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 22, 2009 **Closing prices of January 21, 2009**

Stocks finally responded to their deep oversold condition by recording a 90% up day Wednesday. This follows Tuesday's 90% down day. In the past back-to-back 90% days like this would have been a strong buy signal, but the recent proliferation of 90% days tempers our enthusiasm. Still, it was a broad rally, with all S&P sectors higher. Financials led both days, down an amazing 16.73% Tuesday and up 14.61% Wednesday. Unfortunately, Wednesday's gains failed to erase Tuesday's losses, and major indexes remain below important moving averages and price resistance. With stocks still oversold, options buyers showing pessimism, and valuations based on spreads between bond and earnings yields at very attractive levels, they should be able to challenge resistance levels. An inability to do that by the end of next week would probably show that fourth quarter earnings reports were not enough to provide a catalyst to increase investor demand for stocks.

The S&P 1500 (190.62) was up 4.386% Wednesday. Average price per share was up 4.41%. Volume was 118% of its 10-day average and 136% of its 30-day average. 92.48% of the S&P 1500 stocks were up on the day, with up volume at 91.22% and up points at 96.96%. Up Dollars was 99.7% of total dollars, and was 492% of its 10-day moving average while Down Dollars was 2/3 of 1% of its 10-day moving average. The index is down 6.983% month-to-date, down 6.983% quarter-to-date, down 6.983% year-to-date, and down 46.51% from the peak of 356.38 on 10/11/07. Average price per share is $22.73, down 47.42% from the peak of $43.23 on 6/4/2007.

Put/Call Ratio was 0.929. 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 151%, and 229% 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.

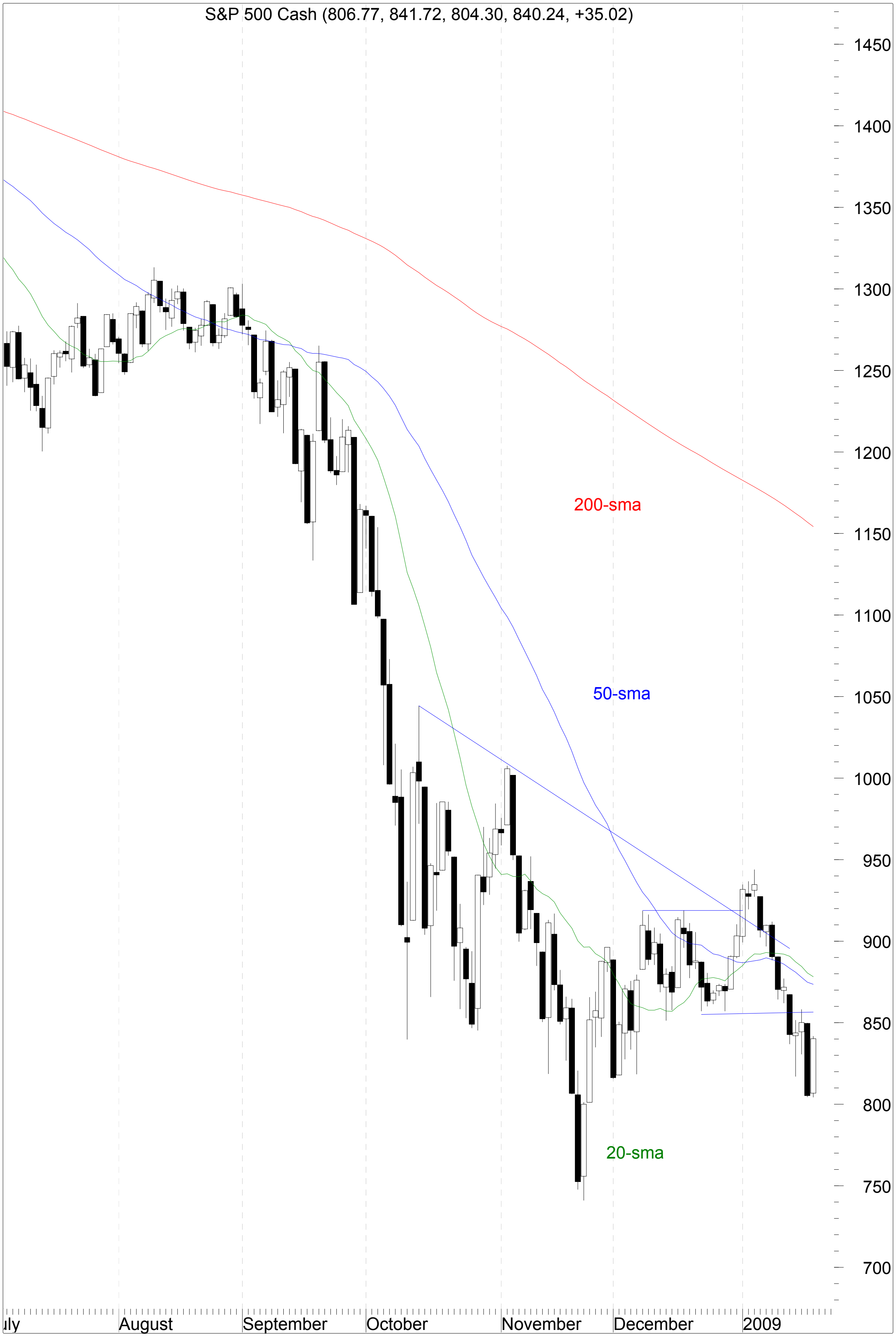
Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $12.09, a drop of 36.97%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $15.89, a drop of 27.61%. *The spread between reported and projected earnings is now the narrowest since February 2008.*

64 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 -299.6% on a share-weighted basis, -43.9% market cap-weighted and +12.1% non-weighted. Ex-financial stocks these numbers are +0.2%, +9.4%, and +72.6%, respectively.

Federal Funds futures are pricing in a probability of 80% that the Fed will *leave rates unchanged*, and a probability of 20.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 74.0% that the Fed will *leave rates unchanged* on March 17th, and a probability 18.0% of *cutting 25 basis points to 0.00%.*

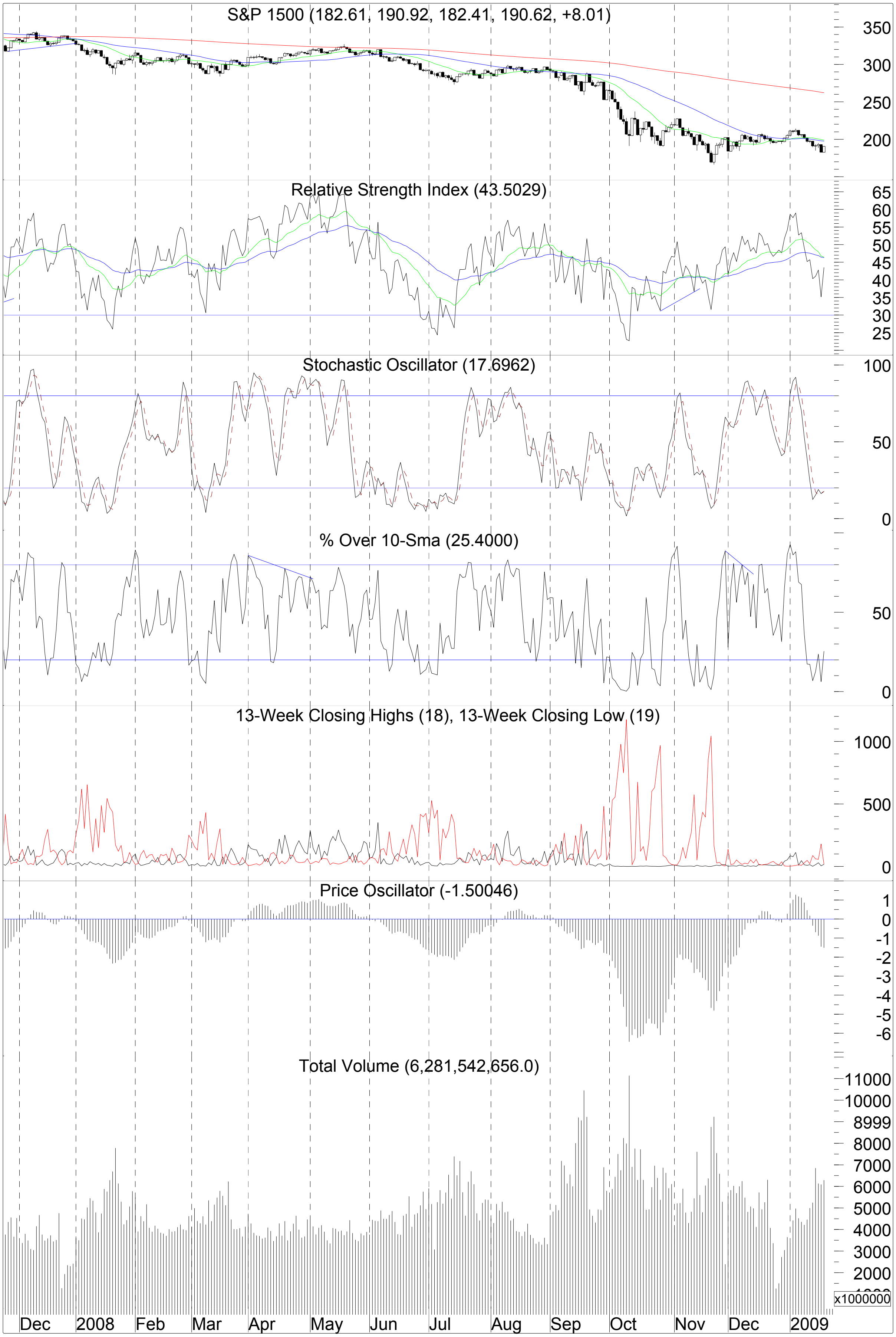
The short-term, intermediate-term and long-term trends remain down. This continues to be an opportunistic trader's market, prone to infuriating whipsaws, with adept traders able to take advantage long or short. The long-term downtrend must be respected. Investors should not hesitate to take profits when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

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



Stocks finally responded to oversold conditions, but Wednesday's strong rally fell short of reversing Tuesday's plunge. Stocks are still oversold, so there should be enough strength to challenge resistance levels. It is possible a huge triangle is forming on the chart.

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

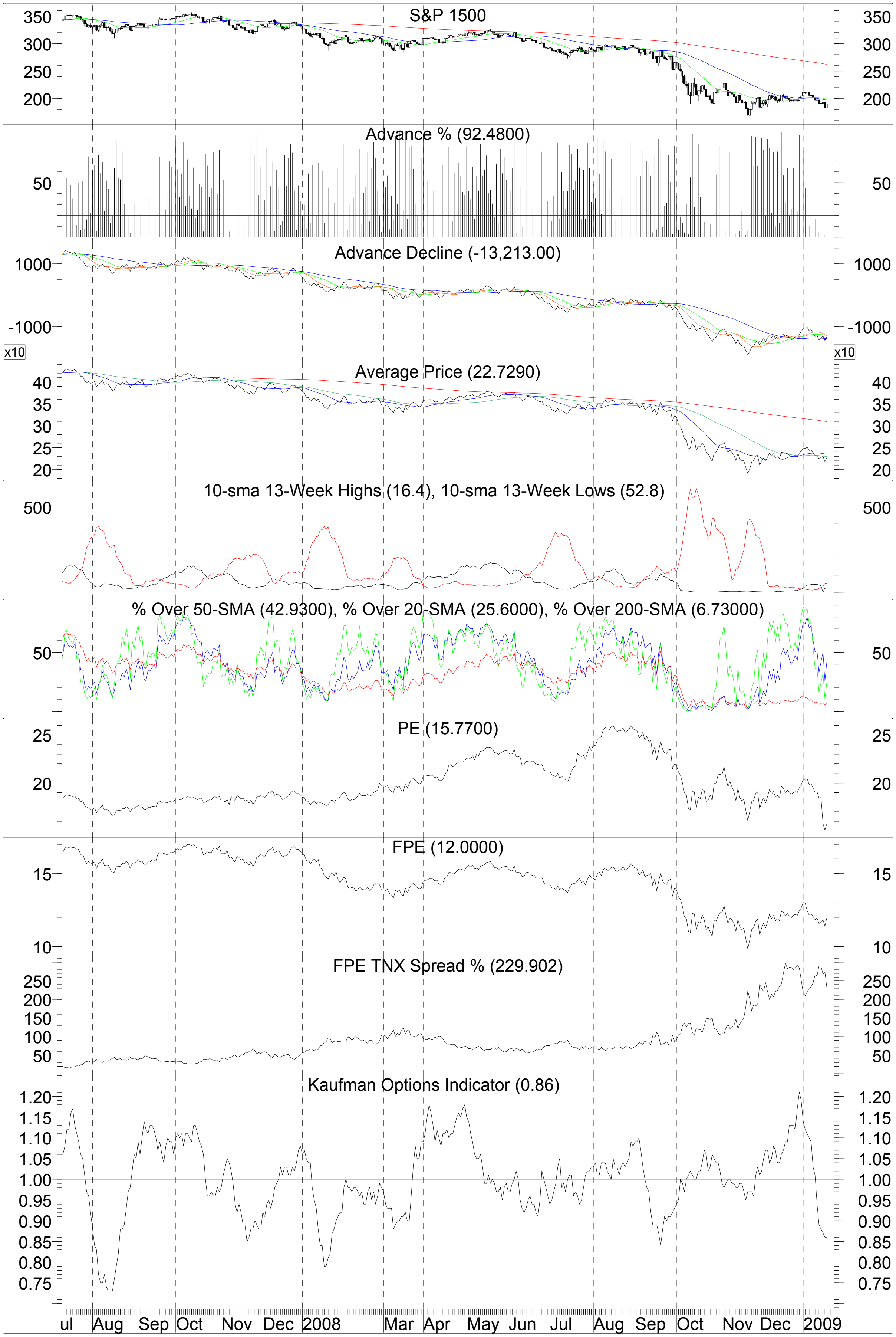


Our momentum indicators are at low levels.

Our price oscillator is still negative.

Volume increased slightly Wednesday.

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



The Kaufman Report 1/21/2009 John Thomas Financial

92.48% of stocks traded higher Wednesday.

The P/E ratio has plunged to low levels, while the forward P/E remains range bound.

Spreads between bond and equity yields are at levels where stocks are attractive versus bonds.

Our options indicator is showing pessimism, which is needed to have a rally.