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The Kaufman Report

Trade what you see, not what you think.

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Wednesday January 7, 2009 **Closing prices of January 6, 2009**

Equities advanced Tuesday to a new rally high on increasing volume. They were led by Information Tech and Financials. The technical picture keeps improving. For example, the S&P 500 20-day moving average has crossed over the 50-day moving average for the first time since September 12th. Stocks are overbought and due for a pull back at any time, and with earnings season getting underway investors need to be on their toes. So far sellers are not around, and it is possible it will take worse than expected bad earnings news to bring them off the sidelines.

The S&P 1500 (212.04) was up 0.875% Tuesday. Average price per share was up 1.21%. Volume was 154% of its 10-day average and 103% of its 30-day average. 72.43% of the S&P 1500 stocks were up on the day, with up volume at 75.3% and up points at 73.6%. Up Dollars was 86.1% of total dollars, and was 135% of its 10-day moving average while Down Dollars was 44% of its 10-day moving average. The index is up 3.47% month-to-date, up 3.47% quarter-to-date, up 3.47% year-to-date, and down 40.50% from the peak of 356.38 on 10/11/07. Average price per share is $25.15, down 41.82% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 0.80. The Kaufman Options Indicator is 1.1. after hitting 1.21 on 12/30, indicating too much bullishness.

The spread between the reported earnings yield and 10-year bond yield is 95% and 220% based on projected earnings, still very wide levels. The dividend yield on the S&P 500 recently moved higher than 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 $10.36, a drop of 45.98%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $17.01, a drop of only 22.51%. Estimates jumped up 4.9% Tuesday. *If investors had confidence in current earnings estimates stocks would be much higher than they currently are.*

498 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.1% have had positive surprises, 9.7% have been in line, and 32.3% have been negative. The year-over-year change has been -18.3% on a share-weighted basis, +5.3% market cap-weighted and -2.7% non-weighted. Ex-financial stocks these numbers are 10.1%, 23.7%, and 15.8%, respectively.

Federal Funds futures are pricing in a probability of 74% that the Fed will *leave rates unchanged,* and a probability of 26.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 66.3% that the Fed will *leave rates unchanged* on March 17th, and a probability 21.9% of *cutting 25 basis points to 0.00%.*

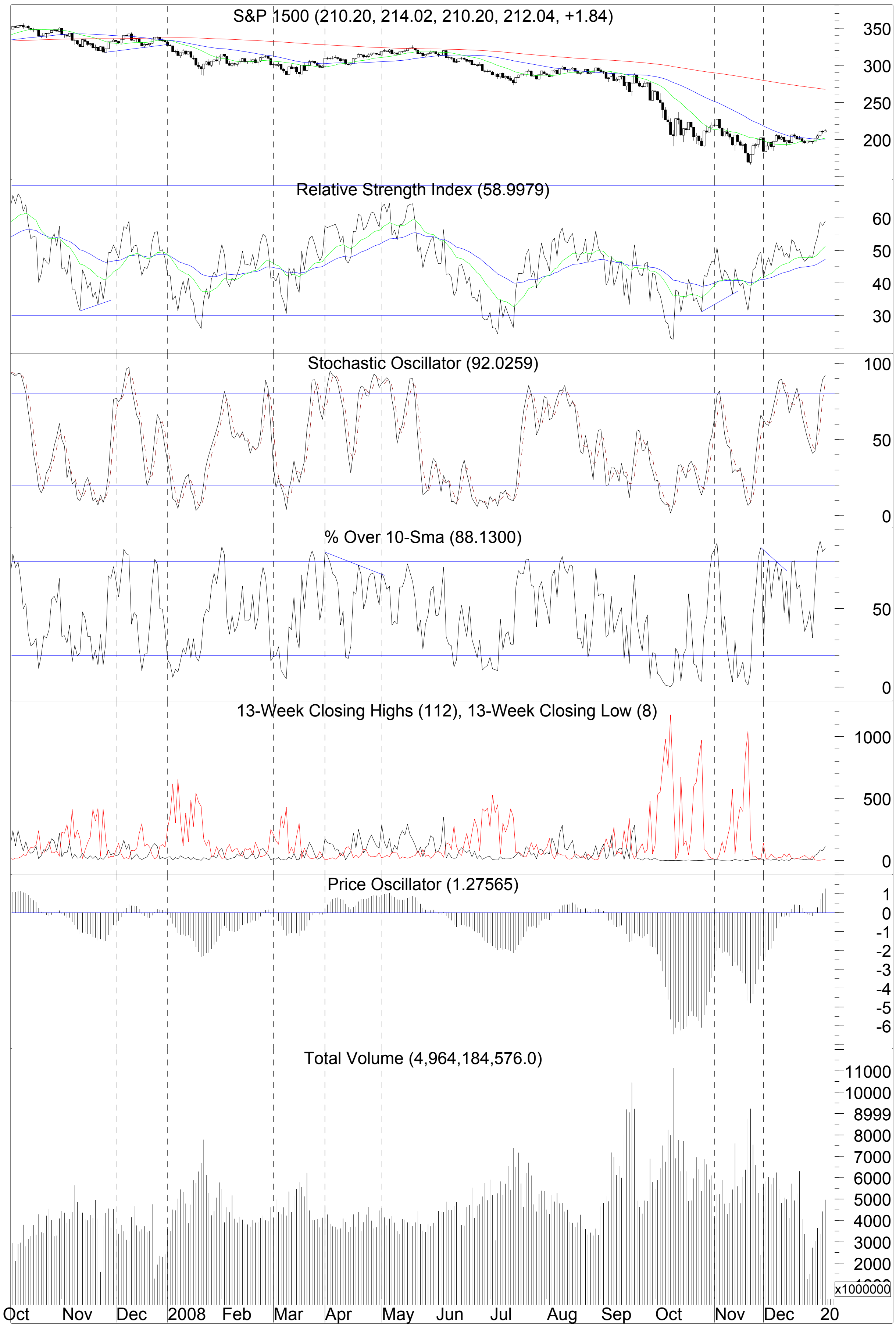
The short-term and intermediate-term trends are now up, but the long-term trend remains down. We reiterate that this continues to be an opportunistic trader's market, with adept traders able to take advantage long or short, but the long-term downtrend must still be respected. Investors should not hesitate to move out of laggard sectors and stocks and into leaders.

IMPORTANT DISCLOSURES

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

The S&P 500 made a new rally high Tuesday but printed a shooting star candle on the daily chart. With stocks very short-term overbought a pull back is due. The 20-sma has crossed over the 50-sma for the first time since 9/12.

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

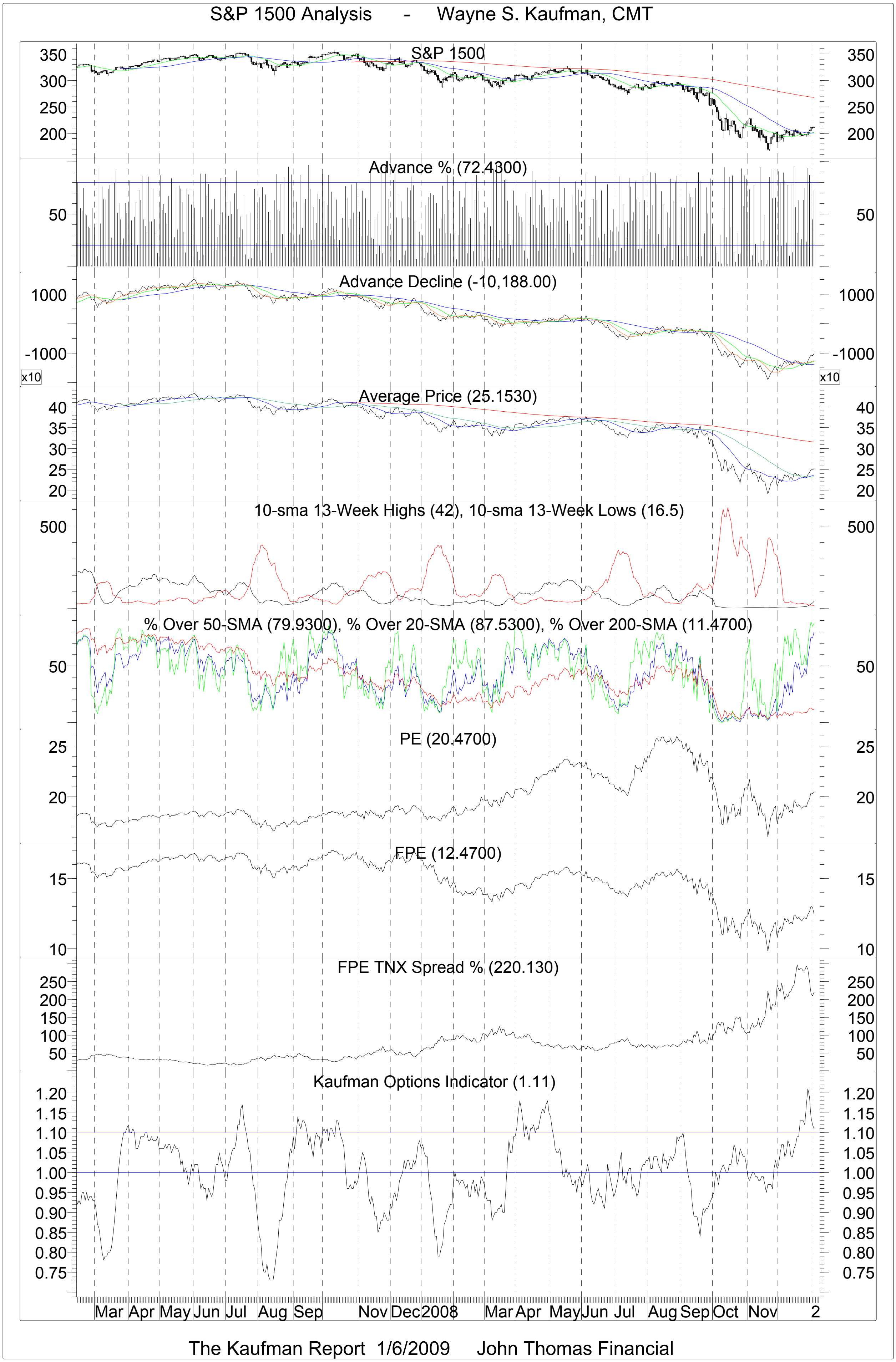


Our momentum indicators are at high levels. The stochastic and percent over 10-sma are in the overbought zone.

13-week new highs are higher than new lows and are expanding.

Our price oscillator, a good trend indicator, is in positive territory.

Volume expanded during Tuesday's rally.



72.48% of stocks traded higher Tuesday.

The AD line continues to lead higher.

The 10-sma of 13-week highs is above 13-week lows. The 26-week averages (not shown) have not yet crossed over but are close.

Spreads between bond and equity yields have narrowed as stocks and bond yields have risen in tandem. They are still at levels where stocks are attractive versus bonds.

Our options indicator has been showing too much optimism but so far stocks have held up. Too much optimism can leave stocks vulnerable to a sharp drop.