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The Kaufman Report

Trade what you see, not what you think.

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Wednesday June 10, 2009 **Closing prices of June 9, 2009**

Tuesday's session was another low volume affair that was like a mirror image of Monday's. Sellers remained on the sidelines, and buyers came tip-toeing back in. Stocks are working off an overbought condition so they are still vulnerable, but they continue taking any bad news in stride. With the tight range stocks have been trading in a sharp move would seem to be coming. Next week June options expire, and the recent history of June expiration weeks would argue for the breakout to be to the upside.

We said on May 14th that the terrific rally off the March lows had ended, and we expected to see a pullback or period of consolidation, which we got. On May 31st we said "we think the consolidation is ending and that stocks will proceed higher shortly." That is precisely what happened as the major indexes broke out to new rally highs June 1st and held on for another week of nice gains.

We also said we would be watching for false breakouts and more aggressive selling than we saw during the period of consolidation. We repeated our expectations of the rally ending in June or July, which follows the road map we had previously laid out. **Therefore, we continue our strategy of playing the long side of the market while relying on basic trading strategies to protect us when the market does make a turn that could be painful. In other words, we remain long with an eye on the exit.**

It is now over two years since the average price per share of the S&P 1500 peaked on June 4, 2007.

The short-term picture is getting more difficult as volume remains light due to a lack of conviction by both bulls and bears. Also, some negative divergences have shown up recently, such as June 1st's 484 closing highs in the S&P 1500 versus May 4th's 560. This shows market leadership becoming more selective. **Still, the bottom of the market is firming up as evidenced by the percentage of stocks over their own 200-day moving averages, which on Tuesday day hit 59.8%, the best since 7/23/2007**.

The balance of the month promises to keep investors on their toes. June 19th is a quadruple witching options expiration, then the FOMC meets on June 24th followed shortly thereafter by the end of the second quarter. The end of this quarter promises to be particularly interesting as it combines earnings warning season with window dressing and some nail biting by money managers who are under-performing the market. What will these poor souls do if stocks don't sell off soon, or if there is another round of better than expected economic news?

We said Sunday our perfect scenario (what are the odds of that happening?) would be another period of sideways drift to work off short-term overbought conditions followed by a nice rally to end the quarter, which would make client statements look beautiful. Our inclination, based on our road map, would be to fade that rally. Of course, we are flexible and we are trend followers. We accept the possibility that huge global government intervention along with a possibly healing economy and companies that have become very lean and mean could create a scenario where profits will start to surprise to the upside and the deteriorating earnings trend will start to change. If so, we will be more than happy to delay our expected bearishness.

This is a bifurcated, opportunistic trader's market, with adept traders able to enter long or short. Based on the S&P 500 the short-term, intermediate-term, and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

IMPORTANT DISCLOSURES

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The S&P 1500 (214.83) was up 0.411% Tuesday. Average price per share was up 0.58%. Volume was 82% of its 10-day average and 73% of its 30-day average. 60.12% of the S&P 1500 stocks were up, with up volume at 60.38% and up points at 73.09%. Up Dollars was 79.53% of total dollars, and was 77% of its 10-day moving average. Down Dollars was 33% of its 10-day moving average.

Five of the ten S&P sectors were up on the day led by Materials +2.31% and Info Tech +0.92%. Consumer Staples led the downside at -0.67%.

The S&P 1500 is up 2.75% in June, up 18.70% quarter-to-date, up 4.83% year-to-date, and down 39.72% from the peak of 356.38 on 10/11/07. Average price per share is $26.62, down 38.42% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 70.13%. 13-Week Closing Highs: 181. 13-Week Closing Lows: 5.

Put/Call Ratio: 0.864. Kaufman Options Indicator: 0.99.

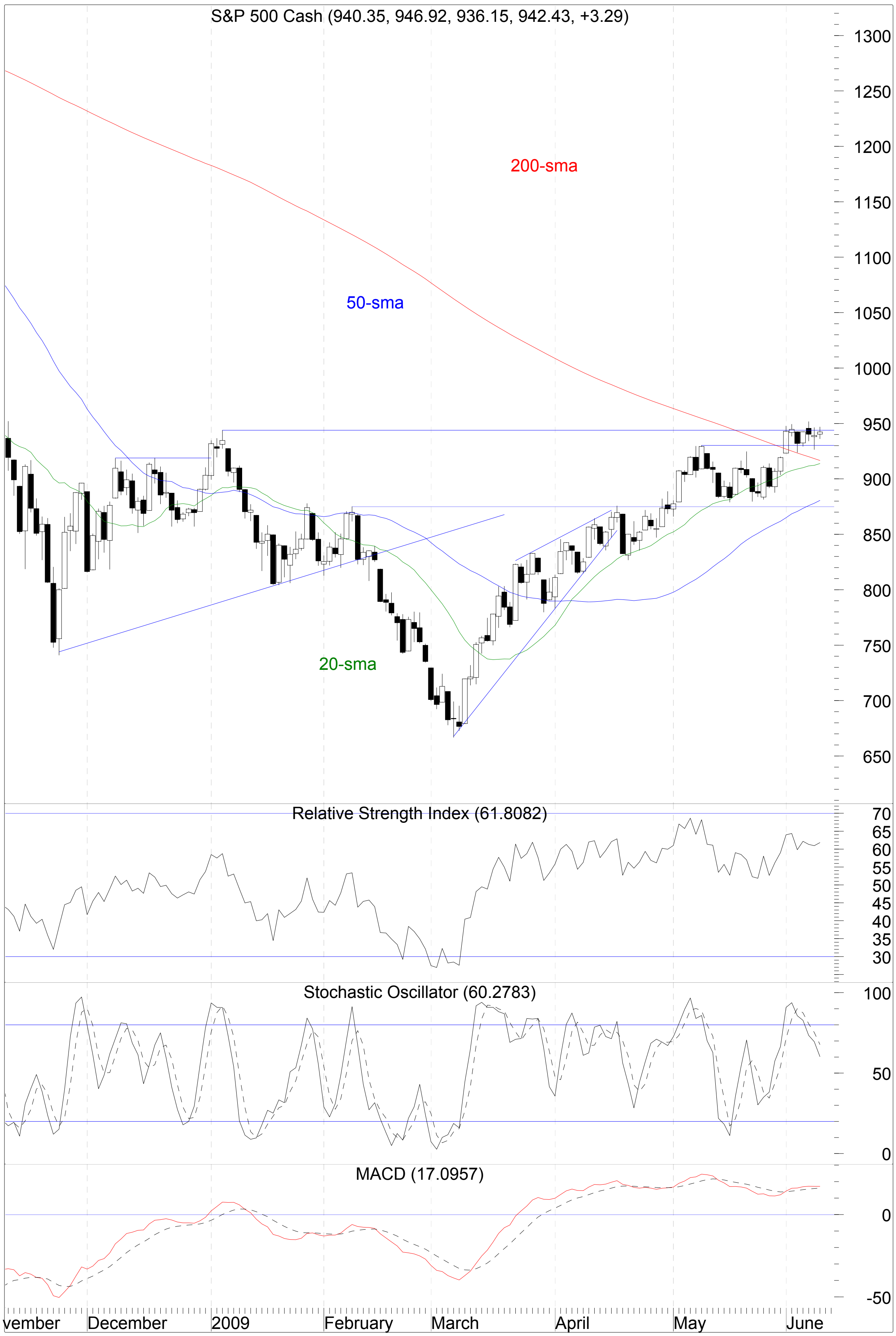
P/E Ratios: 57.42 (before charges), 14.89 (continuing operations), 16.26 (analyst estimates).
P/E Yield 10-year Bond Yield Spreads: ***-55% (earnings bef. charges),*** *74% (earnings continuing ops), and 59% (projected earnings).*

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $3.74, a drop of 80.45%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $14.42, down 27.72%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.21, a drop of 39.86%.

494 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.5% had positive surprises, 7.9% were in line, and 24.5 % have been negative. The year-over-year change has been -33.5% on a share-weighted basis, -23.2% market cap-weighted and -34.7% non-weighted. Ex-financial stocks these numbers are -33.0%, -22.6%, and -31.1 %, respectively.

Federal Funds futures are pricing in a probability of 84.0% that the Fed will *leave rates unchanged*, and a probability of 16.0% of *cutting 25 basis points to 0.0%* when they meet on June 24th. They are pricing in a probability of 71.4% that the Fed will *leave rates unchanged* on August 12th, a probability of 15.6% of raising 25 basis points to 0.50%, and a probability of 13.0% of *cutting 25 basis points*.

IMPORTANT DISCLOSURES



The S&P 500 is trading in an extremely tight range. This won't last much longer.

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The Nasdaq 100 printed new intra-day and rally highs Tuesday.

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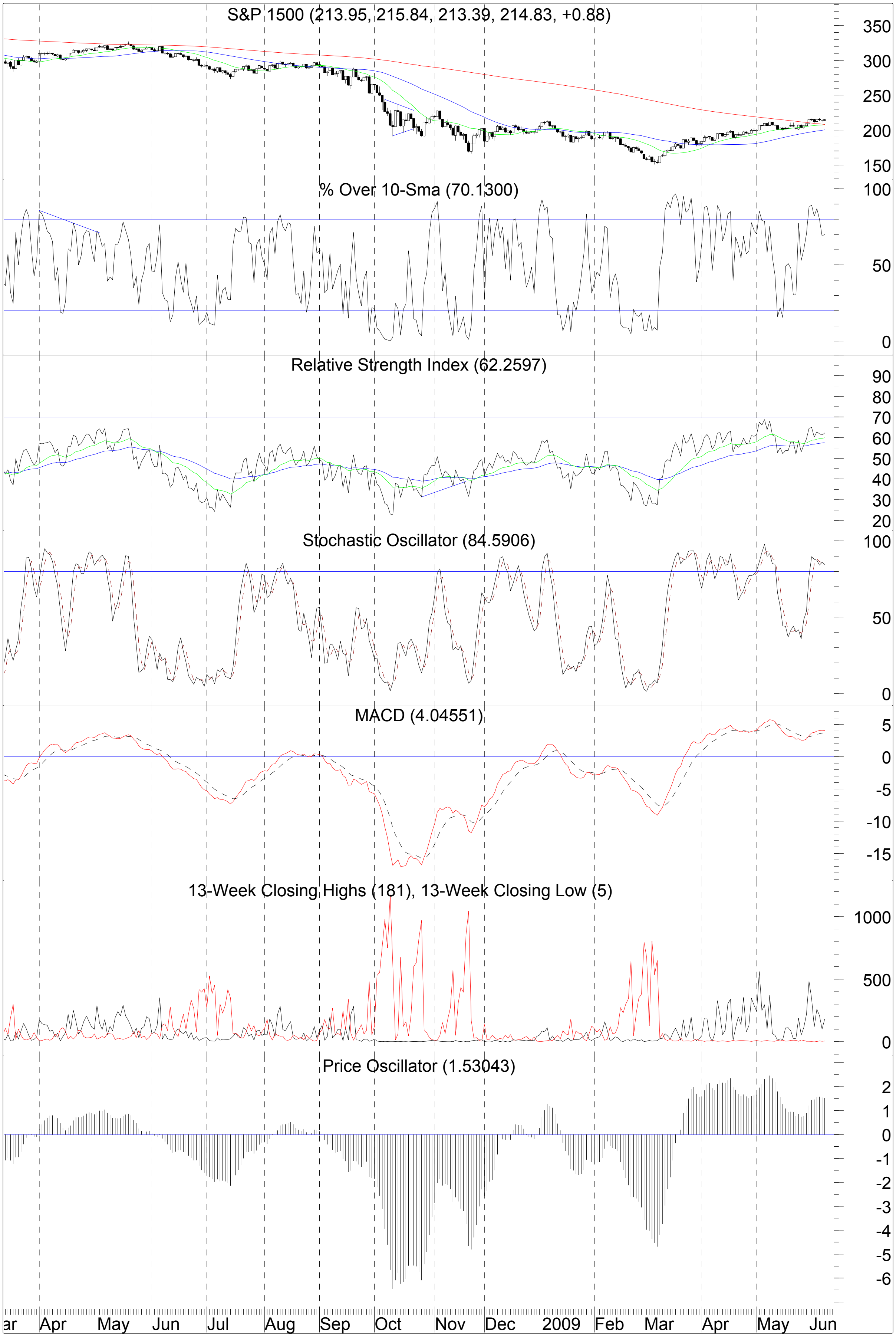
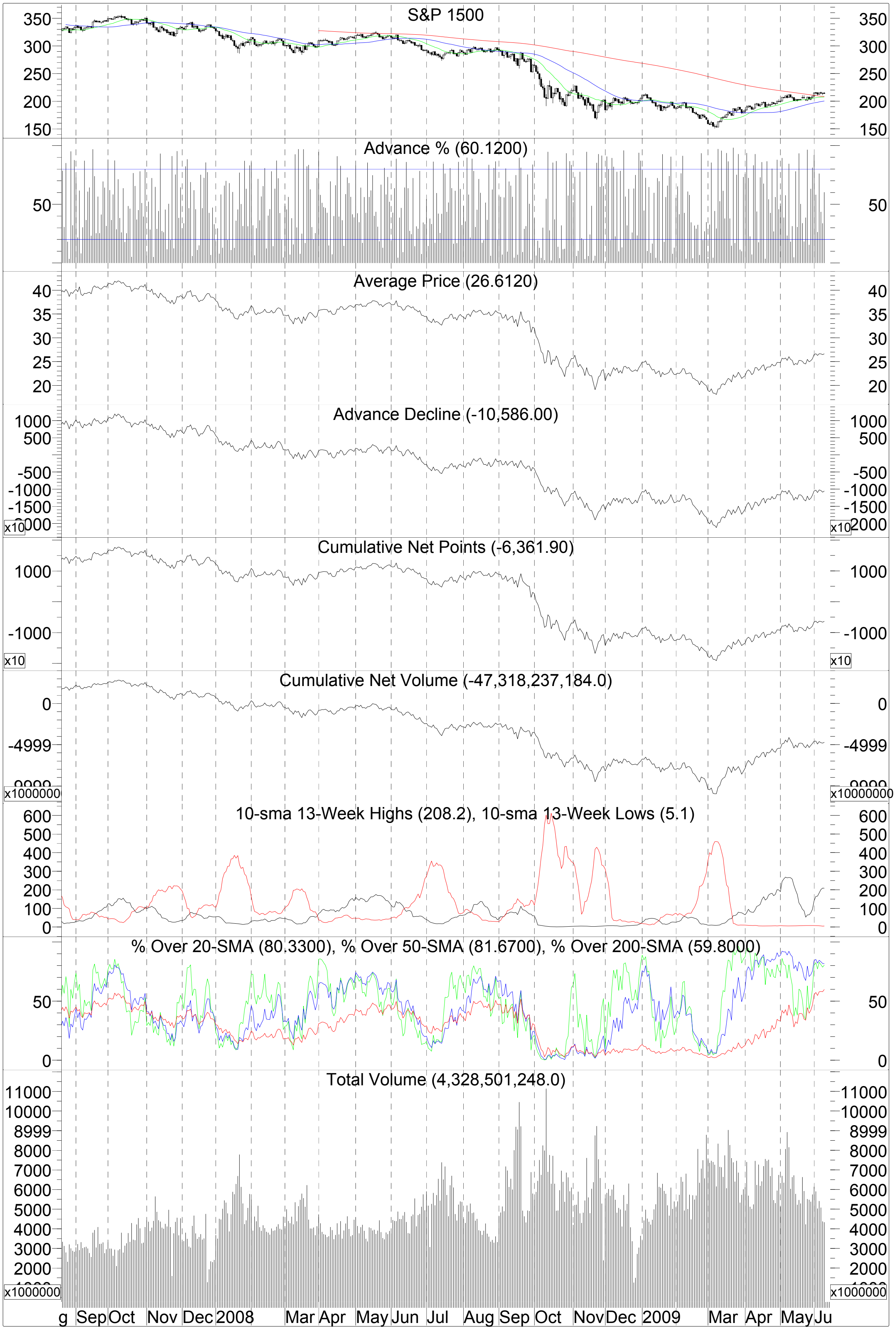


Our momentum indicators remain at high levels, but don't seem to want to move down.



60.12% of stocks traded higher Tuesday.

59.8% of stocks are over their 200-sma, the most since 7/23/07.

Volume was anemic again Tuesday, and slightly lower than Monday.