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# The Kaufman Report

**Trade what you see, not what you think.**

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**Monday February 9, 2009** **Closing prices of February 6, 2009**

**We said Tuesday night "investors need to be on high alert that key economic indicators this week, particularly the Jobless Claims Thursday and Payrolls Friday, could be the catalysts to fulfill what looks like an excellent setup for shorts. On the other hand, if sellers don't step up on any further bad news then buyers may feel emboldened and that could spark a rally." Investors shrugged off weak reports on Jobless Claims and Factory Orders Thursday and a terrible Payrolls Report Friday to push the S&P 500 +5.17% and the Nasdaq 100 +8.24% for the week. Friday was a 90% panic-buying up day led by Financials +8.13% and Information Technology +3.42%. The S&P 500 closed just under its 50-sma, which is the bottom of a resistance zone which goes up to 878. With the stimulus package expected to be finalized this week, it will be interesting to see if investors react in the negative manner which has followed the unveiling of other recent government plans.**

**We remain concerned about P/E ratios, which have moved up to levels not seen since the end of September. Still, we will not argue with a rally although we have our eyes on the exit.**

**The short-term trend is up, while the intermediate-term and 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 (197.15) was up 2.805% Friday. Average price per share was up 3.01%. Volume was 115% of its 10-day average and 132% of its 30-day average. 91.1% of the S&P 1500 stocks were up, with up volume at 92.76% and up points at 93.16%. Up Dollars was 99.52% of total dollars, and was 250% of its 10-day moving average. Down Dollars was 2% of its 10-day moving average. The index is up 5.29% in February, down 3.80% quarter-to-date, down 3.80% year-to-date, and down 44.68% from the peak of 356.38 on 10/11/07. Average price per share is $23.51, down 45.62% from the peak of $43.23 on 6/4/07.**

***The Put/Call Ratio was 0.713. The Kaufman Options Indicator is 0.99, about neutral.***

***The spread between the reported earnings yield and 10-year bond yield is 43%, and 146% 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 $8.40, a drop of 56.2%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.43, a drop of 34.26%.**

**334 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 58.7% had positive surprises, 9.0% were line, and 32.3% have been negative, a high number. The year-over-year change has been -38.9% on a share-weighted basis, -19.1% market cap-weighted and -24.1% non-weighted. Ex-financial stocks these numbers are -15.2%, -5.2%, and -4.1%, respectively.**

**Federal Funds futures are pricing in a probability of 90% that the Fed will *leave rates unchanged,* and a probability of 10.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 84.6% that the Fed will *leave rates unchanged* on April 29th and a probability of 14.8% of *raising 25 basis points*.**

## IMPORTANT DISCLOSURES

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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, 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

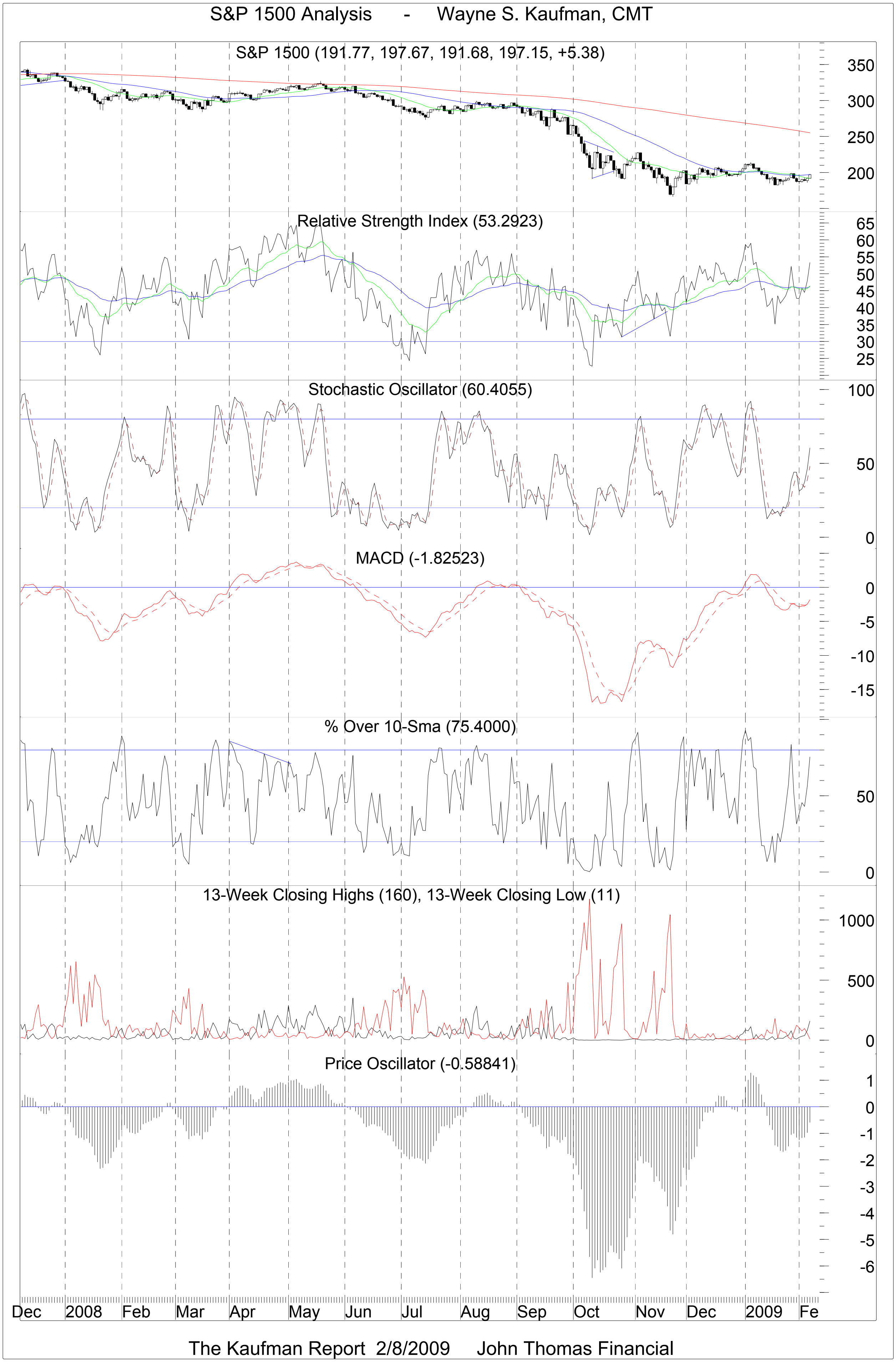

The S&P 500 is still in the triangle pattern and has moved above its 20-sma. It stopped Friday just under the 50-sma which is the bottom of a resistance zone which goes up to 878.

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


After printing a hammer three weeks ago and an inverted hammer two weeks ago (hammers are bottoming candles) the S&P 500 printed a bullish engulfing candle last week. The weekly stochastic has finally gotten down to levels where a rally could start.

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

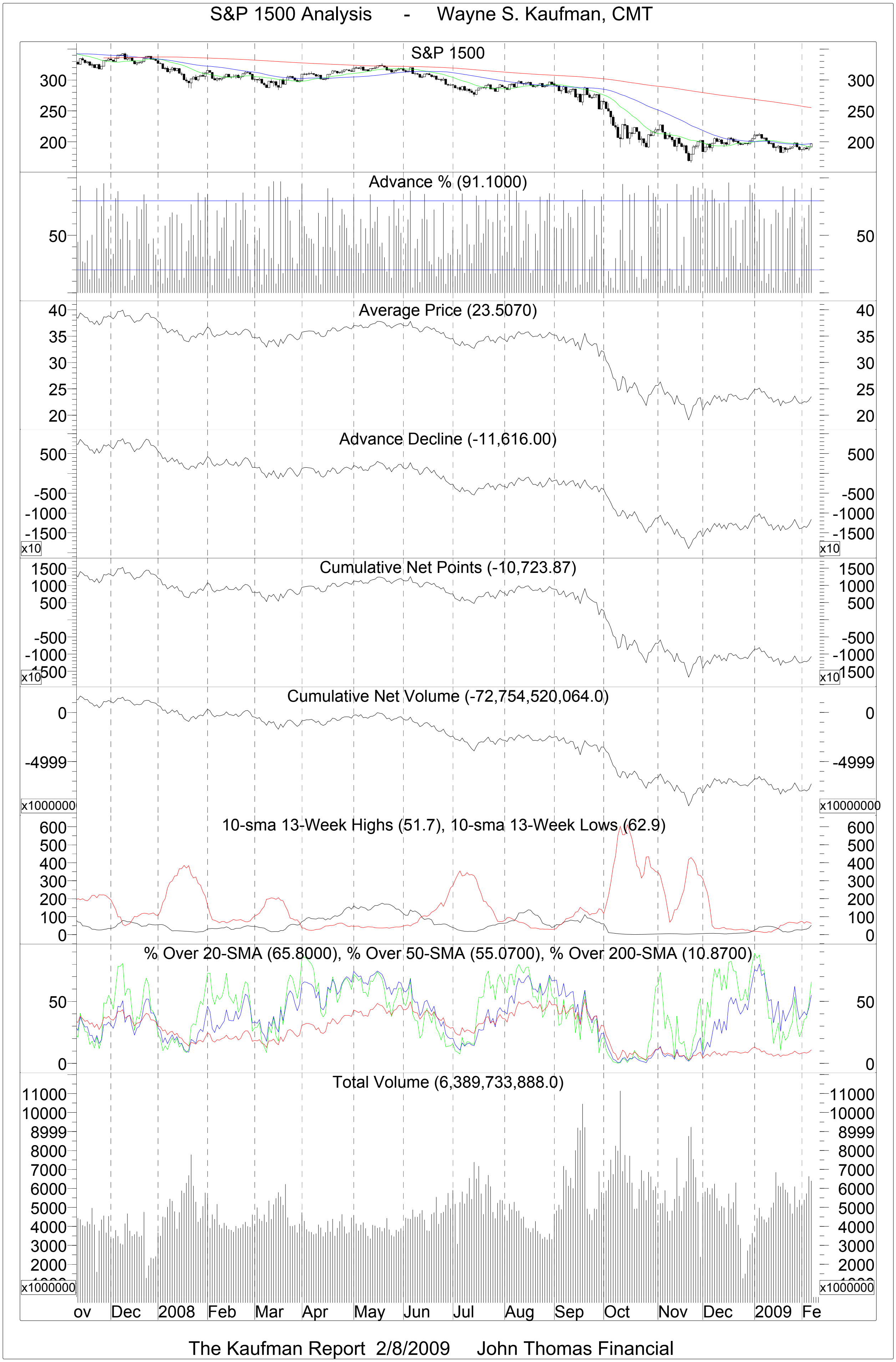

The Nasdaq 100 recorded its highest close since 11/5. It is above its 20 and 50-sma, and was up 8.24% last week. For the year it is up 5.43%. Resistance is at 1286, or nine points higher.




Our short-term momentum indicators still have room to move higher, although the percent over 10-sma is not far from the overbought zone.

160 13-week closing highs on Friday was the most since 9/19.

Our price oscillator remains in negative territory.



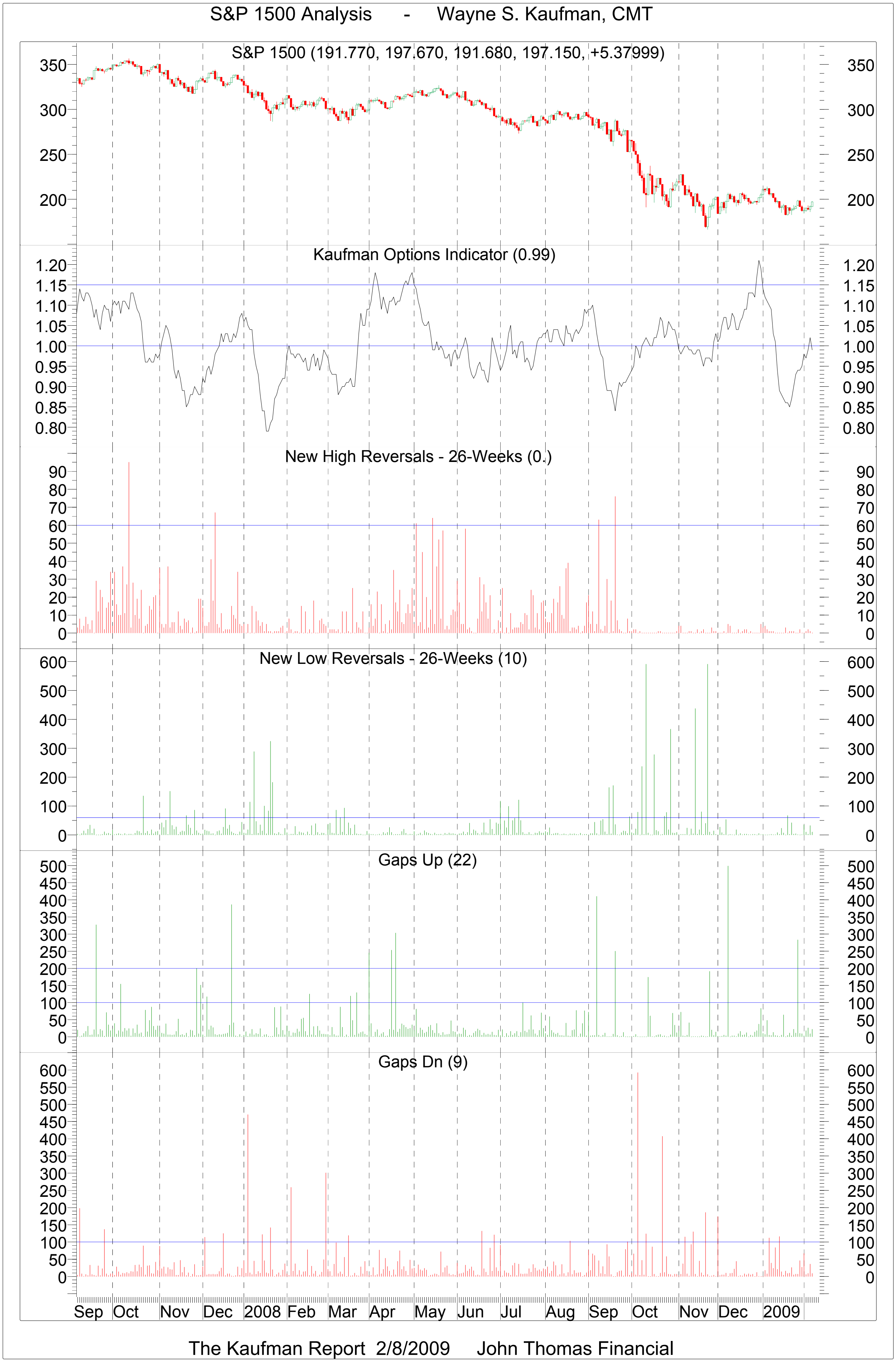

91.1% of stocks traded higher Friday.

Our statistics of market breadth are just shy of surpassing the levels of 1/28.

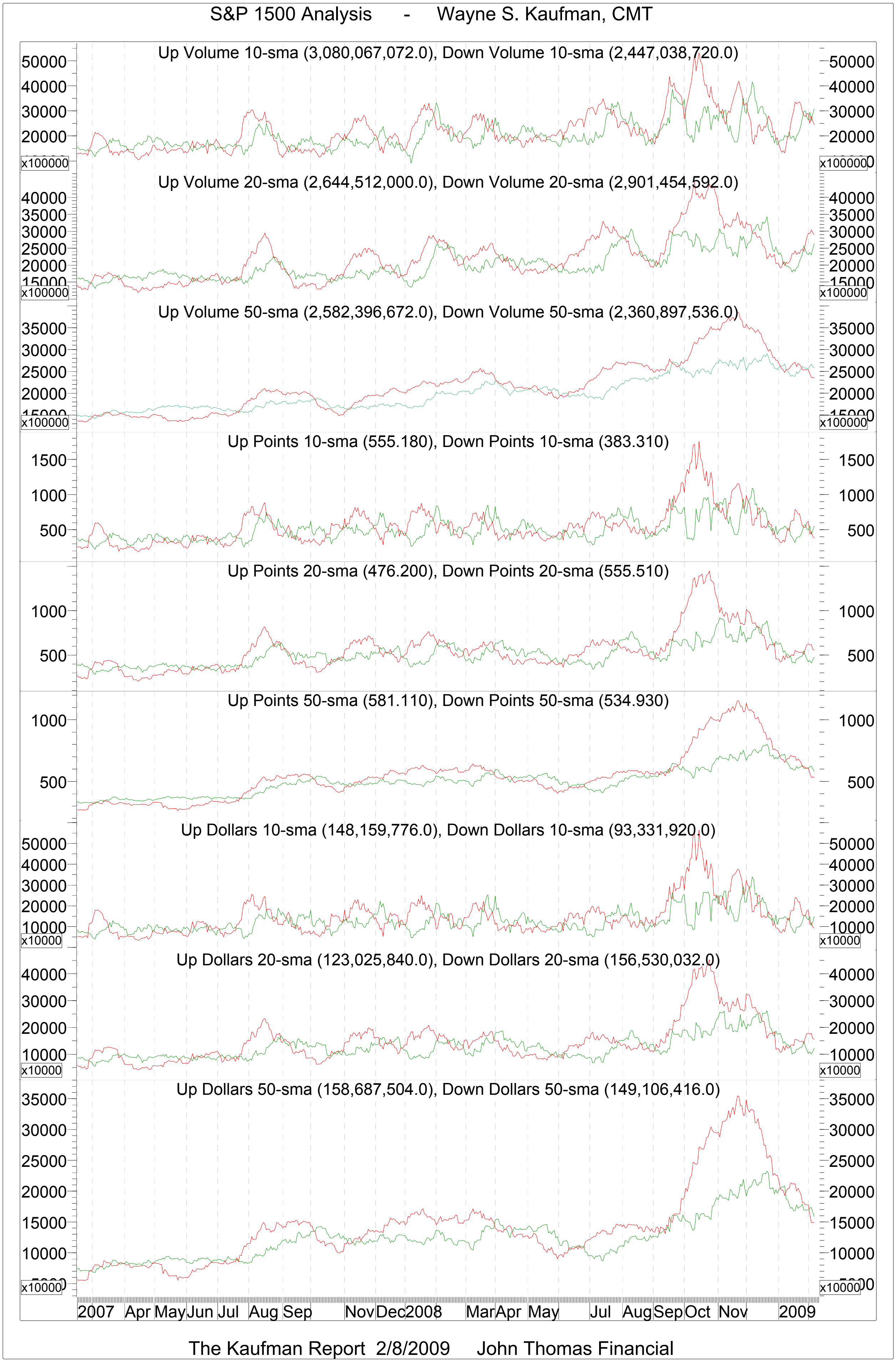
The 10-sma of 13-week highs and lows are not far apart, with the new highs average at its highest level since 10/1.

55.07% of stocks are over their 50-sma.

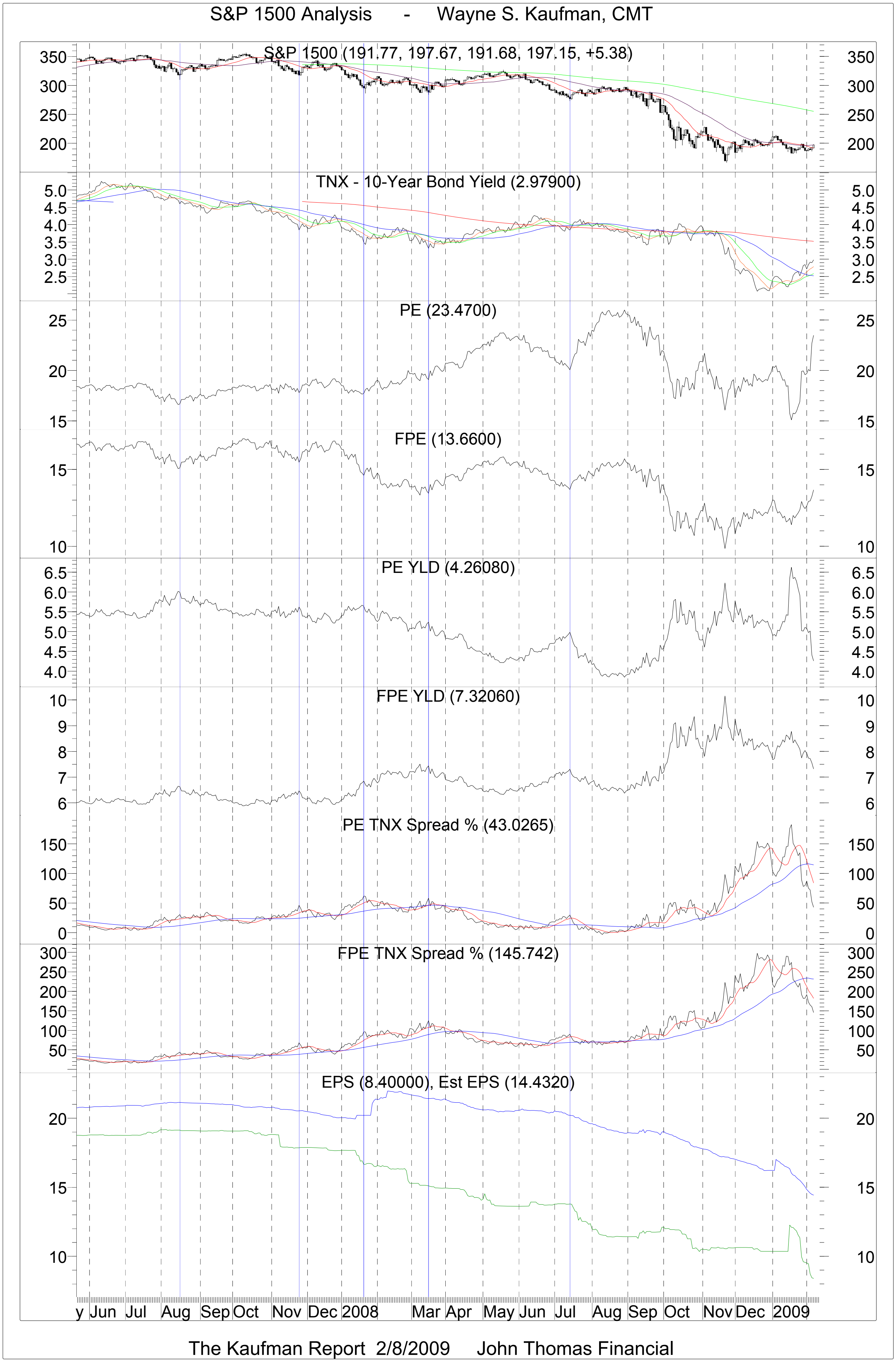
Volume expanded during Thursday and Friday's rallies.




Our proprietary options indicator is just under neutral. The 5-day moving average of the put/call ratio is showing a little too much optimism, so this bears watching.




Our statistics of supply (red lines) versus demand (green) are showing some positive crossovers, but it is easy to see looking at points and dollars that buyers have not been very enthusiastic. Fortunately, neither have sellers.

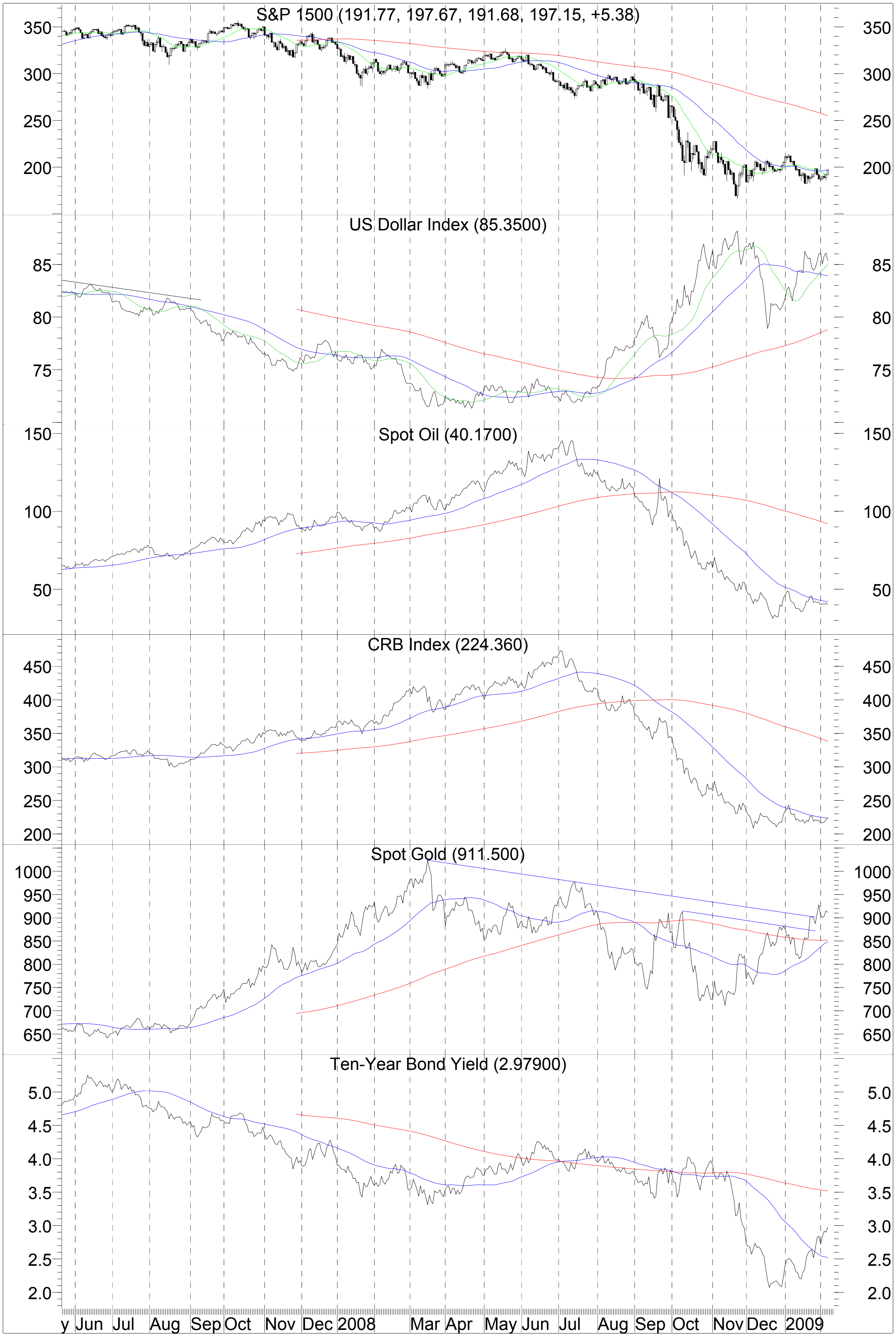



The P/E ratio has vaulted to the highest level since 9/22.

Spreads between equity and bond yields have plummeted. During normal markets these levels would make stocks attractive versus bonds, but these are not normal times. If bond yields continue higher and earnings continue lower these spreads will get ugly.

Reported and projected earnings continue their inexorable march lower.

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




The U.S. Dollar Index is consolidating under resistance.

Crude oil is trying to hang onto the $40 level, and is just under the 50-sma.

Gold remains in an up trend after breaking two trend lines. It is not yet overbought.