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The Kaufman Report

Trade what you see, not what you think.

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Tuesday January 13, 2009 **Closing prices of January 12, 2009**

Stocks continued lower Monday with some indicators starting to get oversold. We expect to see a let up in the selling as the S&P 500 nears support levels. A break below support at the 857 – 851 zone while indicators are oversold would show sellers are anxious to liquidate positions. The statistics of volume, points, and dollars for Wednesday, Friday, and Monday look very similar, giving the appearance of an orderly liquidation.

The S&P 1500 (197.10) was down 2.305% Monday. Average price per share was down 2.48%. Volume was 112% of its 10-day average and 100% of its 30-day average. 16.38% of the S&P 1500 stocks were up on the day, with up volume at 12.09% and up points at 8.96%. Up Dollars was 1.3% of total dollars, and was 3% of its 10-day moving average while Down Dollars was 220% of its 10-day moving average. The index is down 3.821% month-to-date, down 3.821% quarter-to-date, down 3.821% year-to-date, and down 44.69% from the peak of 356.38 on 10/11/07. Average price per share is $23.21, down 46.31% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 1.155. The Kaufman Options Indicator is 1.01 after hitting 1.21 on 12/30, indicating too much bullishness.

The spread between the reported earnings yield and 10-year bond yield is 128% and 266% based on projected earnings, extremely wide levels*. *The dividend yield on the S&P 500 recently moved higher than 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 $10.36, a drop of 45.98%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $16.64, a drop of only 24.19%. *If investors had confidence in earnings estimates stocks would be much higher than they currently are.*

29 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 58.1% have had positive surprises, 9.7% have been in line, and 32.3% have been negative. The year-over-year change has been -84.1% on a share-weighted basis, -102.5% market cap-weighted and +936.0% non-weighted. Ex-financial stocks these numbers are 29.8%, 24.4%, and 332%, respectively.

Federal Funds futures are pricing in a probability of 68% that the Fed will *leave rates unchanged*, and a probability of 32.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 62.2% that the Fed will *leave rates unchanged* on March 17th, and a probability 26.9% of *cutting 25 basis points to 0.00%.*

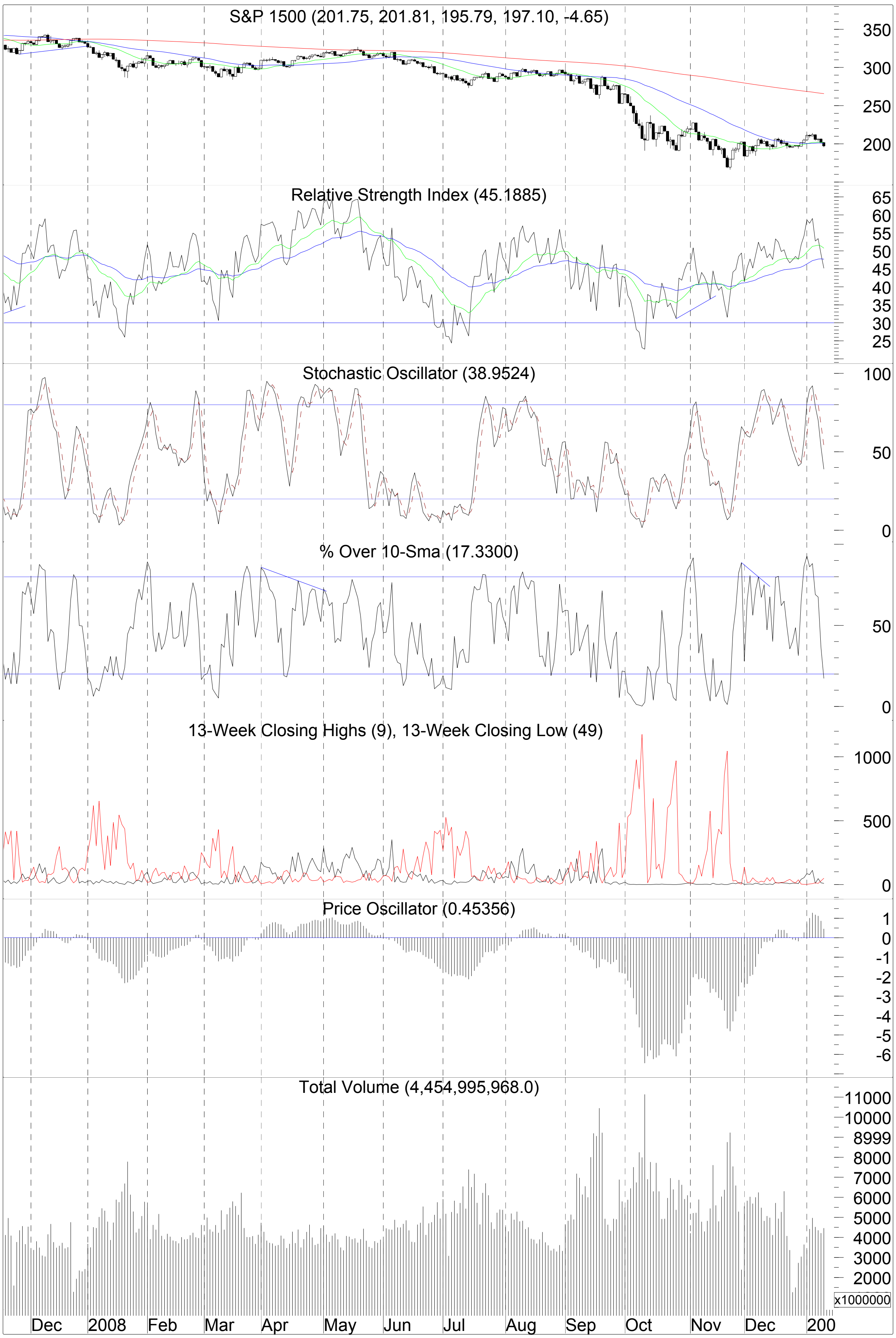
The short-term, intermediate-term and long-term trends remain down. This continues to be an opportunistic trader's market, prone to infuriating whipsaws, with adept traders able to take advantage long or short. The long-term downtrend must still be respected. Investors should not hesitate to take profits when they get them as market direction changes rapidly and short-term profits can quickly become losses.

IMPORTANT DISCLOSURES

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

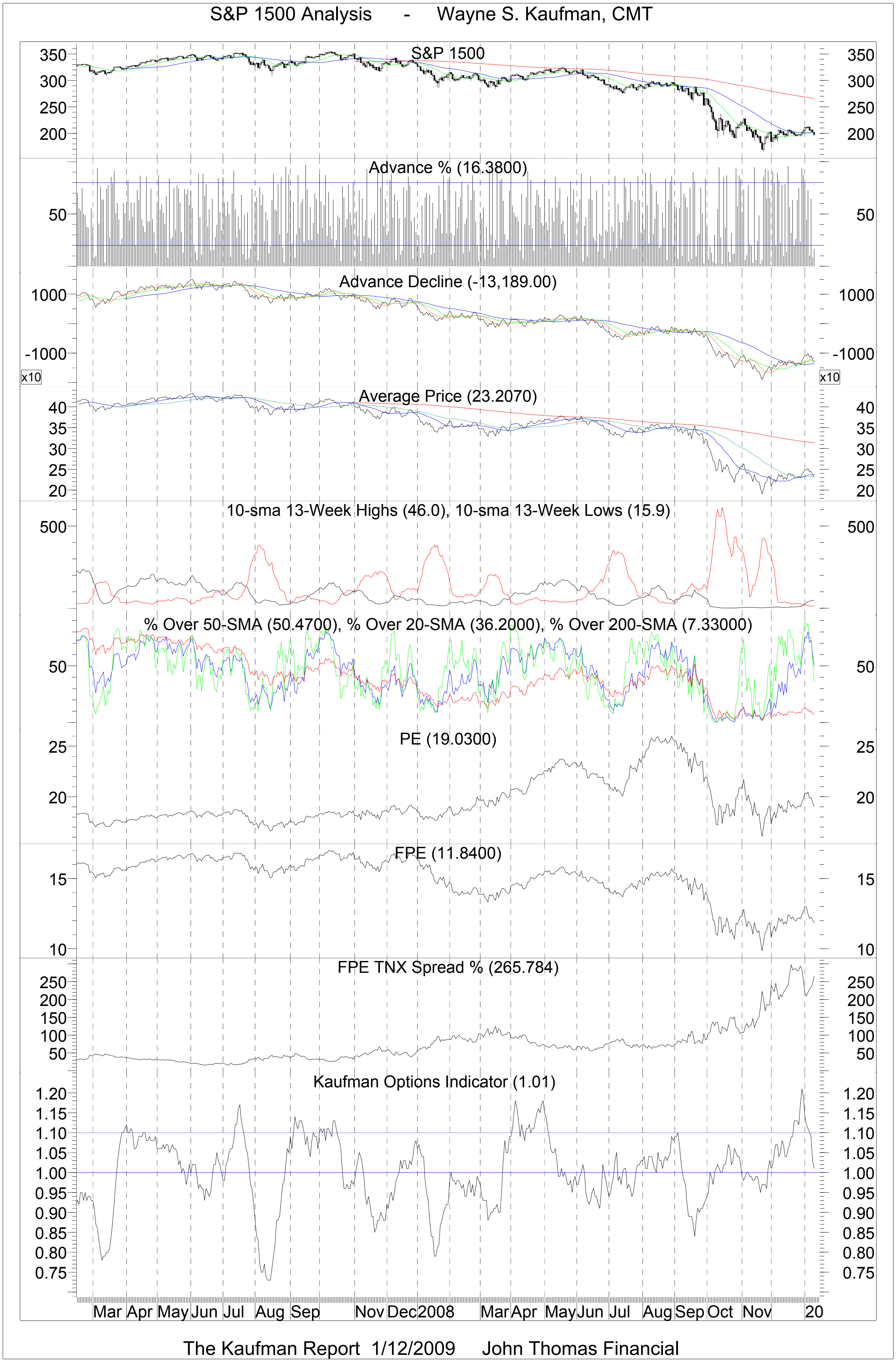
The S&P 500 continued lower Monday as it dropped below the 20 and 50-day moving averages. Support is at the 857 - 851 zone. Short-term indicators are getting oversold but further weakness is still possible.

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



The percent over 10-sma is in the oversold zone, but other momentum indicators can fall further. 17.33% is the lowest since November 21st.

Our price oscillator is still in positive territory.



16.38% of stocks traded higher Monday.

P/E ratios remain range bound.

Our options indicator is just above neutral after plunging from extreme over-bullish levels.