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The Kaufman Report

Trade what you see, not what you think.

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Tuesday March 17, 2009 **Closing prices of March 16, 2009**

We said yesterday that stocks had reached a short-term overbought condition and options buyers had become too bullish. Stocks rallied early but reversed in the afternoon as major indexes got near important resistance levels. The S&P 500 printed a shooting star candle on the daily chart, which is bearish, and the Nasdaq 100 printed a bearish engulfing candle on its daily chart. With the percent of stocks at a still overbought 87.53% and options buyers still too bullish, we repeat yesterday's comment that long-term investors should be careful with entry points long, and aggressive short-term traders can look for shorting opportunities. This is a quadruple-witching options expiration week and we expect a lot of volatility.

I owe unions. When their leaders call I do my best to call them back right away. I don't consider this corrupting in any way; I don't mind feeling obligated toward (them)… I got into politics to fight for these folks. – Barack Obama 2006, quote from IBD 3/4/09

The short-term trend is now up, while the intermediate-term and long-term trends remain down. This continues to be an opportunistic trader's market, with adept traders able to take advantage long or short.

The S&P 1500 (170.50) was down 0.473% Monday. Average price per share was down 1.09%. Volume was 107% of its 10-day average and 118% of its 30-day average. 37.83% of the S&P 1500 stocks were up, with up volume at 56.80% and up points at 28.15%. Up Dollars was 21.27% of total dollars, and was 19% of its 10-day moving average. Down Dollars was 122% of its 10-day moving average. The index is up 2.249% in March, down 16.80% quarter-to-date and year-to-date, and down 52.16% from the peak of 356.38 on 10/11/07. Average price per share is $20.12, down 53.46% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 87.53. 13-Week Closing Highs: 20. 13-Week Closing Lows: 20.
Put/Call Ratio: 0.802. The 5-day moving average hit 0.726 Friday the lowest since 3/20/06 . Kaufman Options Indicator: 1.05.
The spread between the reported earnings yield and 10-year bond yield is 17%, and 172% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $5.88, a drop of 69.34%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.67, a drop of 37.68%. The spread between reported and projected earnings is 132%, near the widest the level in years. If investors believed the estimates stocks would be much higher.

493 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 60.1 % had positive surprises, 8.1% were line, and 31.8% have been negative, a high number. The year-over-year change has been -61.4% on a share-weighted basis, -22.0% market cap-weighted and -30.8% non-weighted. Ex-financial stocks these numbers are -18.7%, -6.1%, and -12.1 %, respectively.

Federal Funds futures are pricing in a probability of 92.0% that the Fed will *leave rates unchanged*, and a probability of 8.0% of cutting *25 basis points to 0.0%* when they meet on March 18th. They are pricing in a probability of 87.0% that the Fed will *leave rates unchanged* on April 29th and a probability of 7.5% of *cutting 25 basis points*.

IMPORTANT DISCLOSURES

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Economic News

3/16/09 – The Empire Manufacturing Index (New York) for March came in at -38.23 versus the estimate of -30.80. New orders and shipments dropped to record lows and the inventories index hit the lowest level since 2001. U.S. Industrial Production for February dropped for the fourth month in a row coming in at -1.4% versus the -1.3% estimate, reflecting automobile cutbacks and plunging exports. Factory Capacity Utilization fell to 70.9%, matching the lowest level ever. Net Long-Term TIC Flows for January were -$43.0 billion versus the estimate of +$45.0 billion as international demand for U.S. financial assets fell.

3/13/2009 – The Trade Balance for January came in at -$36 billion versus the estimate of -$38 billion. The trade deficit narrowed in January to the lowest level in 6 years as imports fell faster than exports. The narrower gap was mainly due to the drop in petroleum prices. The Import Price Index for February fell -0.2% MoM versus the estimate of -0.7%. YoY it was -12.8% versus the -13.5% estimate. A concern for the U.S. economy is the slump in foreign demand for American made goods. Exports decreased 5.7% to $124.9 billion, the lowest since September 2006. The World Bank said the global economy is likely to shrink for the first time since WWII, and trade will decline by the most in 80 years.

3/12/09 – Initial Jobless Claims for w/e 3/7 were 654K versus the 644K estimate, up 9K from the prior week. The 4-week average rose to 650K, the most in over 26-years. Continuing Claims for w/e 2/28 were 5,317K versus the 5,140K estimate. Retail Sales fell 0.1%, less than the forecast -0.5%. Sales less autos climbed 0.7% versus the -0.1% estimate. Business Inventories in January fell faster than sales and were at a 1.43 month supply, the same as December. This shows progress matching inventory to sales, and combined with the increase in retail sales could indicate a stabilizing in the largest part of the economy.

3/11/09 – Mortgage Applications for w/e 3/6 were up 11.3% led by refinancing +13.1%. U.S. foreclosures hit a record 121,756 in February which was up 67% versus January.

3/10/09 – Wholesale Inventories for January were down 0.7% versus the -1.0% estimate. This was the 5th straight monthly decrease, the longest in almost 7 years. Sales dropped 2.9% and there was a 1.3 month supply of inventory, the most since January 2002. China's exports for February plunged 25.7% Y-o-Y, while car sales were up 24%. China's consumer prices in February fell 1.6% Y-o-Y, the first decline in over 6-years. British Industrial Output, which equals 18% of their economy, fell 2.6% in January and 11.4% Y-o-Y, the worst drop since 1981 and the lowest total since April 1993.

3/9/09 – Brazil's Industrial Production plunged a record 17.2% in January Y-o-Y. Japan posted a current account deficit for January of $1.76 billion. Exports to the U.S. were down 53%.

3/6/09 – The Unemployment Rate in February was 8.1%, the highest since 1983. The estimate was 7.9%. The change in Non-Farm Payrolls showed a loss of 651,000 jobs versus the estimate of 650,000. The January number of 598,000 was revised to a loss of 655,000 jobs. Consumer Credit in January rose by $1.76 billion versus the estimate of a decrease of $5 billion. This was the first rise in four months.

3/5/09 – Initial Jobless Claims for w/e 2/28 were 639,000 versus the 650,000 estimate. Continuing Claims for w/e 2/21 were 5,106,000 versus the 5,155,000 estimate. Non-Farm Productivity for Q4 was -0.4% versus the estimate of +1.0%. Unit Labor Costs were +5.7% versus the +3.8% estimate. Factory Orders for January were -1.9% versus the -3.5% estimate. Mortgage Delinquencies for Q4 were 7.88% versus the prior quarter at 6.99%. Productivity, defined as employee output per hour, fell as the economy shrank faster than companies cut jobs and hours.

3/4/09 – ADP Employer Services Report for February showed a loss of 697,000 joibs versus the estimate of -630,000. January's number was revised down to -614,000 from -522,000. This tracks private employment, not government. The ISM Non-Manufacturing Index came in at 41.6 versus the estimate of 41.

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Economic News

3/3/09 – Pending Home Sales (existing homes) for January fell 7.7% from December, versus the estimate of -3.5%. In December Pending Home Sales were +4.8%.

3/2/09 – The ISM Manufacturing Index for February showed U.S. manufacturing contracted at a slower pace as it rose from 35.6 to 35.8 breaking a string of six straight declines. Personal Income in January was up 0.4% versus an estimated drop of 0.2%. Income was higher due to pay increases to government employees and cost of living adjustments to Federal transfer payments. Salaries and Wages fell 0.2%, the third consecutive decrease. Disposable income was up 1.5%. Personal Spending for January was up 0.6% versus the 0.4% estimate. This was the first time in seven months consumer spending increased.

2/27/09 – GDP for the fourth quarter shrank at a 6.2% annualized pace, the most since 1982 and worse than the estimate of -5.4%.

2/26/09 – Initial Jobless Claims for w/e 2/21 rose to 667,000, the highest since 1982. Durable Goods orders for January fell for a record 6th straight month, down 5.2% versus the estimate of -2.5%. Silver lining: inventories were down 0.8% from December. Singapore's economy shrank the most in 33 years last quarter, as GDP declined at an annualized 16.4% from the prior three months.

2/25/09 – Existing Home Sales for January fell 5.3% to 4.49 million annualized from 4.74 million in December. This was the lowest rate since 1997. Median price dropped 15% Y-o-Y. Distressed properties were 45% of sales.

2/24/09 – The Conference Board's reading of U.S. Consumer Confidence for February dropped to 25, the lowest ever and well below the estimate of 25. The S&P/Case-Shiller index of home prices in 20 U.S. cities plunged 18.5% in December YoY, the fastest drop on record. The MSCI World Index is off to its worst ever yearly start. German business confidence was reported at a 26-year low. Eurozone Industrial Orders fell 5.2% in December versus November and -23-3% YoY.

2/23/09 – Dallas Fed Manufacturing Activity came in at -57.3% versus the estimate of -50.0%.

2/20/09 – The Consumer Price Index for January rose for the first time in six months by +0.3%, hitting the estimate. It was unchanged on an annual basis for the first time since 1955. Energy expense rose 1.7%, led by a 6% rise in gasoline prices.

2/19/09 – Initial Jobless Claims for w/e 2/14 hit 627,000 versus the 620,000 estimate. The prior week was alsos 627,000. Continuing Claims were 4.99 million and set another record. The Producer Price Index for January was +0.8% versus a +0.3% estimate. Leading Indicators rose 0.4% versus the estimate of 0.1%. Some economists said this was a temporary jump.

2/18/09 – Housing Starts for January were the lowest on record at 466,000 annualized, missing the forecast of 529,000 and falling 17% from December. Building permits dropped 4.8% to 521,000 annualized.

2/17/2009 – Empire Manufacturing Index, which shows NY manufacturing, was -34.65 in February versus the -23.75 estimate. It dropped from -22.2 in January for the fastest drop ever. Net long-term TIC inflows, which shows international demand for U.S. financial assets, was $34.8 billion in December, up from -$21.7 billion in November and above the $20 billion estimate.

2/16/09 – Japanese GDP dropped 3.3% from the prior quarter, or 12.7% annualized, the biggest drop since 1974. Exports dropped at an 45% annualized rate as the synchronized global contraction hurts countries where global trade is extremely important.

2/12/09 – Jobless claims for w/e 2/7 were 623k versus 610k estimated. The 4-week moving average of 607,500 is the most since November 1982. Continuing claims w/e 1/30 were 4,810k versus estimated 4,800k, and rose the 4th week in a row to another record. Business Inventories for December -1.3% versus -0.09% estimate, biggest drop since 2001. Sales -3.2% after -5.7% in November. 1.4 months of inventory highest since April 2001. January Retail Sales +1% versus -0.8% estimate rose for the first time since July. Gasoline sales +2.6%, sales at auto dealers and parts stores up 1.6% for the first gain since August.

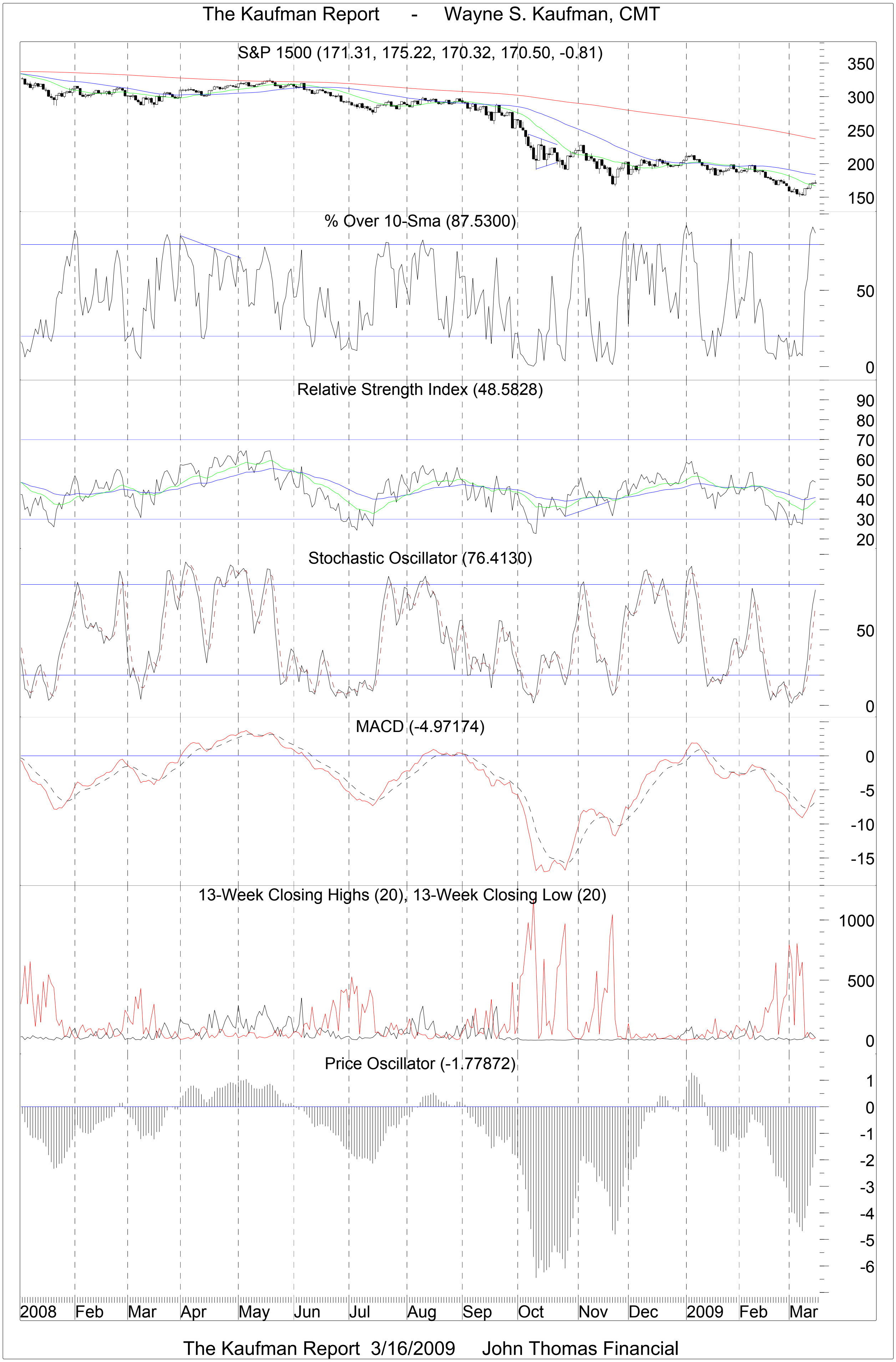
2/11/09 – The U.S. December trade deficit was $39.9 billion, wider than the $35.7 billion estimate. It was the lowest in almost six years. Exports and imports each declined for the 5th straight month, highlighting the effects of the synchronized global contraction. This is causing rumblings of protectionism worldwide, which would not be a good thing for the global economy.

The S&P 500 got near the important 780 resistance level before reversing. There is support at 743 and the 20-sma is at 738. The stochastic is oversold so a bounce is possible soon.

The S&P 500 daily chart printed a shooting star, which is a bearish candle, on the daily chart. The stochastic is crossing over negatively from the overbought zone.

The intra-day chart of the Nasdaq 100 shows it reversed after getting near resistance. The stochastic is in the oversold zone so a bounce at support is likely.

The Nasdaq 100 bounced up to its 50-sma Monday before reversing and printing a bearish engulfing candle. The 20-sma (green) is just below at 1129.48. The stochastic is entering the overbought zone, so further downside seems imminent.



The percent over 10-sma is still very high in the overbought zone.

The stochastic is near the overbought zone.

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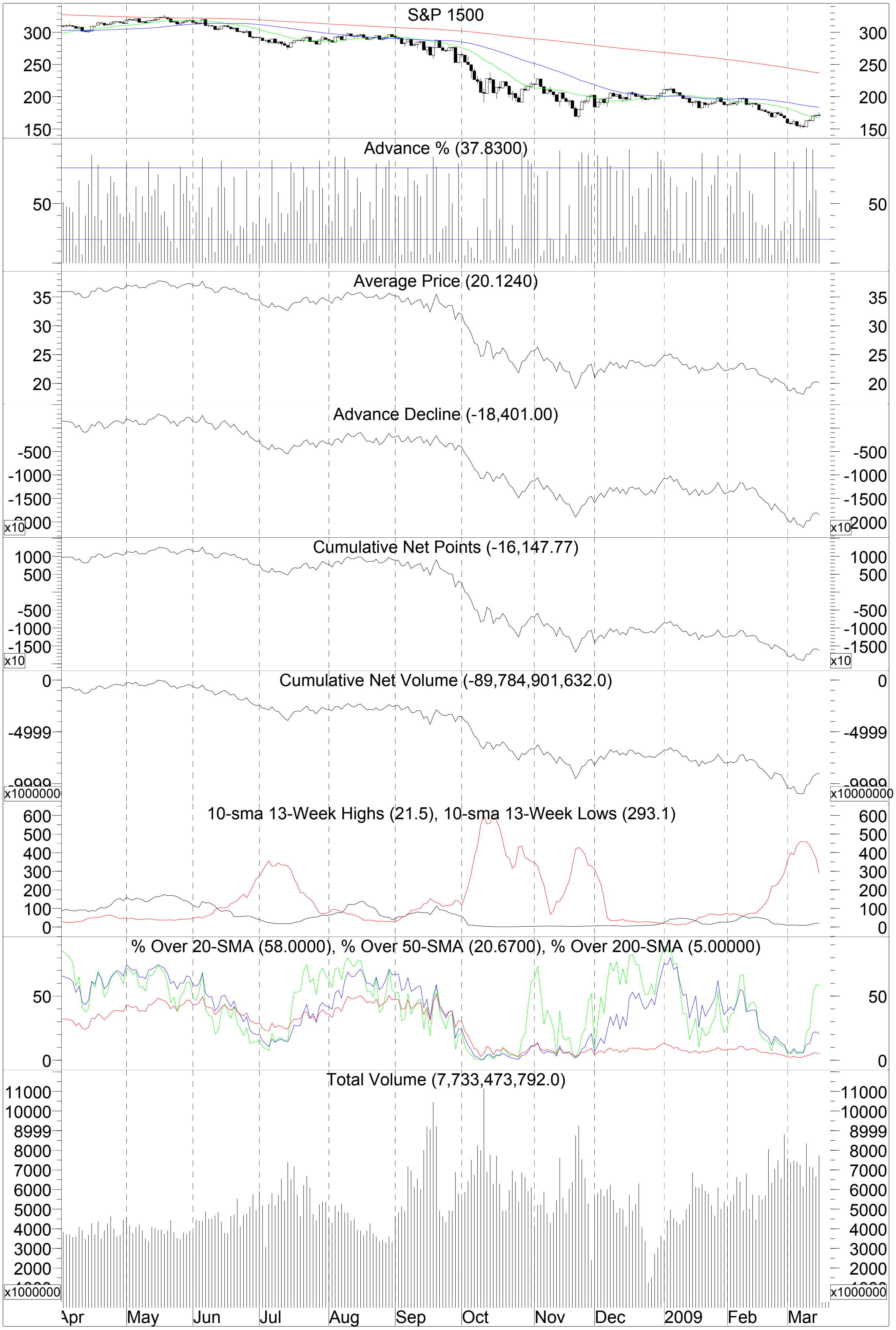
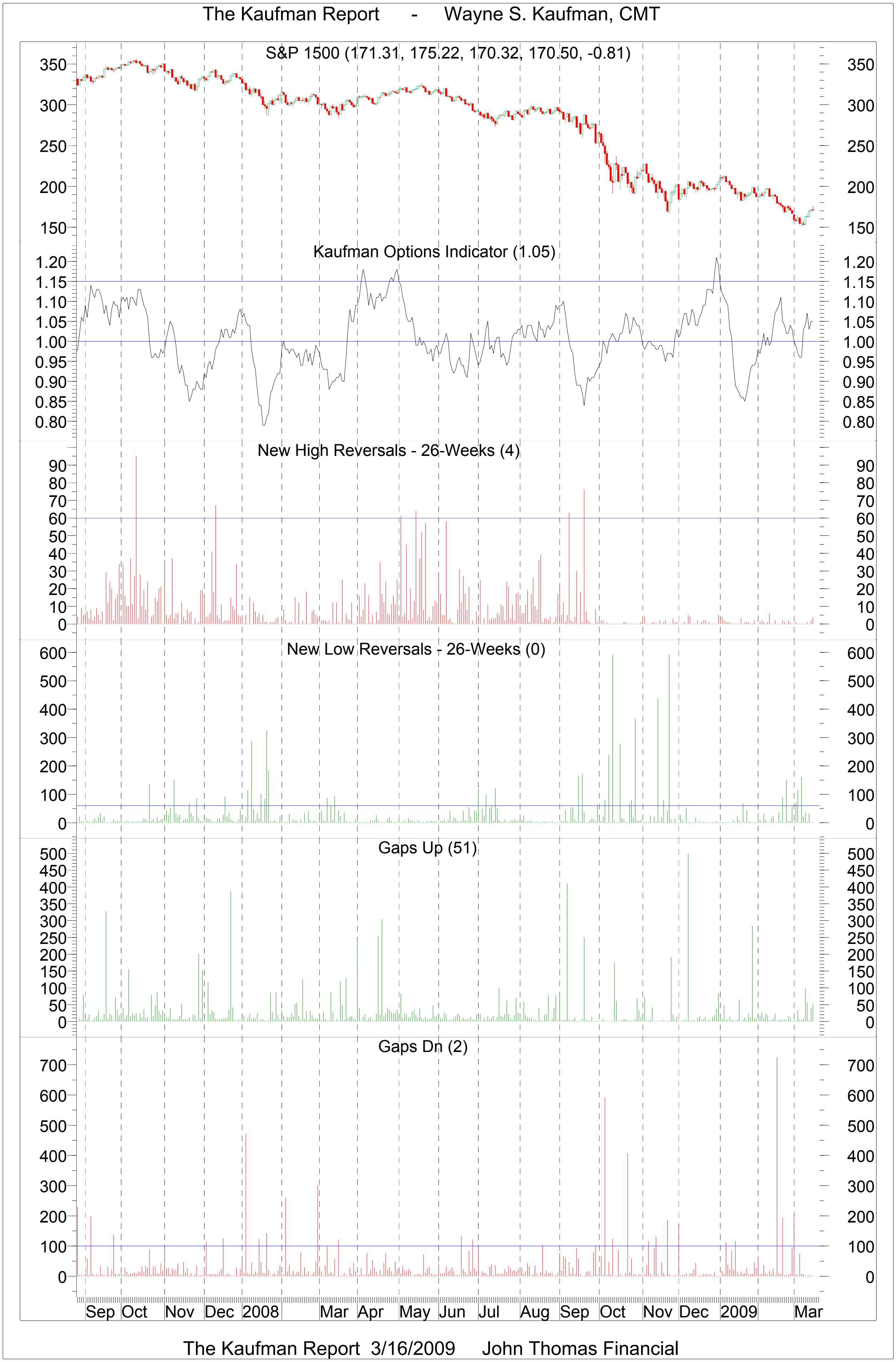


37.83% of stocks traded higher Monday.

Volume expanded during Monday's down session.



Our proprietary options indicator shows optimism, but not the extreme degree we have seen in the past. Still, tops can occur at these levels.

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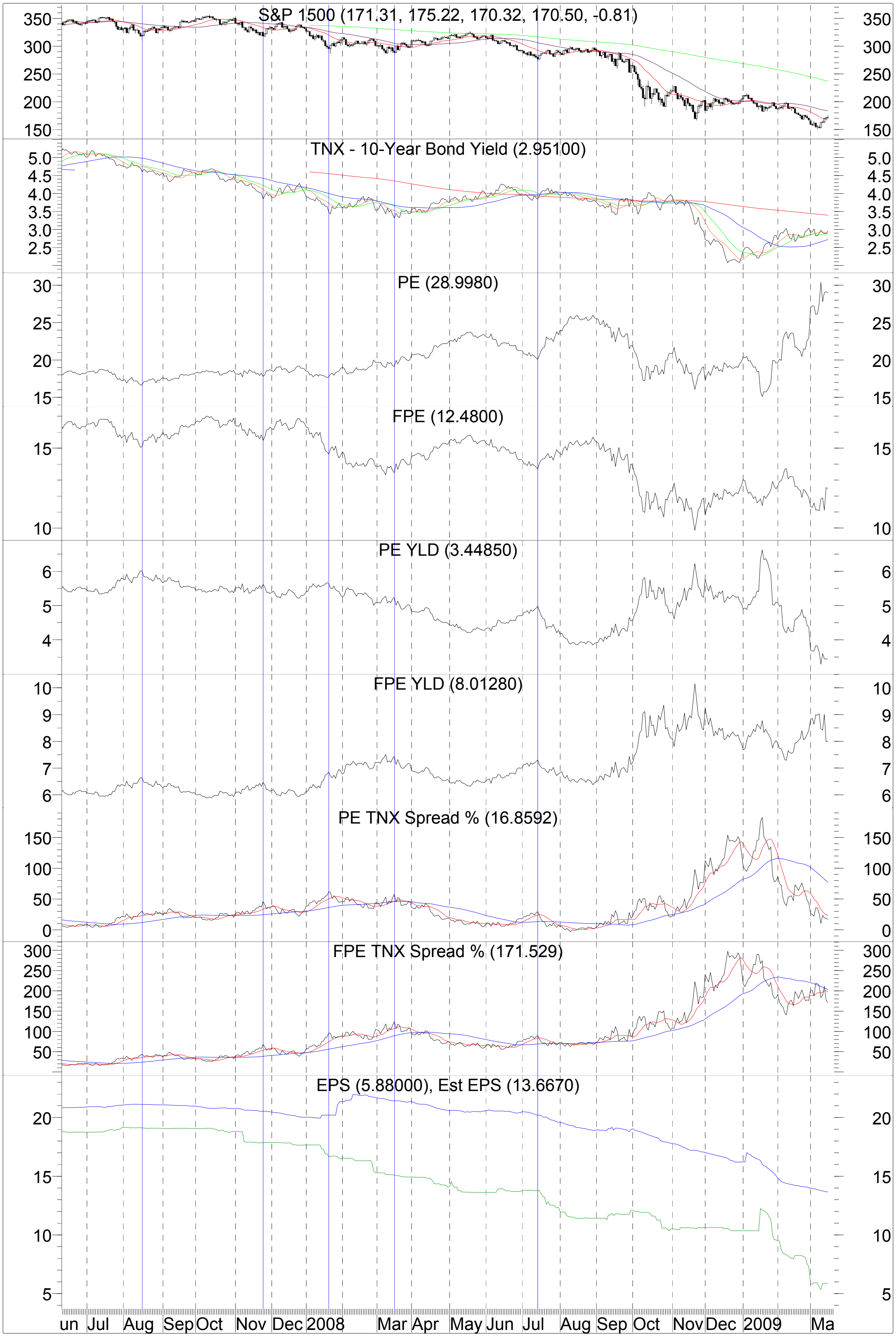

The P/E ratio is still high, while the forward P/E is low. Do you trust the estimates?

The spread between the current earnings yield and the 10-year bond yield is at low levels. The spread based on forecast earnings is at a level where stocks would be attractive. Again, do you believe analyst estimates?