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

Monday January 26, 2009 **Closing prices of January 23, 2009**

Jethro Tull: Too old to rock and roll, too young to die. Stocks: too late to sell, too soon to buy. That seems to be the recent viewpoint of many investors evidenced by the failed breakout of early January and last week's action where there was no follow through on the breakdown seen on January 20th. We have said since the beginning of the year that this would be a frustrating, infuriating whipsaw market, and so far we haven't been disappointed.

Last week we stressed the following: "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."

We still think that timetable holds true, and with a flood of earnings coming out along with the FOMC meeting Wednesday, this week will tell an important story. Some new positives are a bullish divergence on the percentage of stocks over their 10-day moving averages, a bullish divergence on the Advance Decline line, hammer candlesticks printed on the daily and weekly S&P 500 charts, along with the previously mentioned lack of aggressiveness on the part of sellers after January 20th's breakdown.

Therefore, we think the table is being set for some type of short-term rally, but a failure to do so could have very bearish consequences. Should we get a rally here we think it will be very selective. Also, keep in mind that we continue to believe that any rallies that do occur are of the bear market variety.

<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>

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

Monday January 26, 2009 **Closing prices of January 23, 2009**

The S&P 1500 (188.57) was up 0.56% Friday. Average price per share was up 0.47%. Volume was 103% of its 10-day average and 125% of its 30-day average. 56.01% of the S&P 1500 stocks were up on the day, with up volume at 69.46% and up points at 60.45%. Up Dollars was 72.74% of total dollars, and was 104% of its 10-day moving average while Down Dollars was 17% of its 10-day moving average. The index is down 7.983% month-to-date, down 7.983% quarter-to-date, down 7.983% year-to-date, and down 47.09% from the peak of 356.38 on 10/11/07. Average price per share is $22.37, down 48.25% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 0.768. The Kaufman Options Indicator is showing pessimism at 0.87 but may be starting to turn up.

The spread between the reported earnings yield and 10-year bond yield is 139%, and 218% 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 $11.84, a drop of 38.26%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $15.70, a drop of 27.47%. *The spread between reported and projected earnings is now the narrowest since February 2008.*

98 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 51.0% have had positive surprises, 8.2% have been in line, and 40.8% have been negative, a high number. The year-over-year change has been -95.5% on a share-weighted basis, -26.1% market cap-weighted and -25.2% non-weighted. Ex-financial stocks these numbers are -6.7%, +6.9%, and +31.9%, respectively.

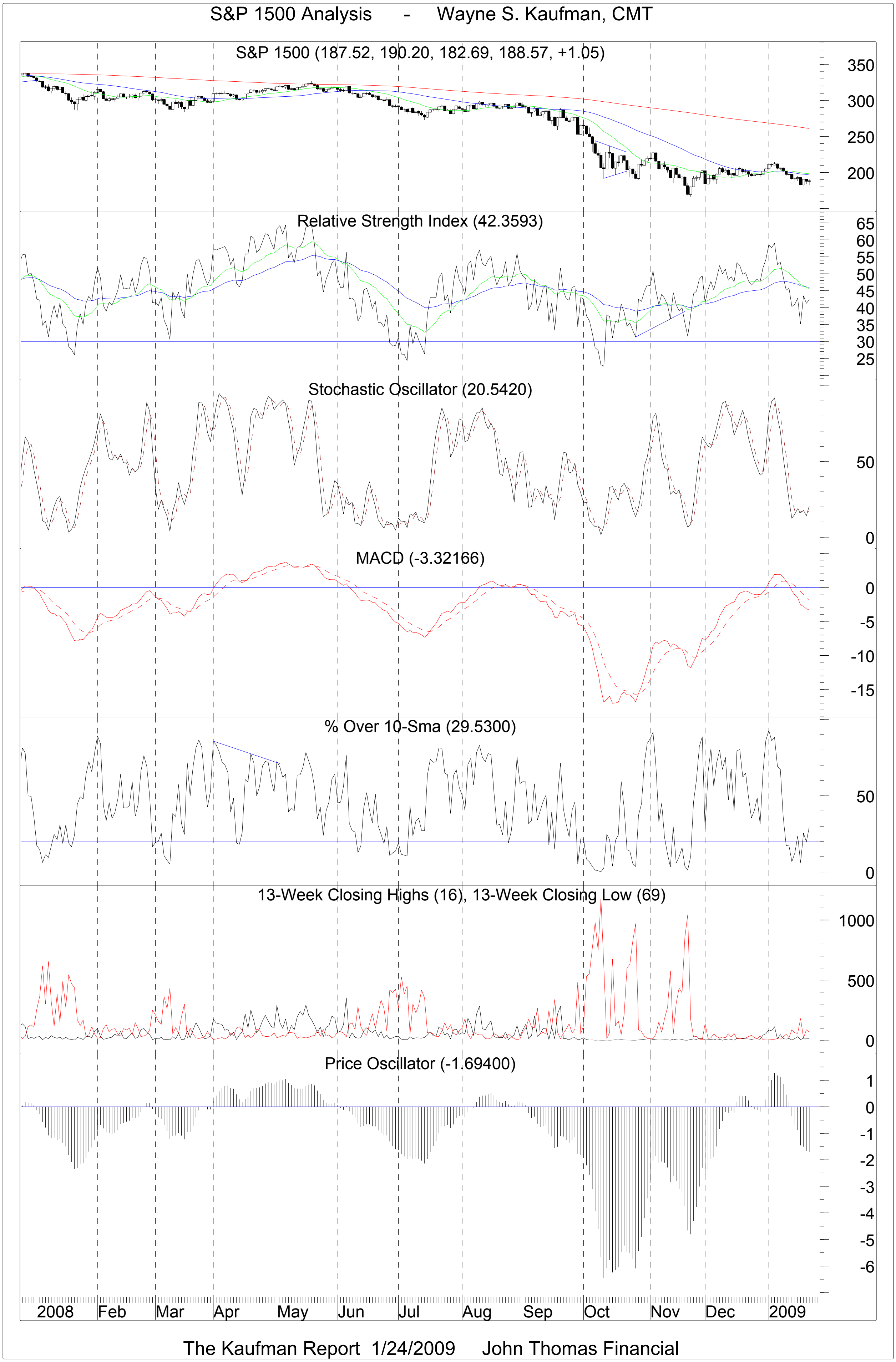
Federal Funds futures are pricing in a probability of 88% that the Fed will *leave rates unchanged*, and a probability of 12.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 69.8% that the Fed will *leave rates unchanged* on March 17th, and a probability 21.1% of *raising 25 basis points to 0.50%.*

On Friday stocks traded lower early and rebounded later for the second day in a row. They found support in the area of the bottom of the triangle pattern we have been talking about. A hammer candle was printed on the daily chart, and also on the weekly chart (next page). Hammers are bottoming candles.

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

The triangle pattern can be seen on the weekly chart, along with the hammer which was printed last week.

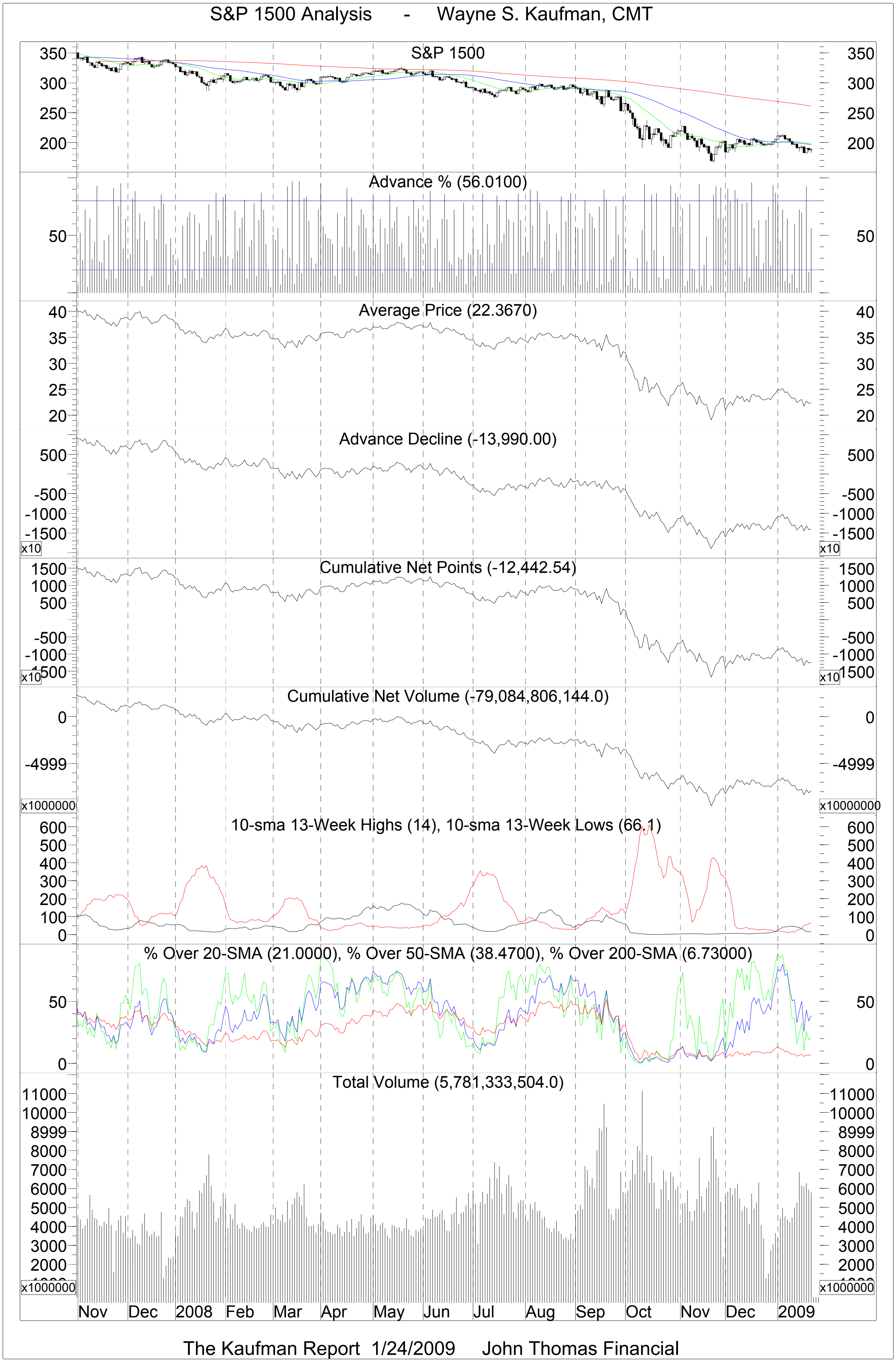
The stochastic is not yet oversold.



Our short-term momentum indicators are still at low levels. There is a bullish divergence on the percent over 10-sma.

13-week closing lows continue to outnumber new highs.

Our price oscillator remains in negative territory.



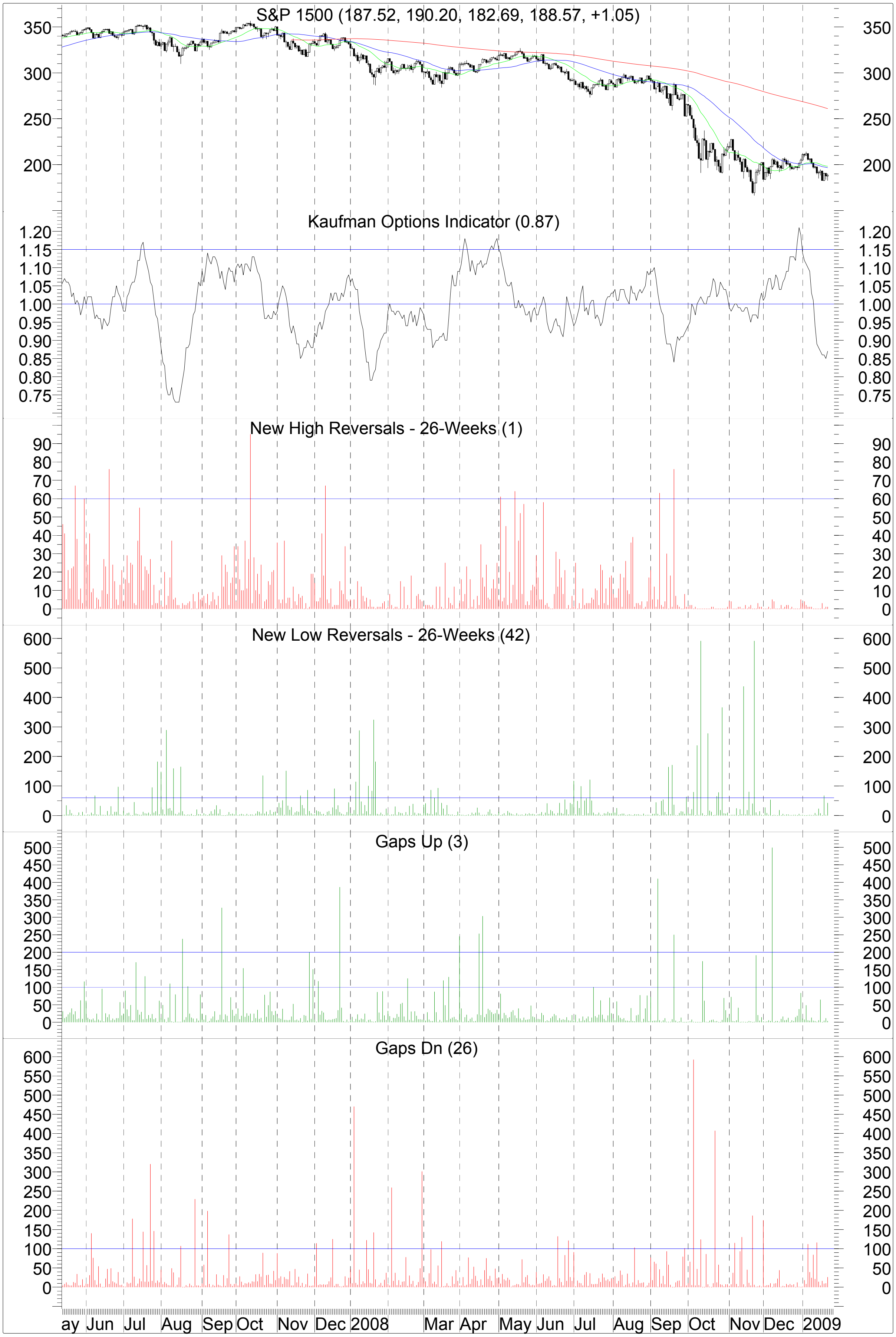
56.01% of stocks traded higher Friday.

There is a positive divergence in the AD line. The S&P 1500 is lower than it was in mid-December, but the AD line has held that level.

The 10-sma of new lows continues to rise.

Volume receded Friday.

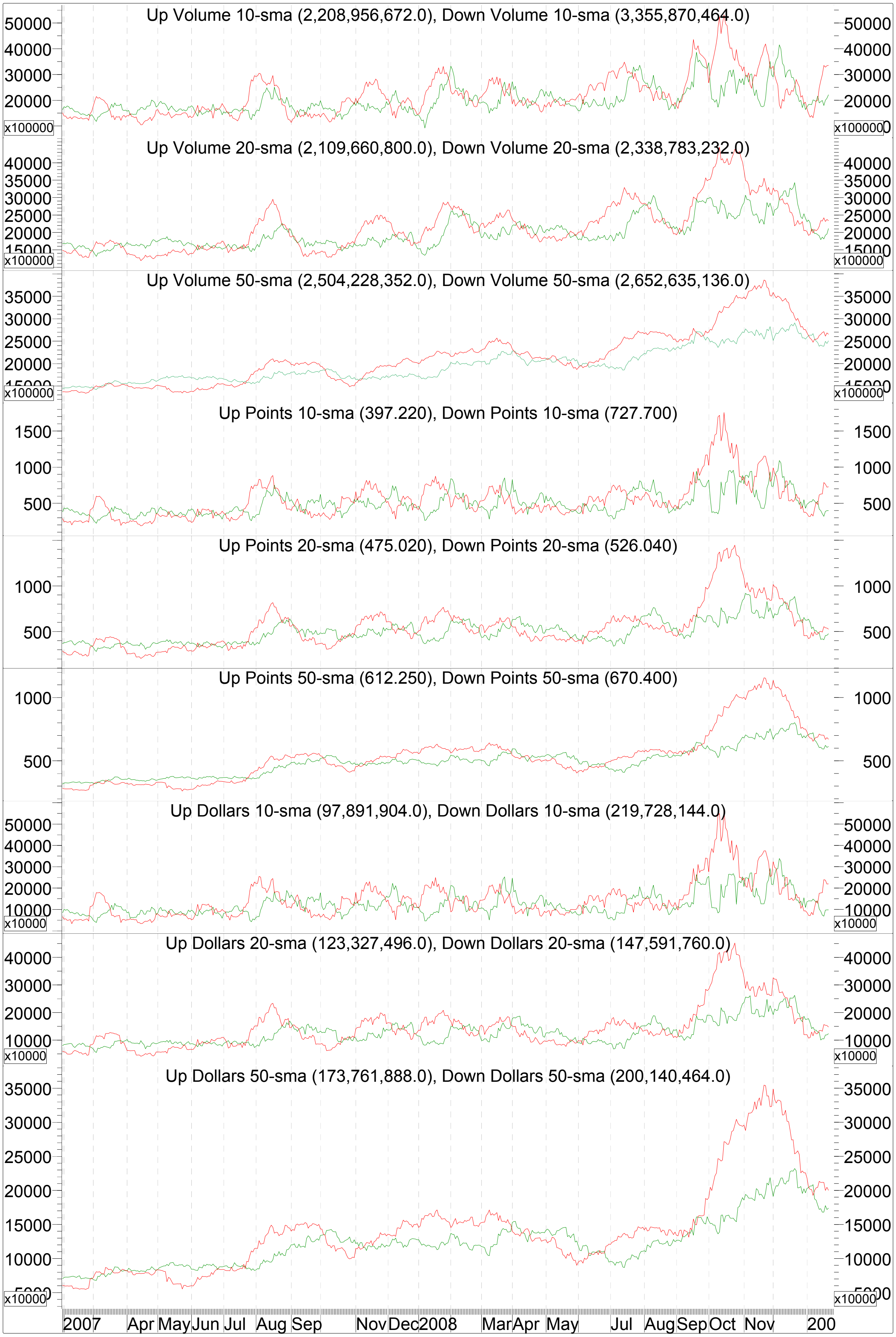
S&P 1500 Analysis - Wayne S. Kaufman, CMT



Our proprietary options indicator is showing pessimism, which is good. It is not at the levels where important bottoms have been made, but rallies can occur from here.

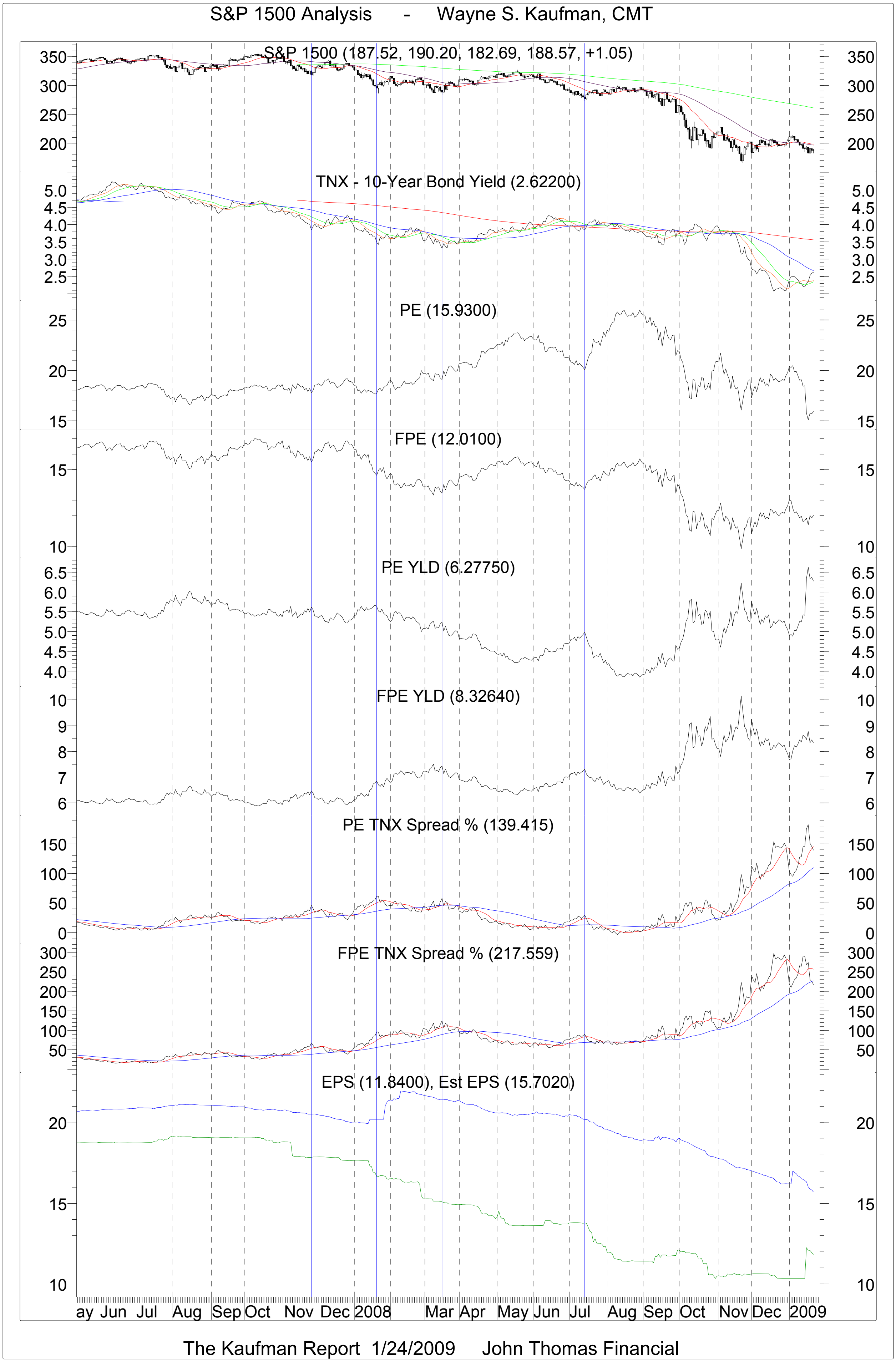
The increase in new low reversals last week shows bottom fishers starting to enter again. A new low reversal is where a stock makes a new intra-day low, in this case a 26-week low, but closes higher on the day.

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



The Kaufman Report 1/24/2009 John Thomas Financial

Our statistics of supply (red lines) versus demand (green) show that for all time frames and all statistics there are negative crossovers. Simply put, supply has been overpowering demand. However, a glance at the 10-day statistics shows that there has been more of a reticence on the part of buyers than a big increase in the aggressiveness of sellers.

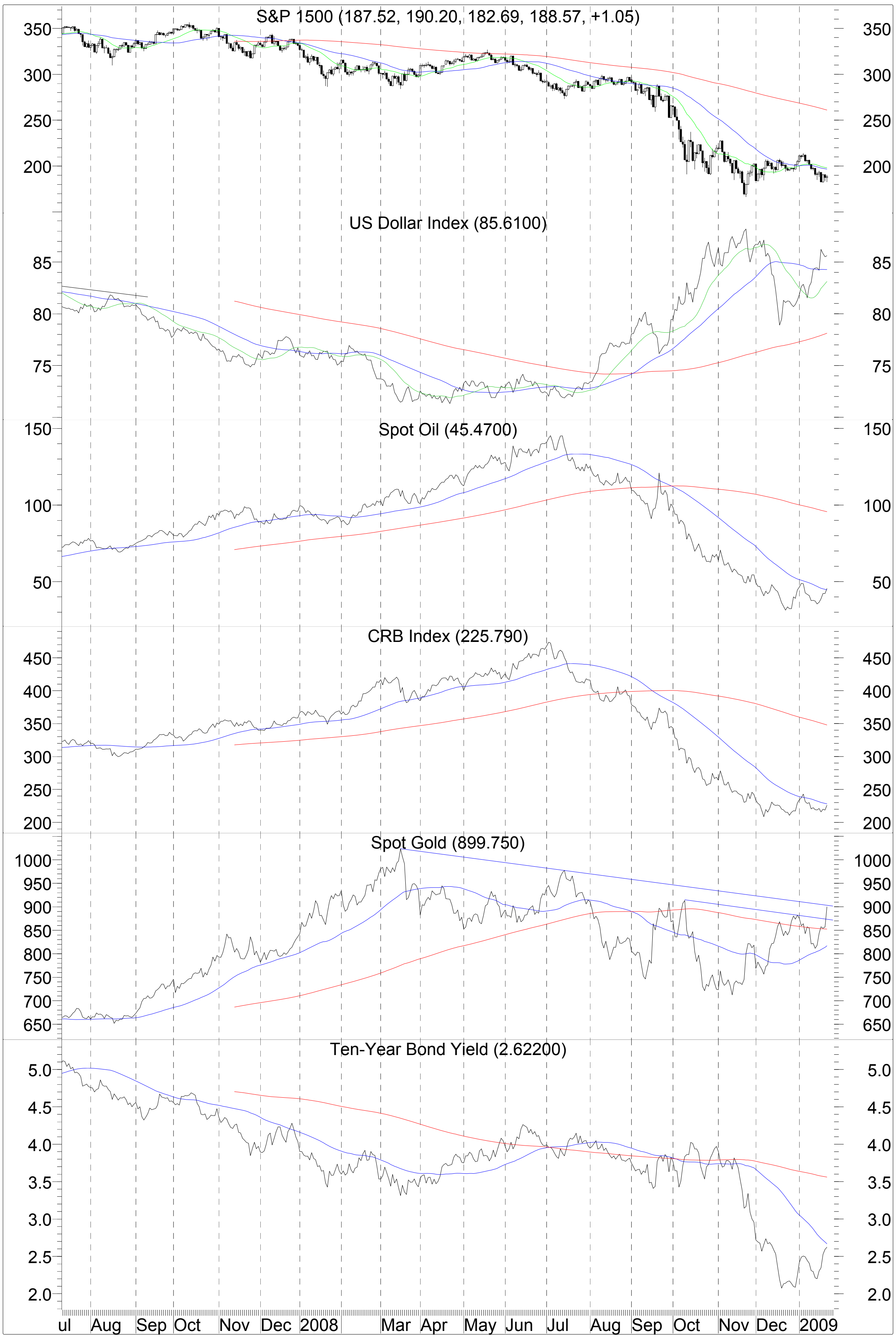


10-year bond yields are above the 20-sma (green) and have reached the 50-sma.

Spreads between bond and earnings yields have been narrowing, but are still at levels where equities are attractive versus treasury bonds.

Earnings forecasts continue to march inexorably lower, but have reported earnings bottomed? The next two weeks will give an answer.

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



The U.S. Dollar Index has been very strong, but may be approaching a top.

Crude oil has bounced up to its 50-sma (blue) after being deeply oversold. It is not yet overbought and we think it goes higher, especially if the U.S. Dollar tops out soon.

Gold has broken above the December high and one downtrend line. It is at resistance and may pull back, but we think it goes higher and pull backs should be bought.