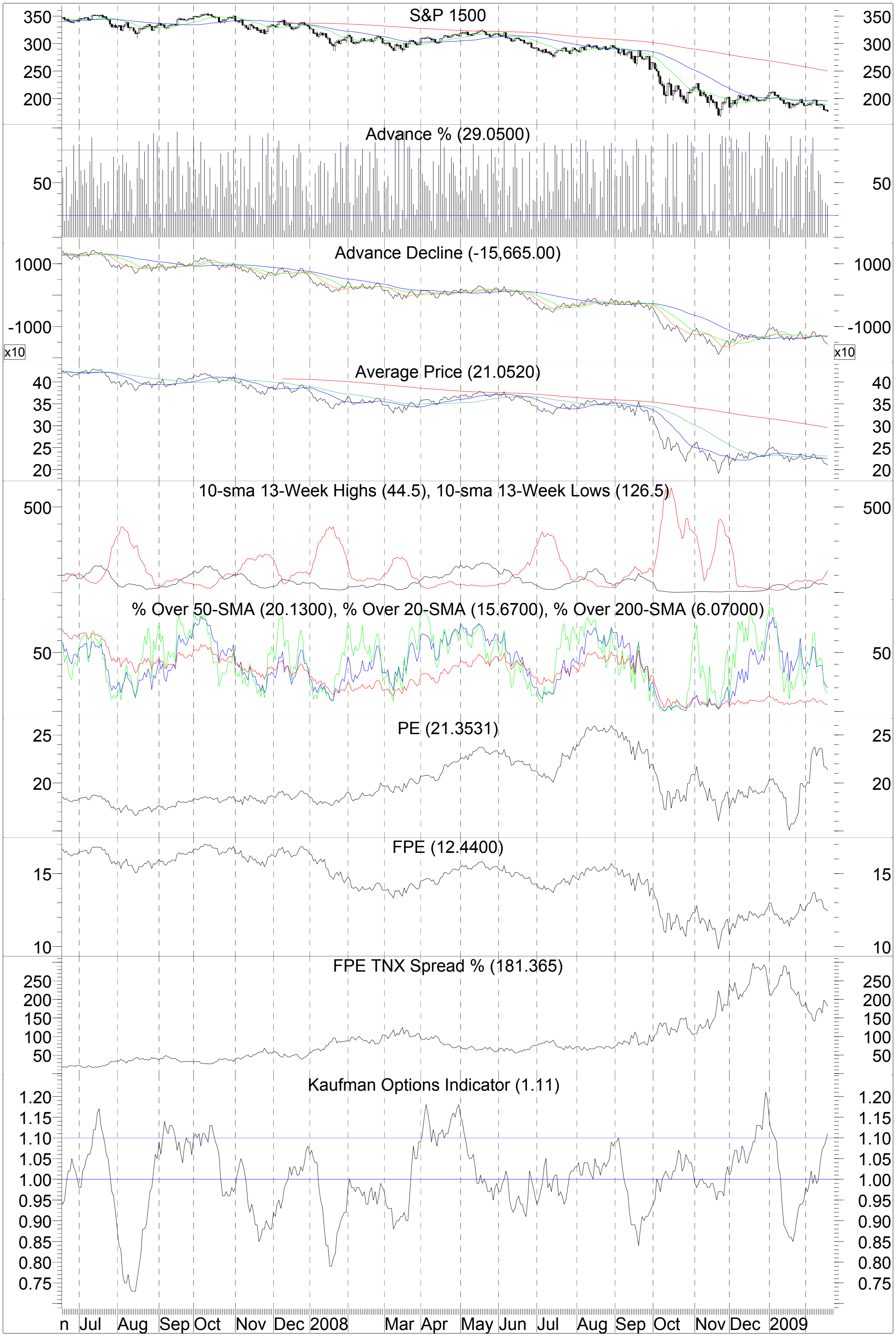
The RSI is nearing levels where it bottomed in the past, while the stochastic and percent over 10-sma are in their oversold zones.

New lows have spiked to their highest levels since November.

Our price oscillator is moving further into negative territory.

Volume has been steady as stocks moved lower.

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



29.05% of stocks traded higher Thursday.

P/E ratios are dropping from high levels.

Our options indicator is at levels of optimism which leaves stocks vulnerable to a sharp drop.