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The Kaufman Report

Trade what you see, not what you think.

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Friday January 16, 2009 **Closing prices of January 15, 2009**

Stocks plunged again Thursday morning, but rebounded smartly in the afternoon. We said Wednesday night that the next support for the S&P 500 was at the 816 area, and at 817.04 buyers came rushing in. The oversold bounce took the index up to 851.59, and it closed at 843.74, up 3.27% from the day's low. In doing so it printed a high wave candle on high volume on the daily chart. This is a sign of indecision which can mean a trend change. With Short-term indicators still at oversold levels, spreads between bond and equity yields at levels where stocks have found support recently, and with our proprietary options indicator well into negative territory, it will take very bad news to push stocks significantly lower in the near-term.

The S&P 1500 (191.45) was up 0.314% Thursday. <u>Average price per share was up 1.40% as small and mid-caps led the rebound</u>. Volume was 145% of its 10-day average and 149% of its 30-day average. 72.24% of the S&P 1500 stocks were up on the day, with up volume at 48.29% and up points at 78.2%. Up Dollars was 86.02% of total dollars, and was 159% of its 10-day moving average while Down Dollars was 13% of its 10-day moving average. The index is down 6.578% month-to-date, down 6.578% quarter-to-date, down 6.578% year-to-date, and down 46.28% from the peak of 356.38 on 10/11/07. Average price per share is $22.76, down 47.35% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 1.147. The Kaufman Options Indicator is showing pessimism at 0.88 after hitting an overbullish 1.21 on 12/30.

<u>The spread between the reported earnings yield and 10-year bond yield is 146% 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 $16.42, a drop of only 25.19%. *<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, 54.3% have had positive surprises, 8.6% have been in line, and 37.1% have been negative, a high number. The year-over-year change has been -93.5% on a share-weighted basis, -104.5% market cap-weighted and -24.6% non-weighted. <u>Ex-financial stocks these numbers are -2.4%, 12.1%, and 559.1%, respectively.</u>

Federal Funds futures are pricing in a probability of 72% that the Fed will *<u>leave rates unchanged,</u>* and a probability of 28.0% of *<u>cutting 25 basis points to 0.00%</u>* when they meet on January 28th. They are pricing in a probability of 68.5% that the Fed will *<u>leave rates unchanged</u>* on March 17th, and a probability 25.7% 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>

IMPORTANT DISCLOSURES


S&P 500 Cash (841.99, 851.59, 817.04, 843.74, +1.12)
200-sma
50-sma
20-sma
1420
1410
1400
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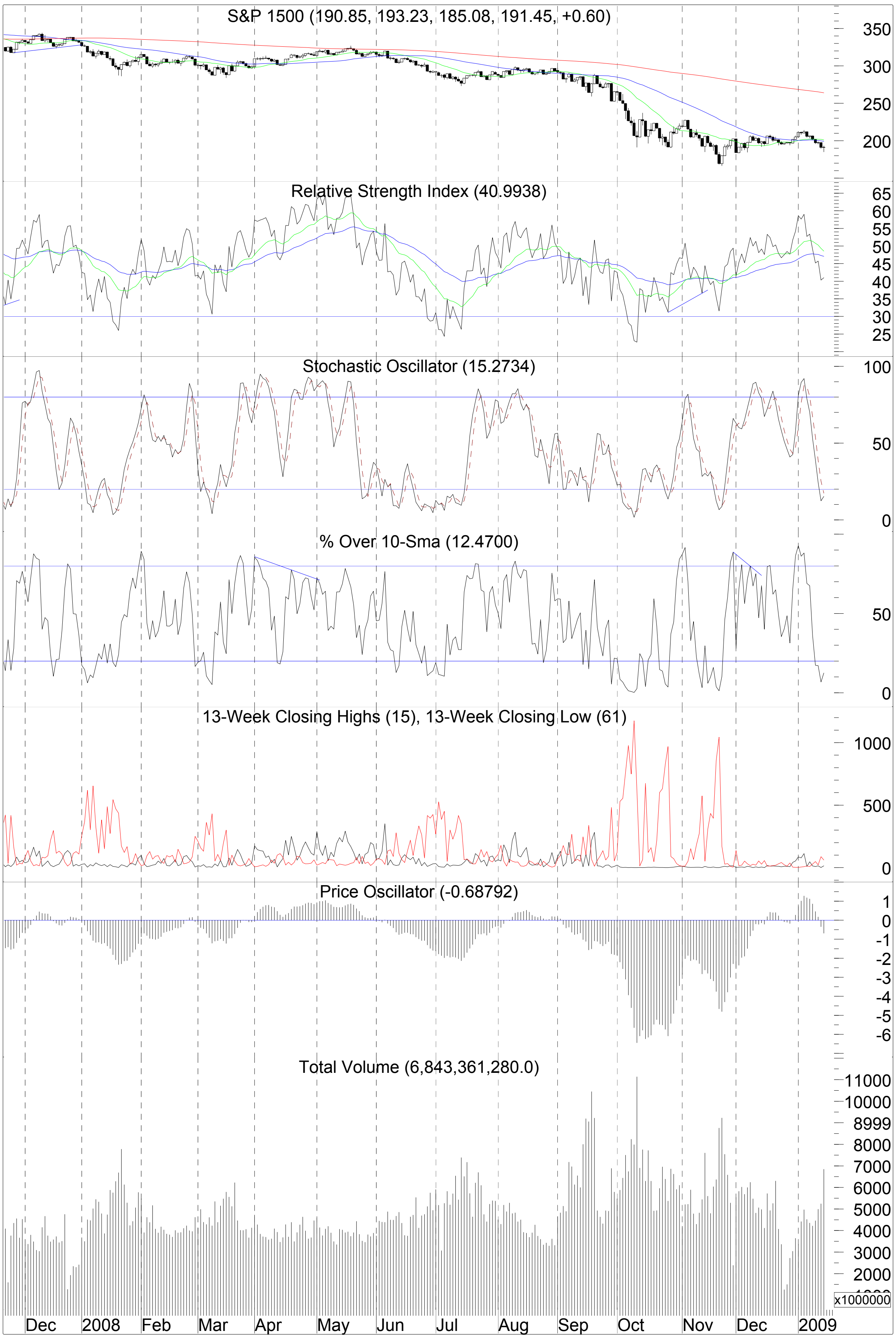
12
19
September
October
November
December
2009

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



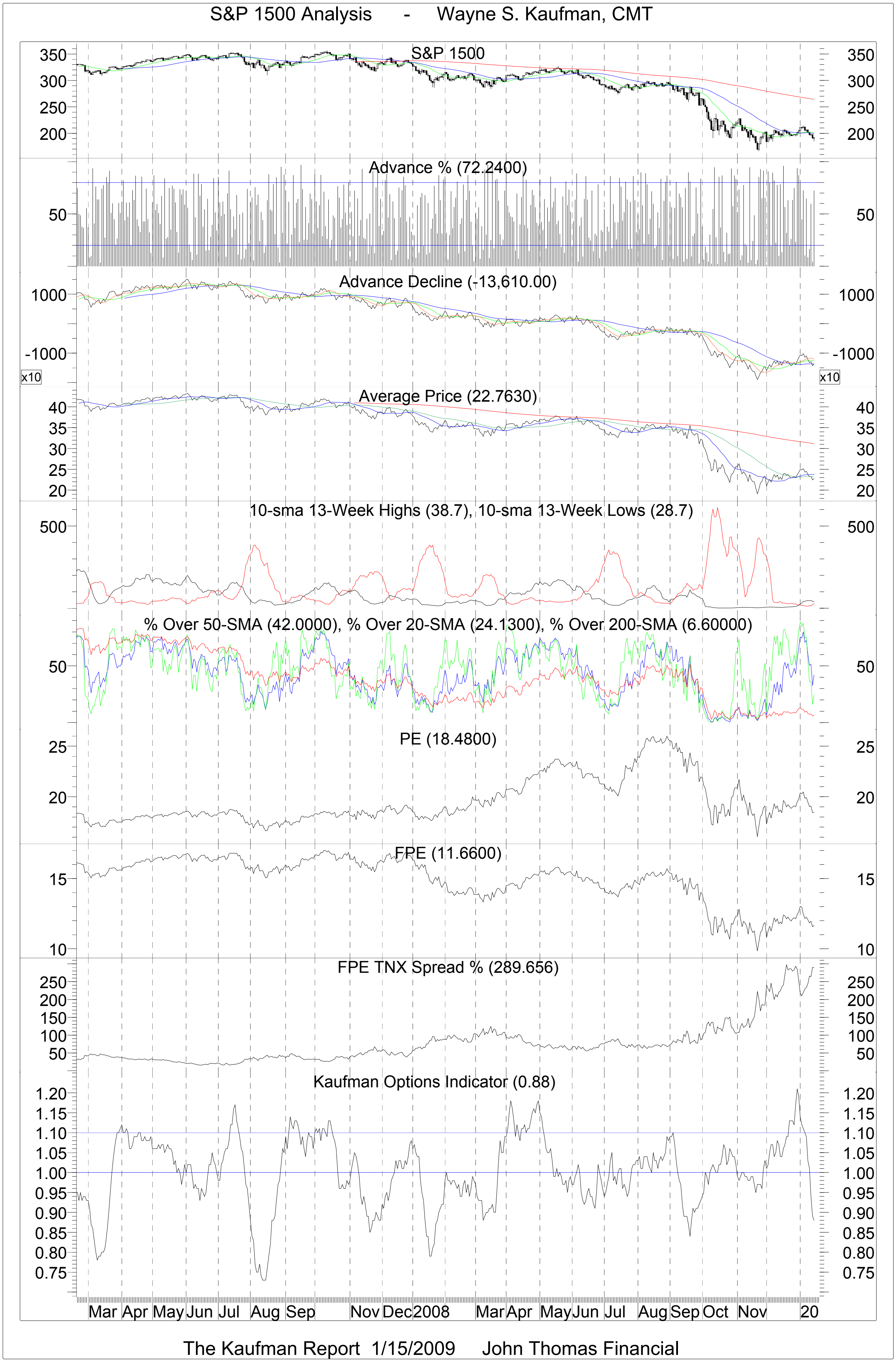
The RSI may have found support at the 40 level, which if not broken would argue that the rally off the November low is still intact.

The stochastic and percent over 10-sma are in the oversold zone.

New lows were greater than new highs Thursday.

Our price oscillator has turned negative.

Volume increased dramatically Thursday as bears were met by bulls.



72.24% of stocks traded higher Thursday.

P/E ratios remain range bound.

Spreads between equity and bond yields are at the extreme levels where stocks have bottomed recently.

Our proprietary options indicator is in negative territory which should prevent stocks from falling too much further in the near-term. It is not as low as at prior important bottoms, but is in the range where rallies can occur.