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

Thursday January 15, 2009 **Closing prices of January 14, 2009**

Tuesday night we said "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." That support zone was broken Wednesday and the orderly selling turned into a panic-selling 90% down day. Our proprietary options indicator has been warning that overly bullish sentiment had left stocks vulnerable to a sharp drop. Since January 6th, only seven sessions ago, the S&P 500 has plunged 10.73%. With stocks getting very oversold a short-term bottom can appear at any time, but investors need to be aware that the last stages of waterfall declines can be very painful.

The S&P 1500 (190.85) was down 3.43% Wednesday. Average price per share was down 3.78%. Volume was 119% of its 10-day average and 115% of its 30-day average. 4.35% of the S&P 1500 stocks were up on the day, with up volume at 3.64% and up points at 1.98%. Up Dollars was 7/100 of 1% of total dollars, and was 1/3 of 1% of its 10-day moving average while Down Dollars was 265% of its 10-day moving average. The index is down 6.87% month-to-date, down 6.87% quarter-to-date, down 6.87% year-to-date, and down 46.48% from the peak of 356.38 on 10/11/07. Average price per share is $22.45, down 48.07% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 1.147. The Kaufman Options Indicator is 0.89 after hitting an overbullish 1.21 on 12/30.

<u>The spread between the reported earnings yield and 10-year bond yield is 145% and 290% based on projected earnings, unheard of levels</u>. <u>The dividend yield on the S&P 500 recently moved higher than the 10-year bond yield for the first time since 1958.</u>

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 $16.48, a drop of only 24.92%. *<u>If investors had confidence in earnings estimates stocks would be much higher than they currently are.</u>*

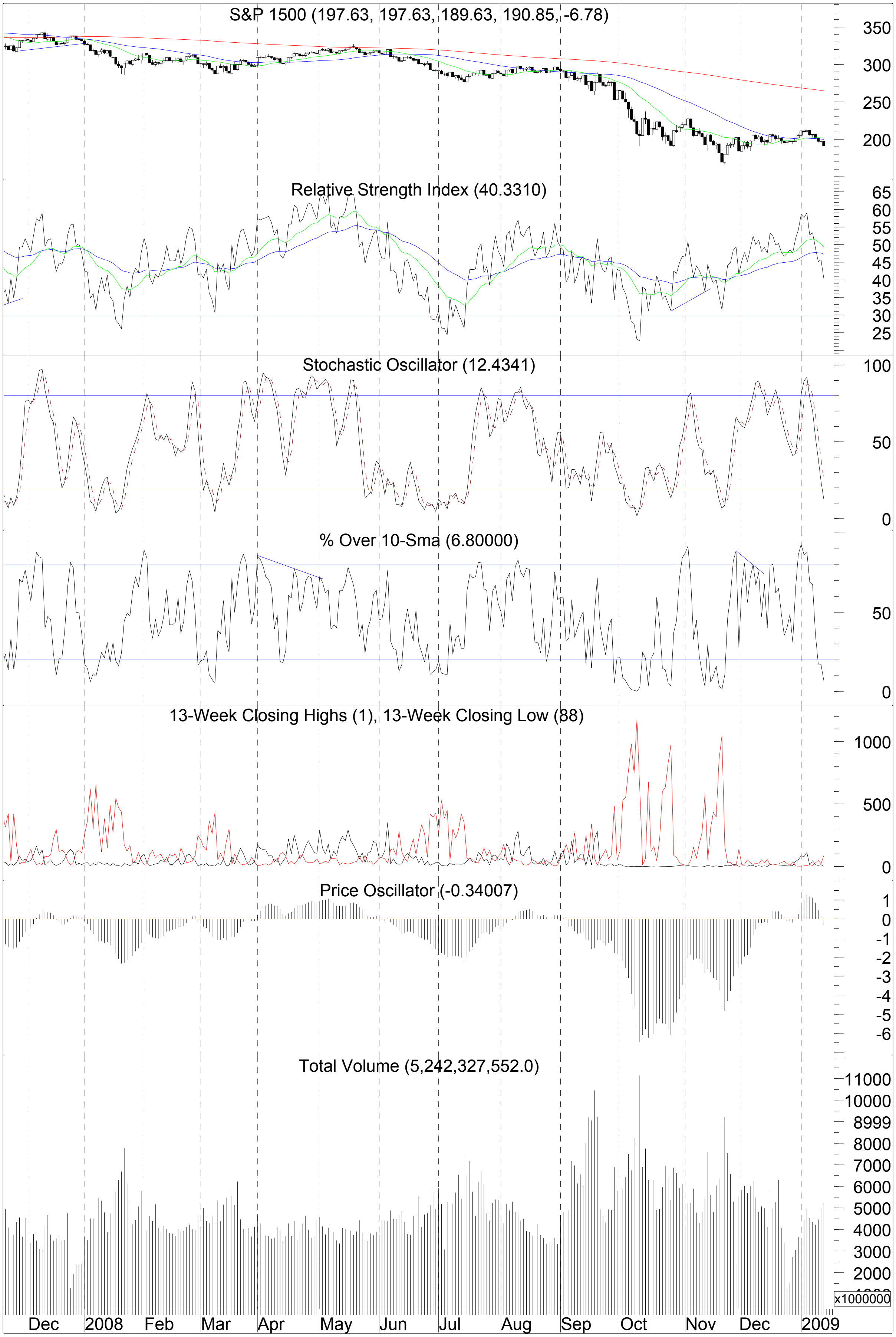
31 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 54.8% have had positive surprises, 9.7% have been in line, and 35.5% have been negative. The year-over-year change has been -80.9% on a share-weighted basis, -101.7% market cap-weighted and +433.3% non-weighted. <u>Ex-financial stocks these numbers are 27.5%, 23.6%, and 403.9%, respectively.</u>

Federal Funds futures are pricing in a probability of 66% that the Fed will *<u>leave rates unchanged,</u>* and a probability of 34.0% of *<u>cutting 25 basis points to 0.00%</u>* when they meet on January 28th. They are pricing in a probability of 62.2% that the Fed will *<u>leave rates unchanged</u>* on March 17th, and a probability 29.9% of *<u>cutting 25 basis points to 0.00%.</u>*

<u>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 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.</u>

The S&P 500 broke the 857 - 851 support zone Wednesday. We have been warning that our proprietary options indicator had reached extreme overbullish levels leaving stocks vulnerable to a sharp drop, and since the top on 1/6 the index plunged 11.33% at Wednesday's low. Stocks are getting very oversold in the short-term. The next support level is the 816 area.

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

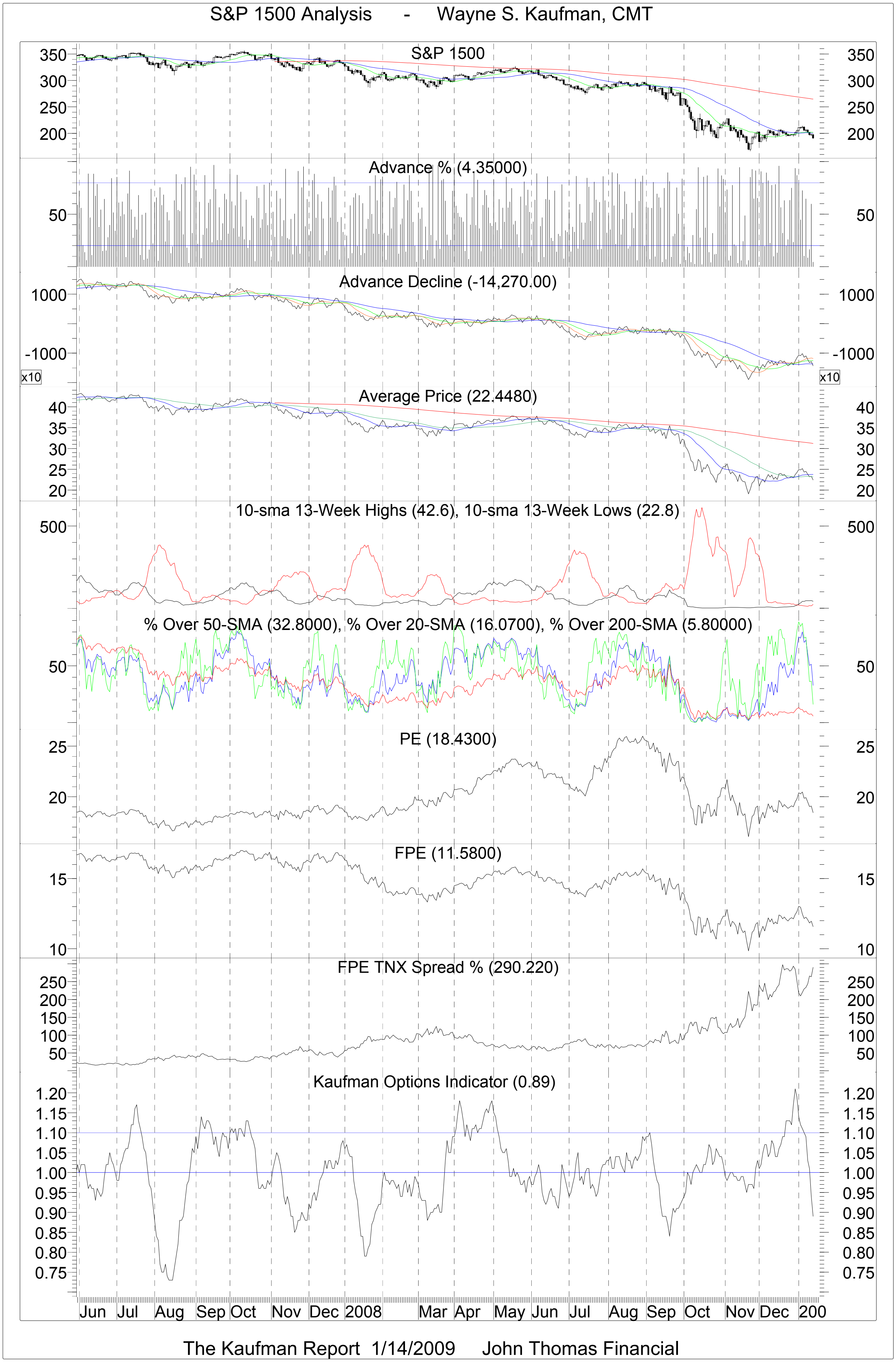


Our momentum indicators are reaching oversold levels.

The percent over 10-sma is 6.8%, which is very low. It hit 1.27% on November 20th.

After a short stay in positive territory our price oscillator has dipped turned negative again.

Volume expanded during Wednesday's sell off.



Only 4.35% of the S&P 1500 traded higher Wednesday.

P/E ratios have dropped dramatically.

Spreads between equity and bond yields are back at incredible levels.

Our proprietary options indicator has plunged after reaching extreme overbullish levels. It is actually lower than it was November 20th, although not yet at levels we have seen at prior important bottoms. Still, it should indicate not that much immediate downside left for stocks.