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

Tuesday June 9, 2009 **Closing prices of June 8, 2009**

Monday's extremely low volume session didn't do much to help us figure out short-term market direction. The good news is that in spite of an overbought condition sellers were still not aggressive, and the major indexes spent another day over their 200-day moving averages. An overbought condition still exists, so if sellers are going to step up to the plate this is the time. If they don't, buyers will probably feel confident in adding to positions.

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. There was some selling into Friday's gap open after the much better than expected May Non-farm Payrolls Report, but that is not unusual.

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.**

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 are starting to show up, such as Monday'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 Friday hit 58.13%, 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?

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 (213.95) was down 0.173% Monday. Average price per share was down 0.59%. Volume was 81% of its 10-day average and 73% of its 30-day average. 33.74% of the S&P 1500 stocks were up, with up volume at 44.77% and up points at 27.82%. Up Dollars was 22.26% of total dollars, and was 14% of its 10-day moving average. Down Dollars was 110% of its 10-day moving average.

Six of the ten S&P sectors were down on the day, led by Health Care -1.03% and Materials -0.96%. Financials led the upside +1.09%.

The S&P 1500 is up 2.32% in June, up 18.21% quarter-to-date, up 4.40% year-to-date, and down 39.97% from the peak of 356.38 on 10/11/07. Average price per share is $26.46, down 38.79% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 69.00%. 13-Week Closing Highs: 100. 13-Week Closing Lows: 3.

Put/Call Ratio: 0.940. Kaufman Options Indicator: 1.01.

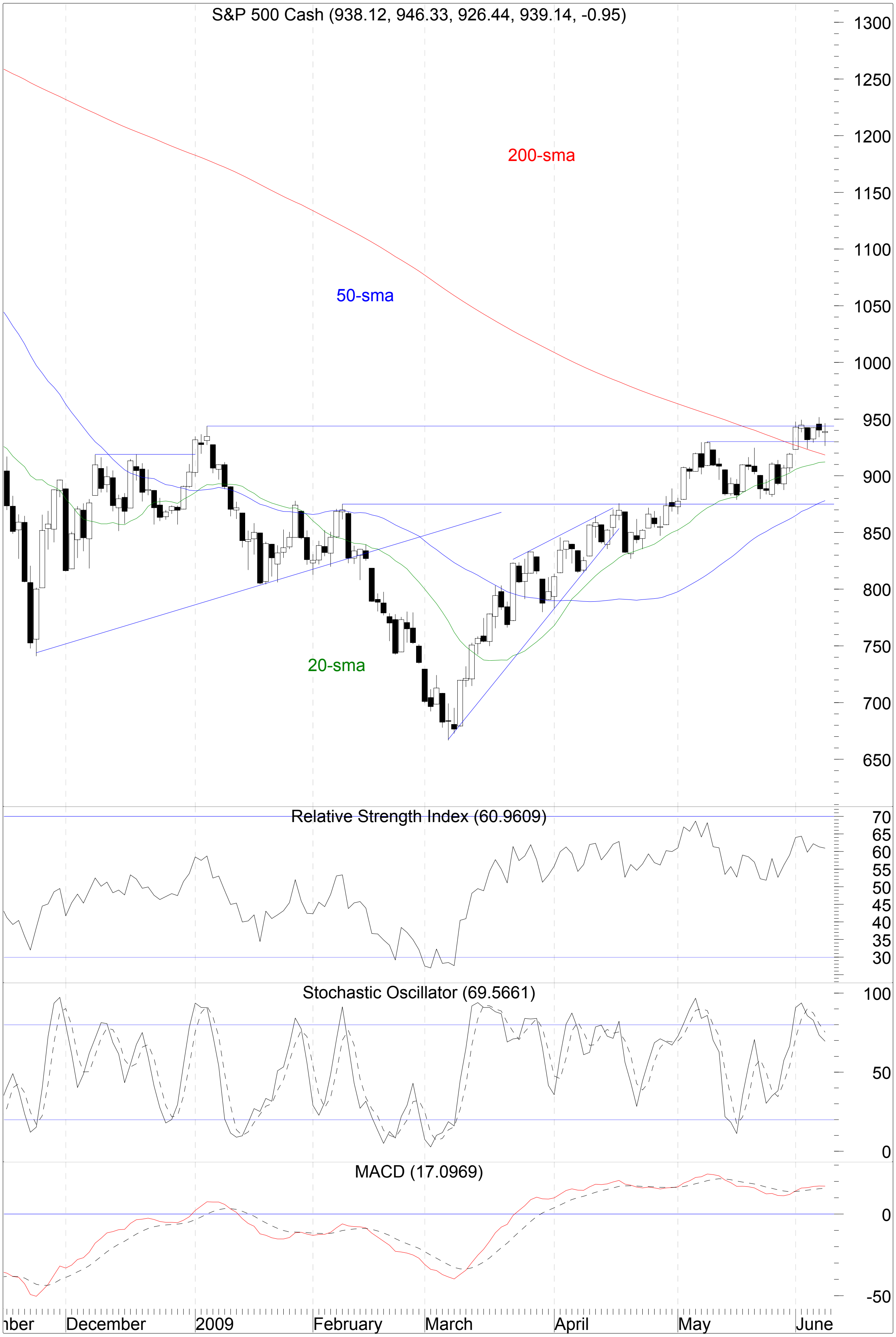
P/E Ratios: 57.21 (before charges), 14.83 (continuing operations), 16.20 (analyst estimates).
P/E Yield 10-year Bond Yield Spreads: ***-55% (earnings bef. charges),*** *73% (earnings continuing ops), and 59% (projected earnings)*.

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $3.75, 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 $13.20, 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 88.0% that the Fed will *leave rates unchanged*, and a probability of 12.0% of cutting *25 basis points to 0.0%* when they meet on June 24th. They are pricing in a probability of 69.2% that the Fed will *leave rates unchanged* on August 12th, a probability of 21.8% of raising 25 basis points to 0.50%, and a probability of 9.0% of *cutting 25 basis points*.

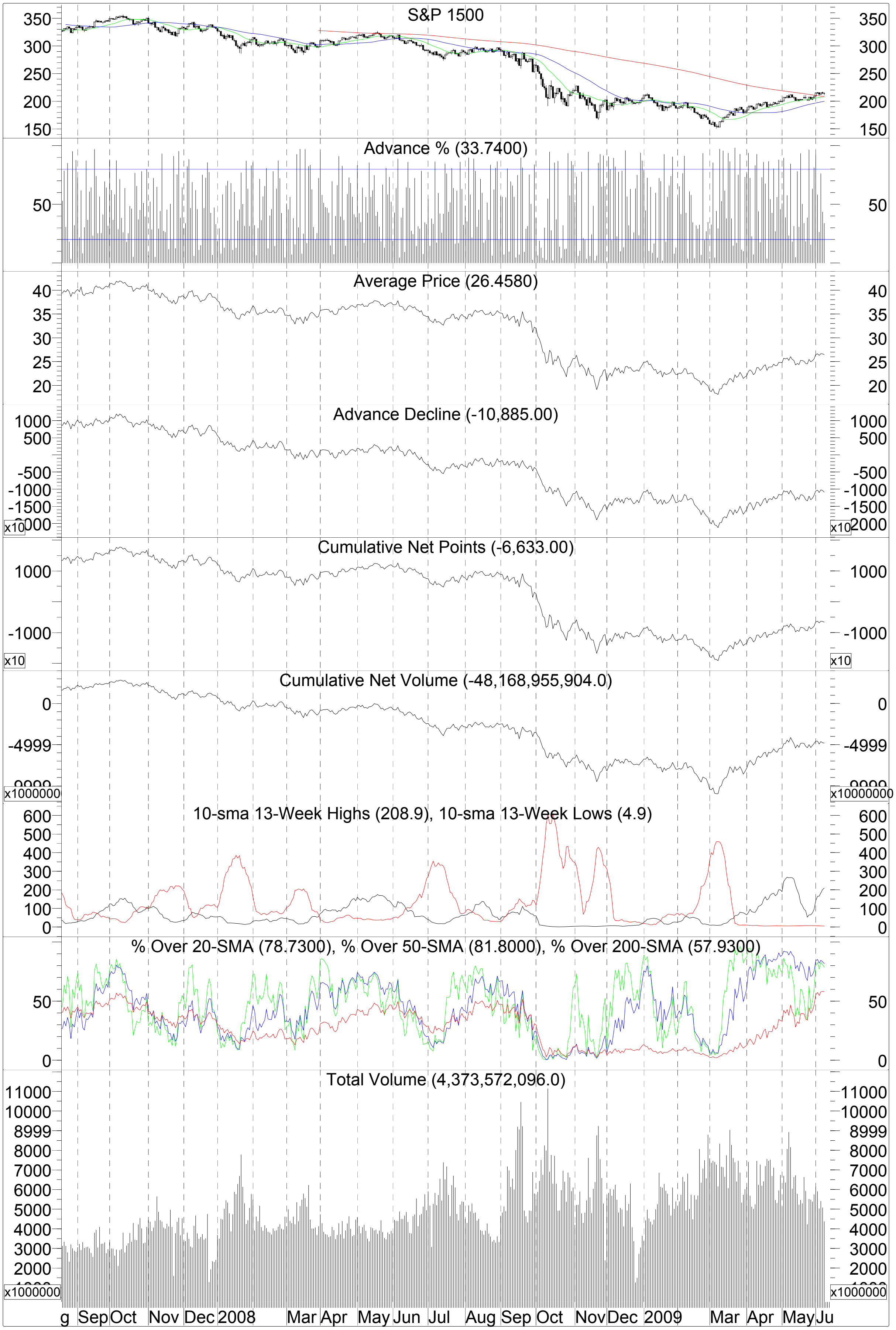
IMPORTANT DISCLOSURES



The S&P 500 printed a doji-like high wave candle Monday, indicating a near draw between the bulls and bears. It was an extremely low volume day.

The Nasdaq 100 printed a high wave spinning top Monday, which is a candle of indecision.

Our momentum indicators remain at high levels.



33.74% of stocks traded higher Monday.

Volume, which has been low, seemed to dry up completely Monday.

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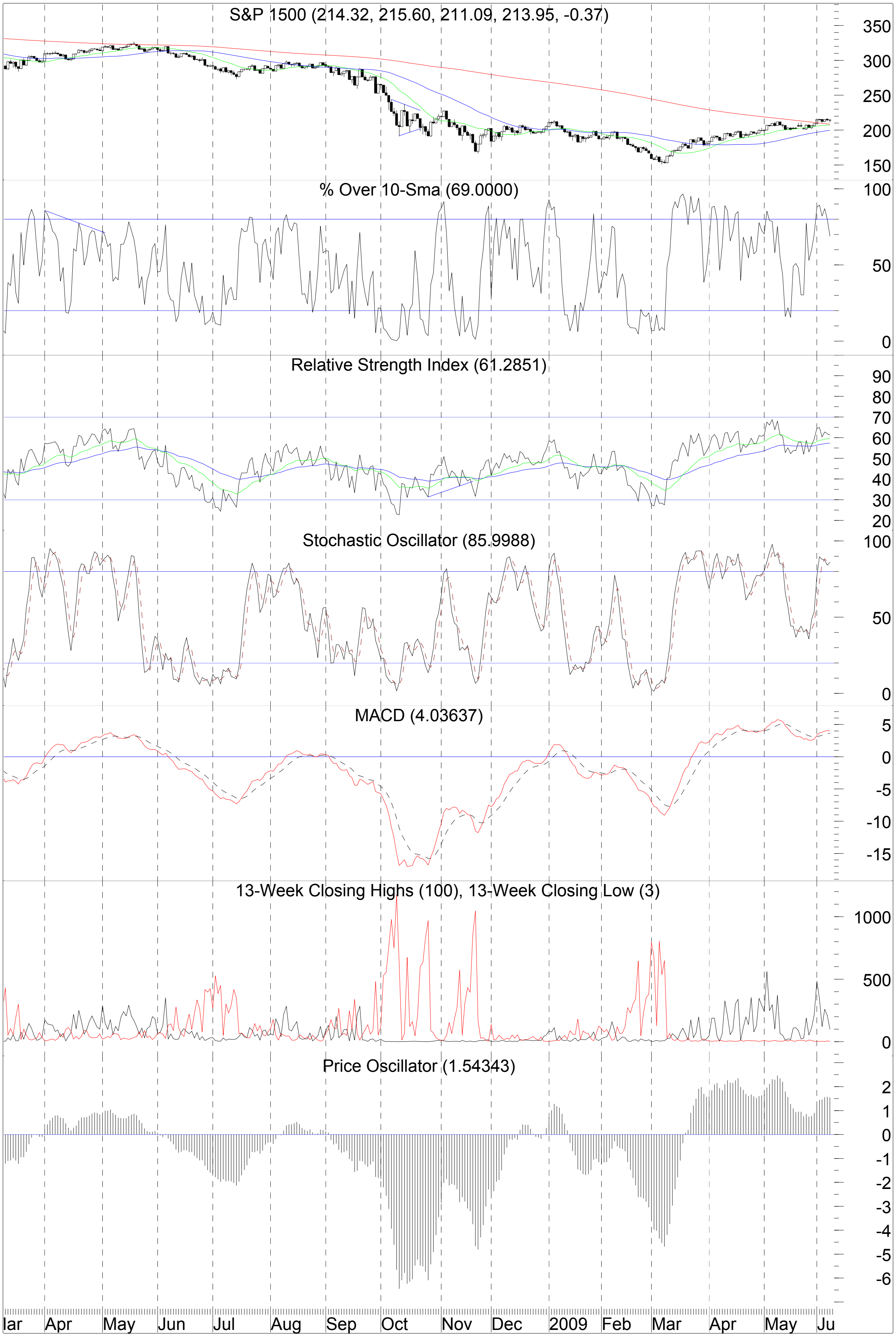

The percent over 10-sma is dropping down from the overbought zone.

Our momentum indicators remain at high levels.

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