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The Kaufman Report

Trade what you see, not what you think.

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Friday January 23, 2009 **Closing prices of January 22, 2009**

Stocks sold off broadly Thursday following worse than expected reports in housing and jobless claims, and a bad earnings report from Microsoft. All S&P sectors were down except Health Care, with Financials the worst again, down 5.85%. The intensity of the selling was not as severe as the other down days since January 5th. With stocks still oversold, options buyers showing pessimism, and valuations based on spreads between bond and earnings yields at very attractive levels, stocks 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 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 1500 (187.52) was down 1.626% Thursday. Average price per share was down 2.05%. Volume was 109% of its 10-day average and 129% of its 30-day average. 17.97% of the S&P 1500 stocks were up on the day, with up volume at 22.97% and up points at 15.31%. Up Dollars was 12.8% of total dollars, and was 12.8% of its 10-day moving average while Down Dollars was 107% of its 10-day moving average. The index is down 8.496% month-to-date, down 8.496% quarter-to-date, down 8.496% year-to-date, and down 47.38% from the peak of 356.38 on 10/11/07. Average price per share is $22.26, down 48.51% from the peak of $43.23 on 6/4/2007.

Put/Call Ratio was 0.879. The Kaufman Options Indicator is showing pessimism at 0.85 after hitting an overbullish 1.21 on 12/30.

The spread between the reported earnings yield and 10-year bond yield is 146%, and 226% 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.

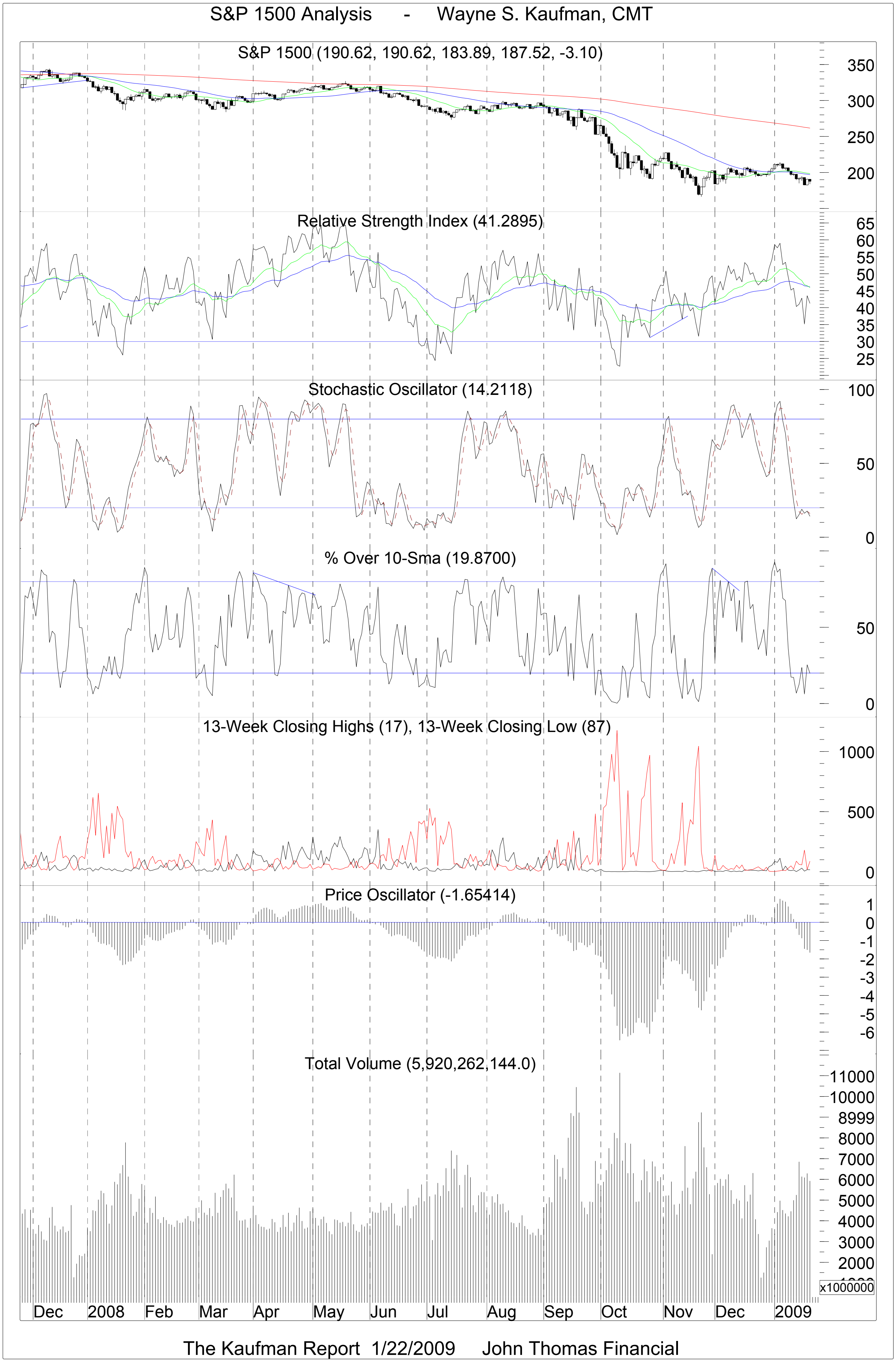
Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $11.95, a drop of 37.7%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $15.83, a drop of 27.88%. *The spread between reported and projected earnings is now the narrowest since February 2008.*

94 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 52.1 have had positive surprises, 8.5% have been in line, and 39.4% have been negative, a high number. The year-over-year change has been -129.5% on a share-weighted basis, -26.5% market cap-weighted and -25.5% non-weighted. Ex-financial stocks these numbers are -2.4%, +9.4%, and +36.5%, 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 69.2% that the Fed will *leave rates unchanged* on March 17th, and a probability 16.4% of *cutting 25 basis points to 0.00%.*

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

Last night we said the S&P 500 may be forming a huge triangle. It needs to rally in order to fulfill the pattern. In the meantime the index is below resistance and important moving averages. Tuesday's low of 804.30 is current short-term support. Resistance is the 851 - 857 zone.

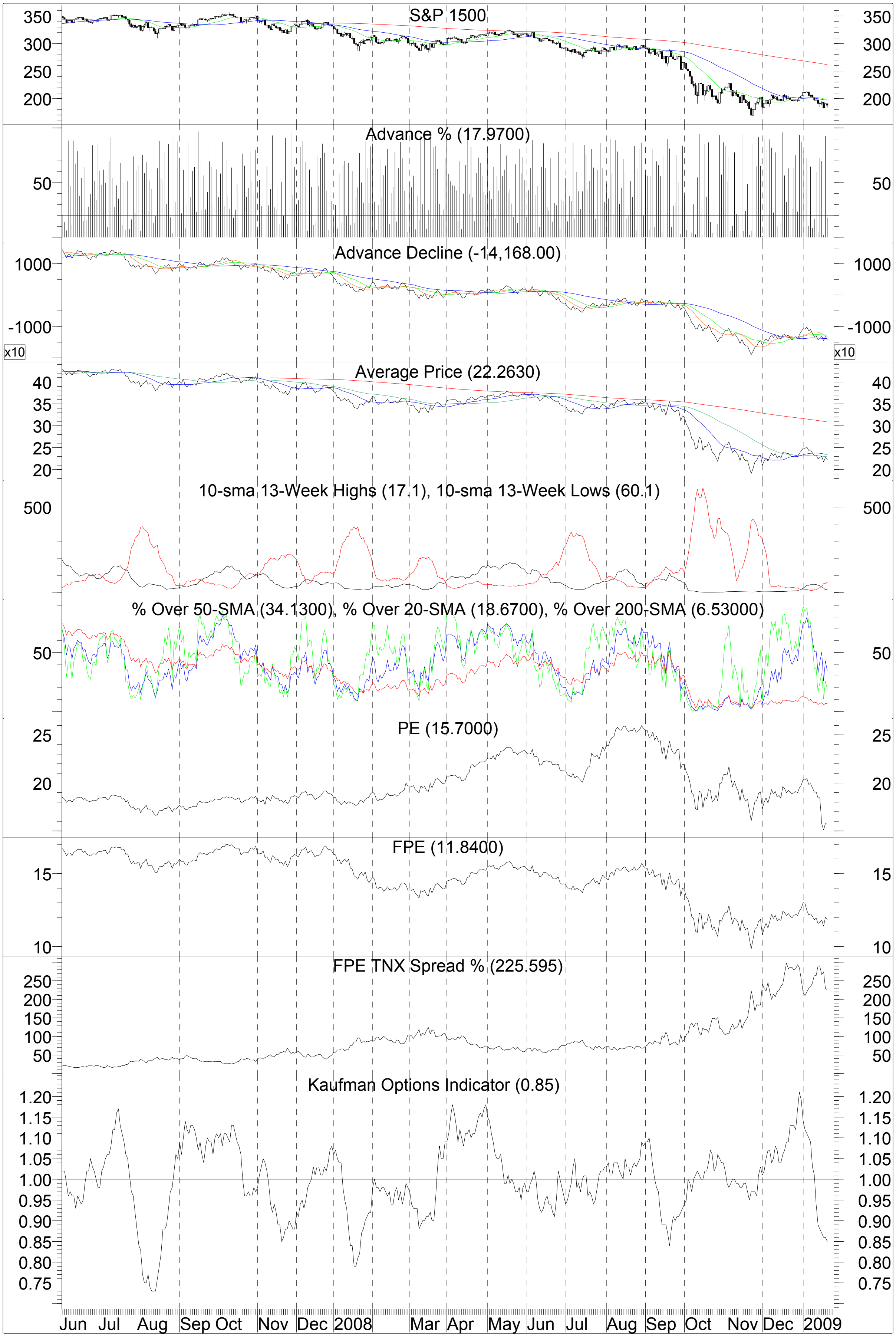


Our momentum indicators are still at low or oversold levels.

Our price oscillator is moving deeper into negative territory.

Volume was down slightly during Thursday's sell off.

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



17.97% of stocks traded higher Thursday.

New lows are expanding again.

P/E ratios barely budged Thursday.

Spreads between bond and earnings yields are narrowing as bond yields rise, but they are still at a level where stocks are attractive versus bonds.

Our proprietary options indicator is not at the levels where important bottoms have been made, but rallies can begin from this level of pessimism.