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The Kaufman Report

Trade what you see, not what you think.

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Thursday January 29, 2009 **Closing prices of January 28, 2009**

Stocks rallied broadly Wednesday on increasing volume. The session fell a fraction shy of being a second 90% up day after the back-to-back 90% down then up days of 11/20 and 11/21. All ten S&P sectors traded higher, led by Financials, up 12.97%, and Consumer Discretionary, +4.17%. Stocks may need a breather shortly as the percent over 10-sma has entered the overbought zone. However, they should trade higher, possibly fulfilling our triangle scenario. The one area of concern is the P/E ratios, which are at or nearing levels where stocks met resistance recently.

The short-term and intermediate-term trends are now up, while the long-term trend remains 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 (198.31) was up 3.4% Wednesday. Average price per share was up 3.6%. Volume was 105% of its 10-day average and 131% of its 30-day average. 90.44% of the S&P 1500 stocks were up on the day, with up volume at 89.72% and up points at 96.01%. Up Dollars was 99.4% of total dollars, and was 258% of its 10-day moving average while Down Dollars was 1.5% of its 10-day moving average. The index is down 3.23% month-to-date, down 3.23% quarter-to-date, down 3.23% year-to-date, and down 44.35% from the peak of 356.38 on 10/11/07. Average price per share is $23.62, down 45.36% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 0.774. The Kaufman Options Indicator has bounced to .94, not far from neutral.

The spread between the reported earnings yield and 10-year bond yield is 89%, and 192% 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 $9.96, a drop of 48.07%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $15.36, a drop of 30.02%.

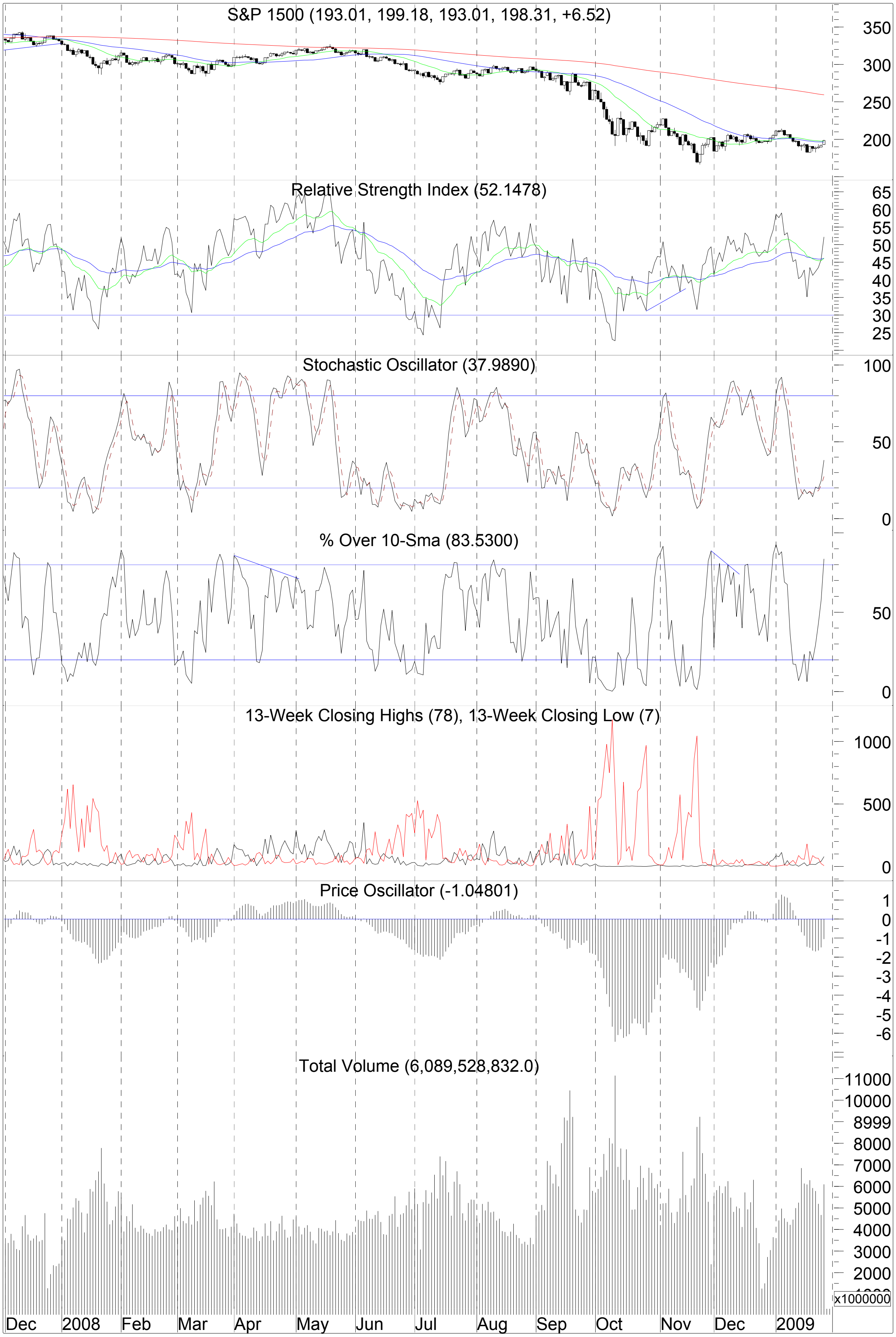
180 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 60.6% have had positive surprises, 7.2% have been in line, and 32.2% have been negative, a high number. The year-over-year change has been -51.2% on a share-weighted basis, -22.4% market cap-weighted and -25.6% non-weighted. Ex-financial stocks these numbers are -11.1%, +0.1%, and +4.4%, respectively.

Federal Funds futures are pricing in a probability of 84% that the Fed will *leave rates unchanged,* and a probability of 16.0% of *cutting 25 basis points to 0.00%* when they meet on March 17th. They are pricing in a probability of 75.8% that the Fed will *leave rates unchanged* on April 29th and a probability of 14.1% of *cutting 25 basis points*.

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

The S&P 500 broke through the 851 - 857 resistance zone and is now challenging the 20 and 50-day moving averages. It may need to take a breather, but there is a good chance it will move to the top trend line of the triangle we started talking about a week ago.

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



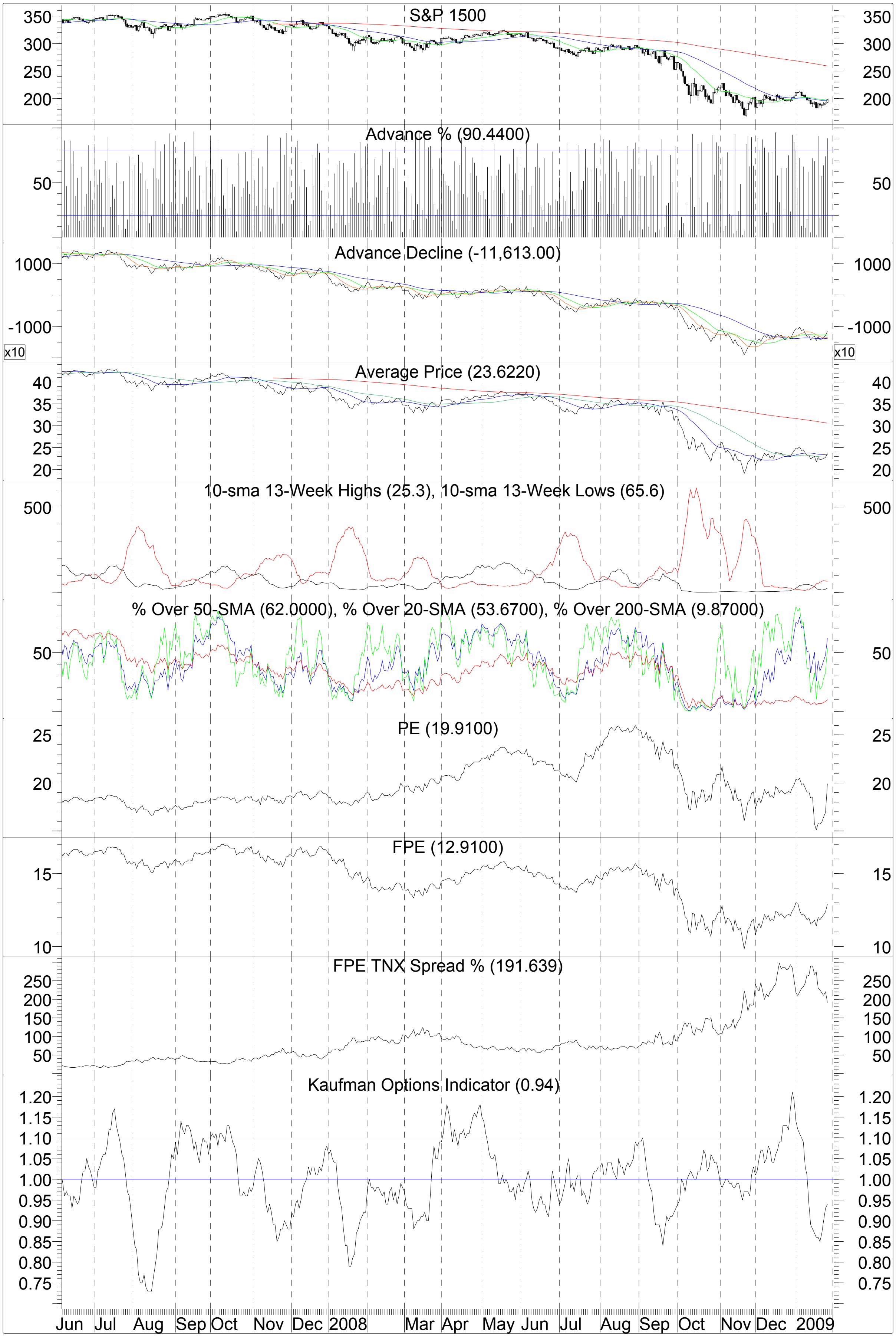
The percent over 10-sma is in the overbought zone at 83.53%, but our other momentum indicators are not overbought.

New highs were much higher than lows Wednesday.

Our price oscillator is still negative.

Volume expanded during Wednesday's rally.

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



90.44% of stocks traded higher Wednesday.

62% of stocks are above their 50-sma.

The P/E ratio is nearing levels where it topped out in early January.

The forward P/E is also at the top of its recent range.

Our proprietary options indicator is moving higher, and is not far from neutral.