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The Kaufman Report

Trade what you see, not what you think.

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Wednesday January 21, 2009 **Closing prices of January 20, 2009**

Stocks plunged Tuesday in another 90% down day as bad news in the banking sector seems endless. All S&P sectors traded lower, led by Financials which were down an amazing 16.73%, and are already down 35.82% on the year. Stocks reached extreme oversold levels last week, and after a feeble two day rally attempt they are back at extreme oversold levels. As we stressed many times in October, a market that doesn't respond to oversold conditions is dangerous.

The S&P 1500 (182.61) was down 5.395% Monday. Average price per share was down 5.51%. Volume was 118% of its 10-day average and 132% of its 30-day average. 1.8% of the S&P 1500 stocks were up on the day, with up volume at 2.08% and up points at 1.29%. Up Dollars was 2/100 of 1% of total dollars, and was 1/5 of 1% of its 10-day moving average while Down Dollars was 298% of its 10-day moving average. The index is down 10.89% month-to-date, down 10.89% quarter-to-date, down 10.89% year-to-date, and down 48.76% from the peak of 356.38 on 10/11/07. Average price per share is $21.77, down 49.64% from the peak of $43.23 on 6/4/2007.

Put/Call Ratio was 0.958. The Kaufman Options Indicator is showing pessimism at 0.86 after hitting an overbullish 1.21 on 12/30.

The spread between the reported earnings yield and 10-year bond yield is the highest yet at 182%, and a still high 274% 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 $12.10, a drop of 36.91%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $16.02, a drop of 27.02%. *The spread between reported and projected earnings is now the narrowest since February 2008.*

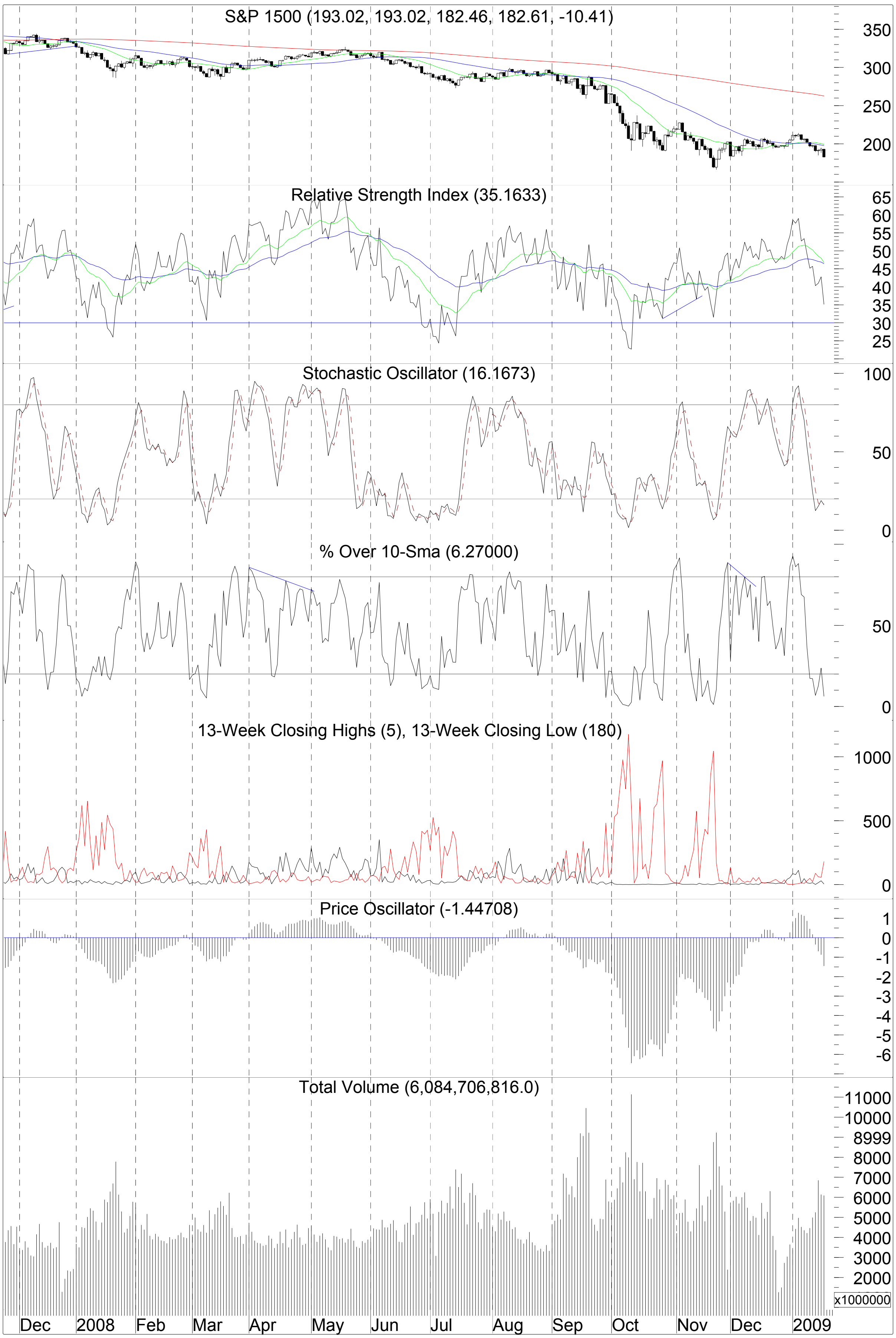
52 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 50% have had positive surprises, 9.5% have been in line, and 40.5% have been negative, a high number. The year-over-year change has been -1,883.2% on a share-weighted basis, -65.5% market cap-weighted and +84.8% non-weighted. Ex-financial stocks these numbers are -0.7%, +10.8%, and +154.6%, respectively.

Federal Funds futures are pricing in a probability of 72% that the Fed will *leave rates unchanged*, and a probability of 28.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 67.6% that the Fed will *leave rates unchanged* on March 17th, and a probability 25.2% 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 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.

The S&P 500 plunged through support at the 816 - 817 area on Tuesday, greatly increasing the odds of a re-test of the November lows. It is down 14.69% since January 6th.

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



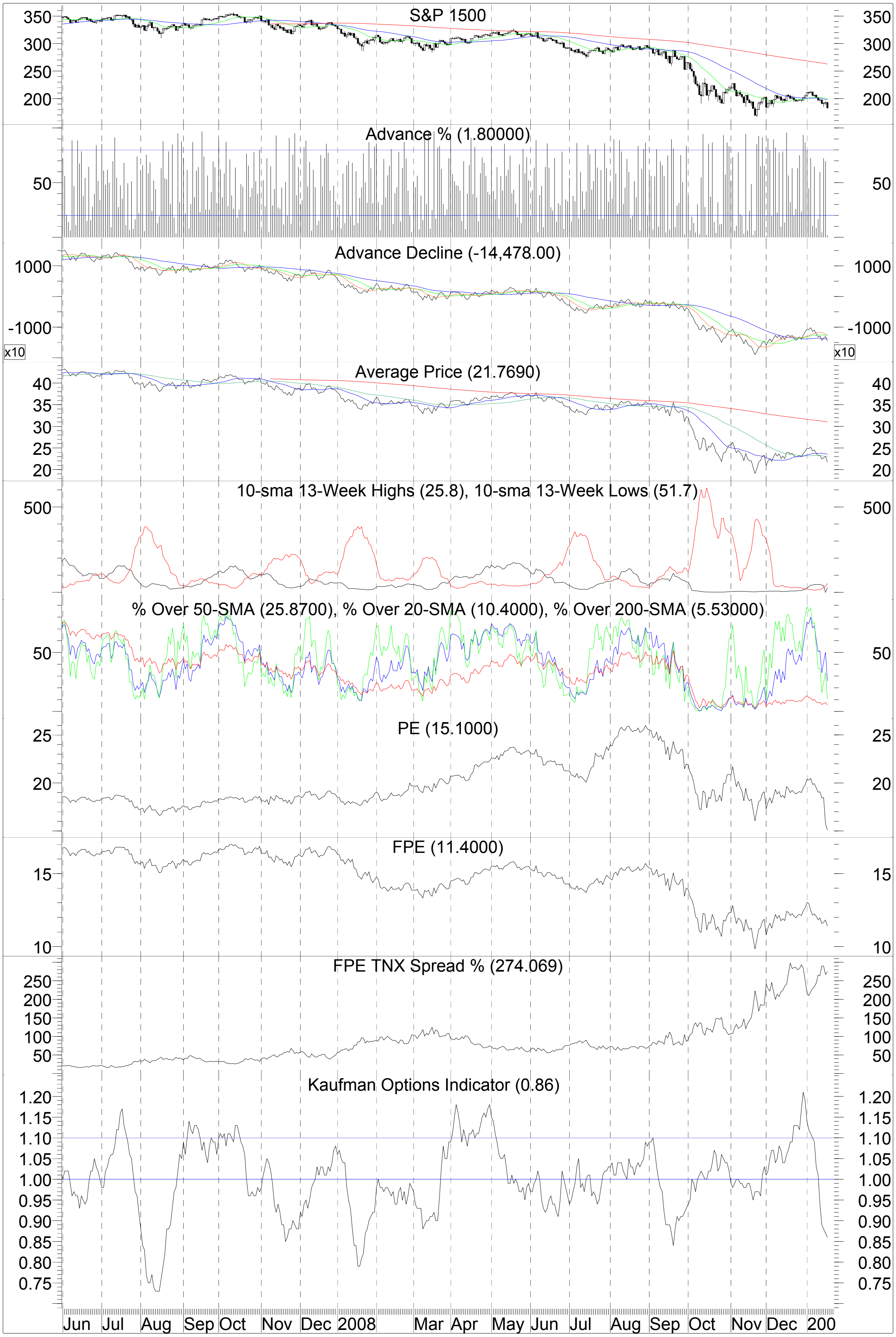
Our momentum indicators remain oversold after a feeble attempt to bounce. This is a sign of an unhealthy market.

New lows are rising again.

Our price oscillator is getting more negative.

Volume was slightly less than Friday and was above average.

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



1.8% of stocks traded higher Tuesday.

The 10-sma of 13-week lows is well above 13-week highs again.

P/E ratios are dropping rapidly.

Our proprietary options indicator remains in negative territory. It is not at the level where important bottoms have been made, but rallies can begin from these levels.

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