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

Wednesday June 17, 2009 **Closing prices of June 16, 2009**

As the recent rally continued into last week, we said we would be watching for false breakouts, which is what Thursday's new highs turned out to be. Sunday night we pointed out many negative divergences and warned investors to use extreme caution. We also said Sunday night that aggressive traders could enter short. Our strategy the past few weeks has been "long with an eye on the exit" using basic trading strategies (meaning tight stops) for protection. We are looking for entry points to use cash raised using stops. More downside seems likely with momentum indicators not yet oversold, although the low level of the percentage of stocks over their 10-day moving average could cause a bounce. Caution is still advised.

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 is down, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

The S&P 1500 (207.53) was down 1.317% Tuesday. Average price per share was down 1.52%. Volume was 99% of its 10-day average and 84% of its 30-day average. 17.46% of the S&P 1500 stocks were up, with up volume at 16.67% and up points at 9.05%. Up Dollars was 2.08% of total dollars, and was 8% of its 10-day moving average. Down Dollars was 170% of its 10-day moving average.

Only one of the ten S&P sectors, Health Care +0.2%, was up on the day. The downside was led by Materials -2.39%, Consumer Discretionary -2.35%, and Energy -1.97%.

The S&P 1500 is down 0.745% in June, up 14.65% quarter-to-date, up 1.27% year-to-date, and down 41.77% from the peak of 356.38 on 10/11/07. Average price per share is $25.45, down 41.13% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 13.4%. 13-Week Closing Highs: 11. 13-Week Closing Lows: 38.

Put/Call Ratio: 1.014. Kaufman Options Indicator: 0.96.

P/E Ratios: 57.41 (before charges), 14.40 (continuing operations), 15.69 (analyst estimates).
P/E Yield 10-year Bond Yield Spreads: ***-53% (earnings bef. charges),*** *89% (earnings continuing ops), and 73% (projected earnings).*
Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $3.73, a drop of 80.55%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $14.22, down 28.72%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.20, a drop of 39.86%.

496 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.3% had positive surprises, 8.1% were in line, and 24.6 % 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 82.0% that the Fed will *leave rates unchanged*, and a probability of 18.0% of cutting *25 basis points to 0.0%* when they meet on June 24th. They are pricing in a probability of 76.1% that the Fed will *leave rates unchanged* on August 12th, a probability of 16.3% of cutting 25 basis points to 0.0%, and a probability of 7.6% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

The S&P 500 broke below its 20-sma Tuesday. With momentum indicators not yet oversold, a move to test the rising 50-sma, currently at 892.41, is possible.

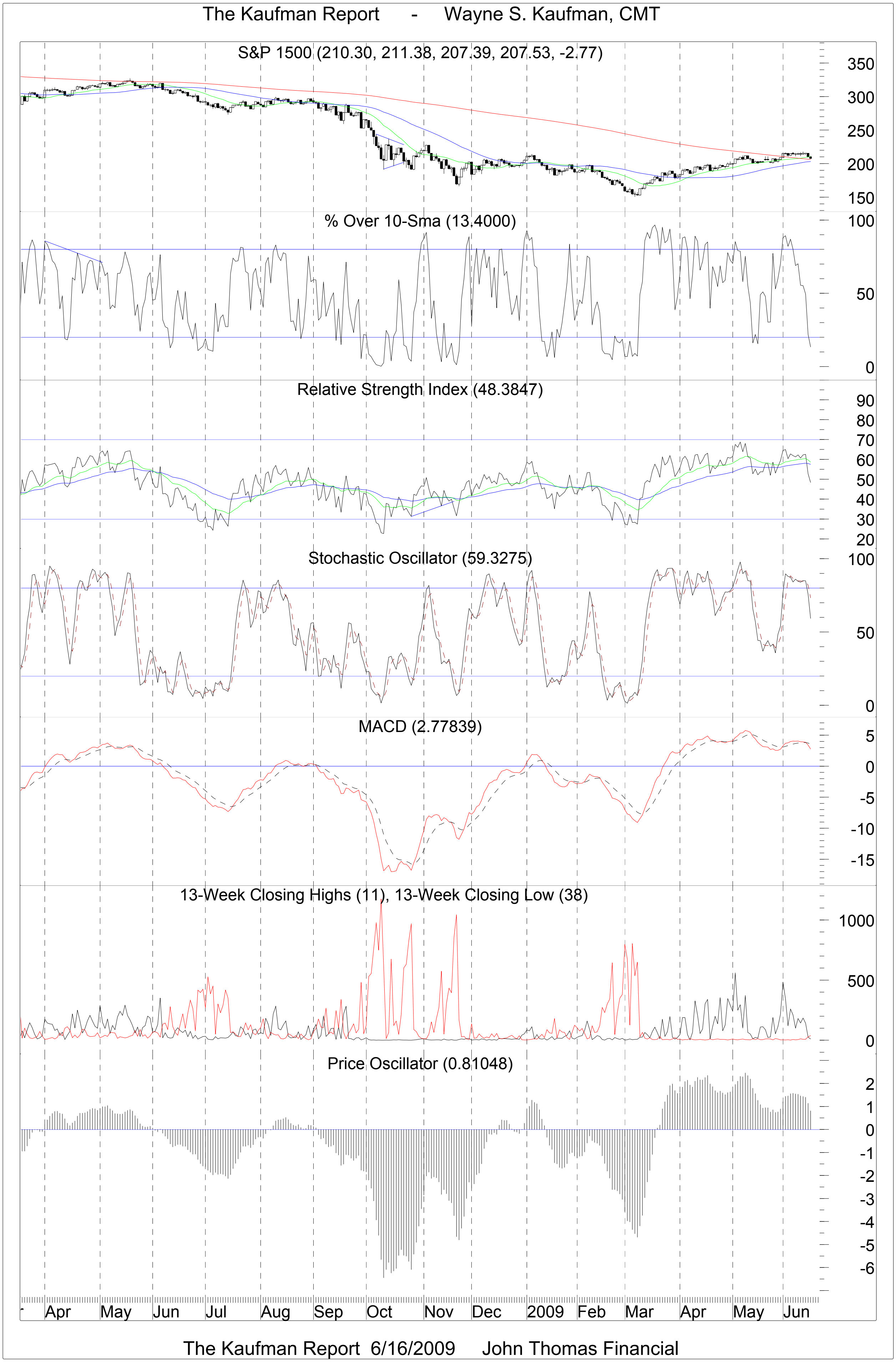
The RSI is at its lowest levels since early March.

The stochastic is not yet oversold.

The MACD has a negative crossover.

After Friday's bearish gap down the Nasdaq 100 has broken below its 20-sma. We recently said we expected it to fill in the gap from 6/1, and it has almost done so.

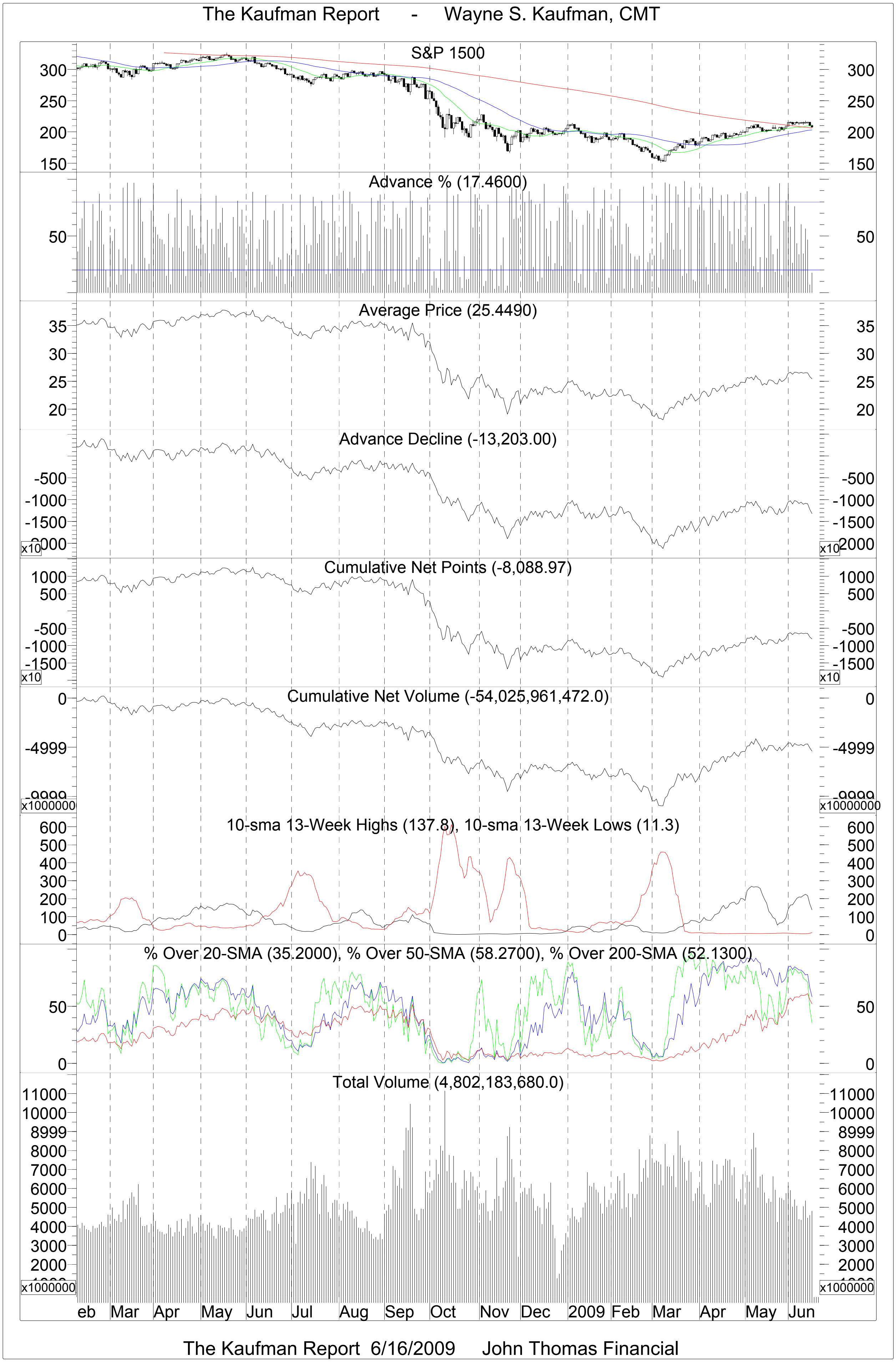
Our momentum indicators are moving down from high levels.



Only 13.4% of stocks are over their own 10-sma, the lowest since 3/9.

Our other momentum indicators are not yet at oversold levels.

The last two days have seen more 13-week closing lows than highs.



Only 17.46% of stocks traded higher Tuesday.

Volume, while still anemic, has expanded during this sell off.