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The Kaufman Report

Trade what you see, not what you think.

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Tuesday January 27, 2009 **Closing prices of January 26, 2009**

Stocks traded higher Monday on light volume as investors wait for the FOMC meeting Wednesday and a flood of earnings reports. Investor's once again resisted the wholesale dumping of stocks in spite of bad news, which on Monday came in the form of big layoff announcements from Caterpillar, Pfizer, Sprint, Home Depot, and GM. We said last week that stocks should be able to rally and challenge resistance levels by the end of this week, and the failure to do so would be very bearish. We think that any rally will be of the bear market variety, and it is important for investors to be selective.

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 (189.66) was up 0.578% Monday. Average price per share was up 0.66%. Volume was 91% of its 10-day average and 112% of its 30-day average. 65.75% of the S&P 1500 stocks were up on the day, with up volume at 53.06% and up points at 67.12%. Up Dollars was 79.84% of total dollars, and was 94% of its 10-day moving average while Down Dollars was 14% of its 10-day moving average. The index is down 7.451% month-to-date, down 7.451% quarter-to-date, down 7.451% year-to-date, and down 46.78% 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 0.776. The Kaufman Options Indicator is showing pessimism at 0.90, but has turned higher.

The spread between the reported earnings yield and 10-year bond yield is 130%, and 211% 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 $11.54, a drop of 39.83%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $15.59, a drop of 28.97%.

119 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 -68.4% on a share-weighted basis, -22.4% market cap-weighted and -24.9% non-weighted. Ex-financial stocks these numbers are -6.7%, +6.0%, and +19.2%, respectively.

Federal Funds futures are pricing in a probability of 86% that the Fed will *leave rates unchanged,* and a probability of 14.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 70.2% that the Fed will *leave rates unchanged* on March 17th, and a probability 18.9% of *raising 25 basis points to 0.50%.*

IMPORTANT DISCLOSURES

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

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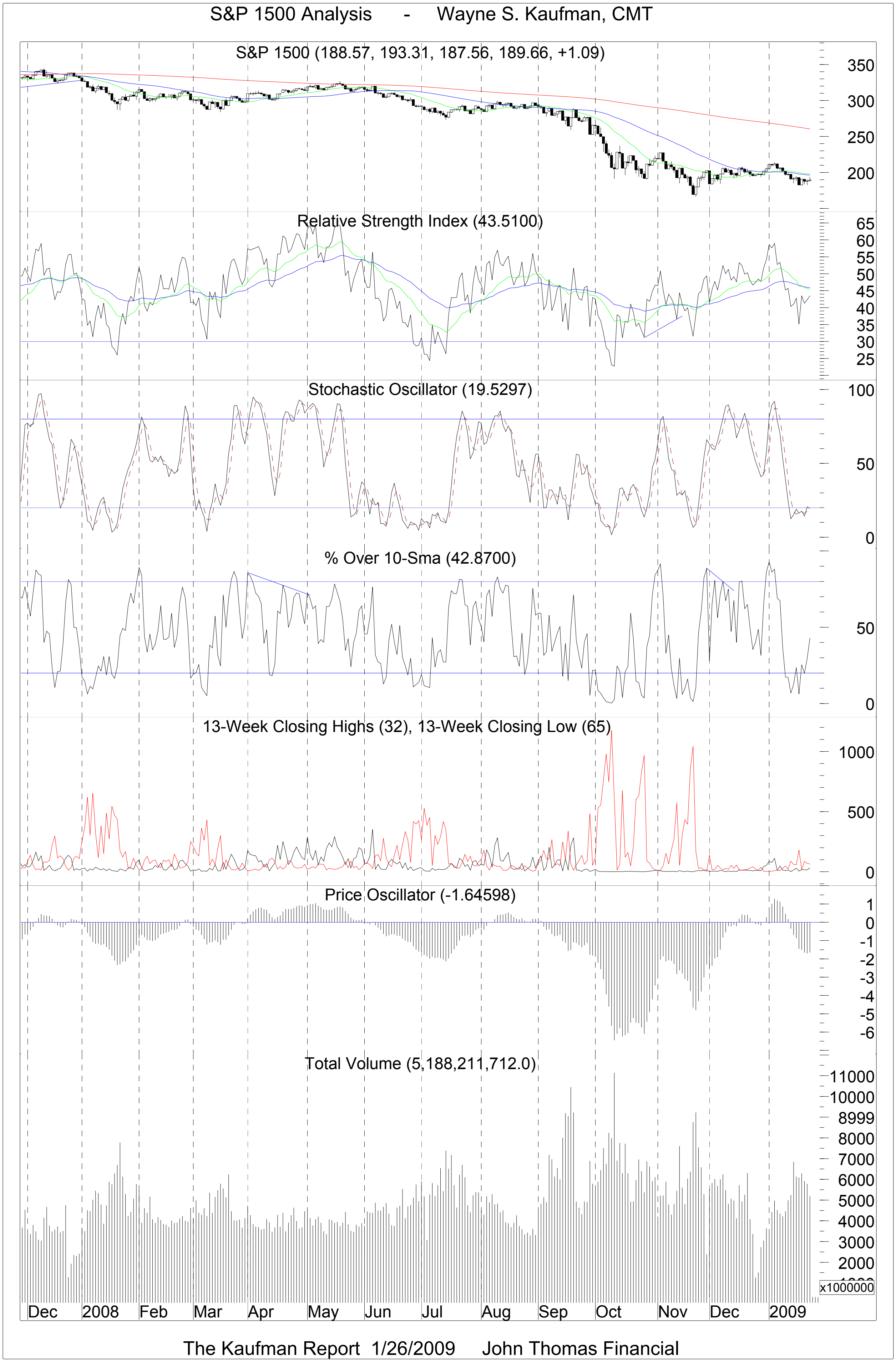
The S&P 500 continues to consolidate under resistance. It got up to the 851 - 857 resistance zone before pulling back Monday. Further resistance is just above in the form of the 20 and 50-day moving averages at 872 and 868, respectively.

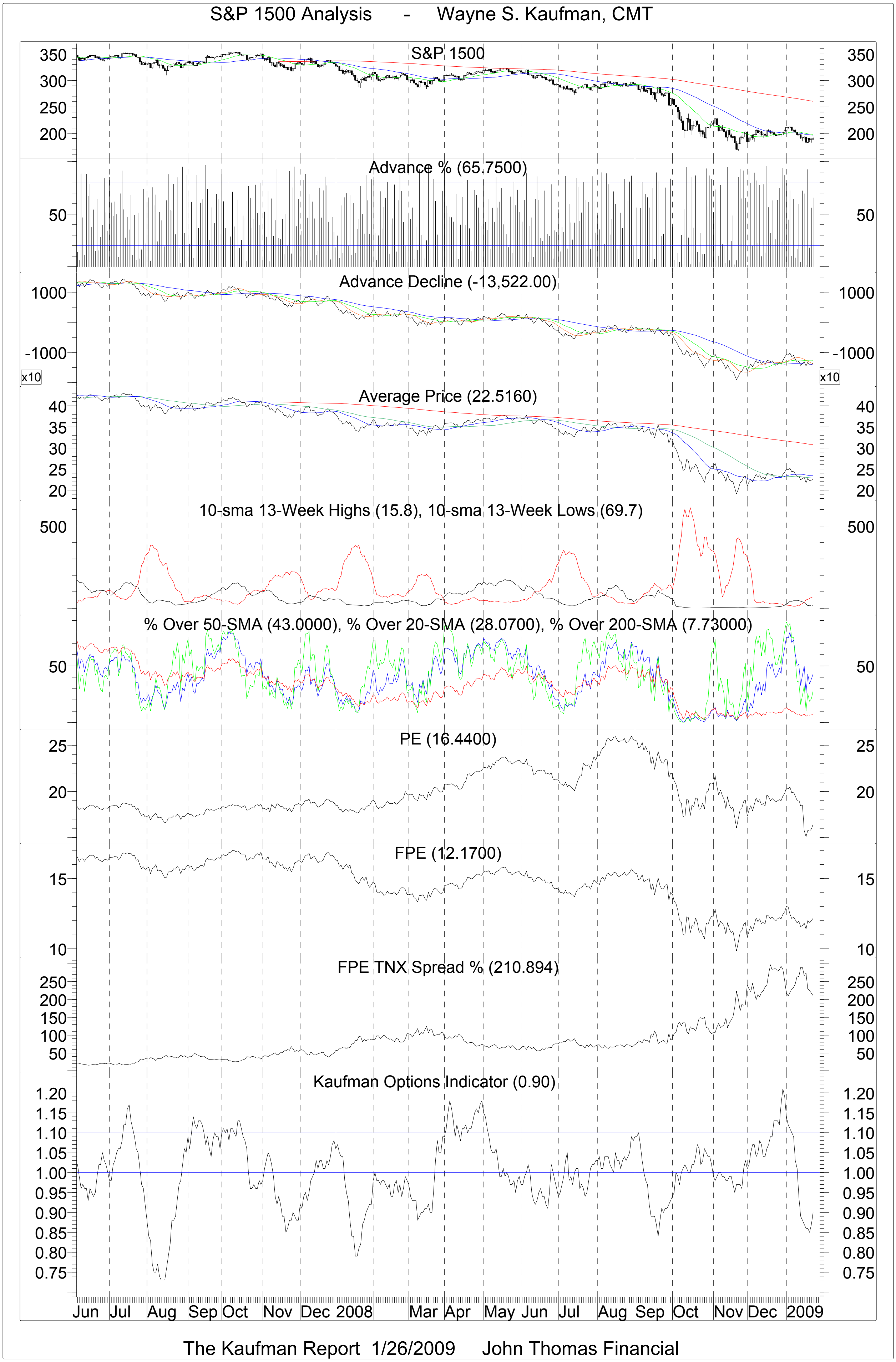


Our short-term momentum indicators still have plenty of room to move higher.

New lows were greater than new highs Monday.

Our price oscillator remains negative.

Volume pulled back Monday.



65.75% of stocks traded higher Monday.

Our proprietary options indicator has turned higher. The put/call ratio has shown a little too much bullishness the last two sessions.