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

Monday May 11, 2009 **Closing prices of May 8, 2009**

Stocks continued their terrific run last week as the S&P 500 rallied another 5.89% and is now up on the year. While a pullback or consolidation is likely at any time and is certainly being called for by almost all market watchers, we think equities will take any pullback in stride and follow their average first year of the Presidential cycle pattern and trade higher. There has been a lack of sellers recently, and so far there is no evidence that the buy the dips mentality is in jeopardy. We are now 90% through earnings season and investors have been giving stocks the benefit of the doubt as they ignore bad news and focus on data points and forecasts that give hope that things are turning for the better. With earnings essentially out of the way the only catalyst to bring sellers off the sidelines in the near-term will be economic news, which recently has been better than expected, or a continued rise in the price of oil. Still, valuations based on reported earnings (before charges) are terrible, while valuations based on earnings from continuing operations (after charges) and analyst forecasts make stocks very attractive.

This disconnect can't last much longer. The P/E based on reported earnings for the S&P 1500 is 66.45, creating an earnings yield of 1.50%. Ten year bond yields are currently 3.293%, making bonds look far more attractive than stocks. Corporate bond yields look even more attractive. The P/Es based on earnings from continuing operations and projected earnings are 15.13 and 16.54, respectively. Their earnings yields of 6.61% and 6.05% are attractive versus bond yields. The problem is the trend of all three of these earnings metrics is inexorably lower. Investors may be giving stocks the benefit of the doubt at this time, but if reported earnings don't eventually start to move towards the continuing operations numbers and the analyst estimates, stocks will look very overvalued and investors may lose their recent optimism.

We have been saying that investors should continue to play the long side while becoming more defensive by using tight stops and being careful with entry points. **We repeat that advice at this time**.

The short-term and intermediate-term trends are up, while the long-term trend remains down. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

IMPORTANT DISCLOSURES

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

Monday May 11, 2009 **Closing prices of May 4, 2009**

The S&P 1500 (211.70) was up 2.523% Friday. Average price per share was up 3.08%. Volume was 122% of its 10-day average and 125% of its 30-day average. 84.38% of the S&P 1500 stocks were up, with up volume at 84.85% and up points at 92.48%. Up Dollars was 97.80% of total dollars, and was 223% of its 10-day moving average. Down Dollars was 11% of its 10-day moving average. For the week the index was up 5.8% on increasing and above average weekly volume.

The S&P 1500 is up 6.26% in May, up 16.97% quarter-to-date, up 3.3% year-to-date, and down 40.60% from the peak of 356.38 on 10/11/07. Average price per share is $26.02, down 39.81% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 75.33%. 13-Week Closing Highs: 372. 13-Week Closing Lows: 5.

Put/Call Ratio: 0.870. Kaufman Options Indicator: 1.02.

P/E Ratios: 66.45 (before charges), 15.13 (continuing operations), 16.54 (analyst estimates).
P/E Yield 10-year Bond Yield Spreads: ***-54% (earnings bef. charges),*** *101% (earnings continuing ops), and 84% (projected earnings).*

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $3.19, a drop of 83.37%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $13.99, down 29.87%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $12.80, a drop of 41.69%.

450 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 69.0% had positive surprises, 6.6% were in line, and 24.4 % have been negative. The year-over-year change has been -35.1% on a share-weighted basis, -24.4% market cap-weighted and -36.3% non-weighted. Ex-financial stocks these numbers are -34.7%, -23.9%, and -32.4 %, 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 73.5% that the Fed will *leave rates unchanged* on August 12th, a probability of 13.5% of cutting 25 basis points to 0.0%, and a probability of 13.0% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

After breaking through important resistance at the 878 area the S&P 500 has followed through nicely. On Friday it made new intra-day and closing rally highs. Resistance is now the January 6th high of 943.85 and the down sloping 200-sma which is now at 954.58. With momentum indicators on this daily chart at high or overbought levels a decisive move through the resistance levels would be an amazing display of strength.

The weekly chart of the S&P 500 shows the stochastic in the overbought zone. It can stay there for a number of weeks. and our other momentum indicators still have room to move higher.

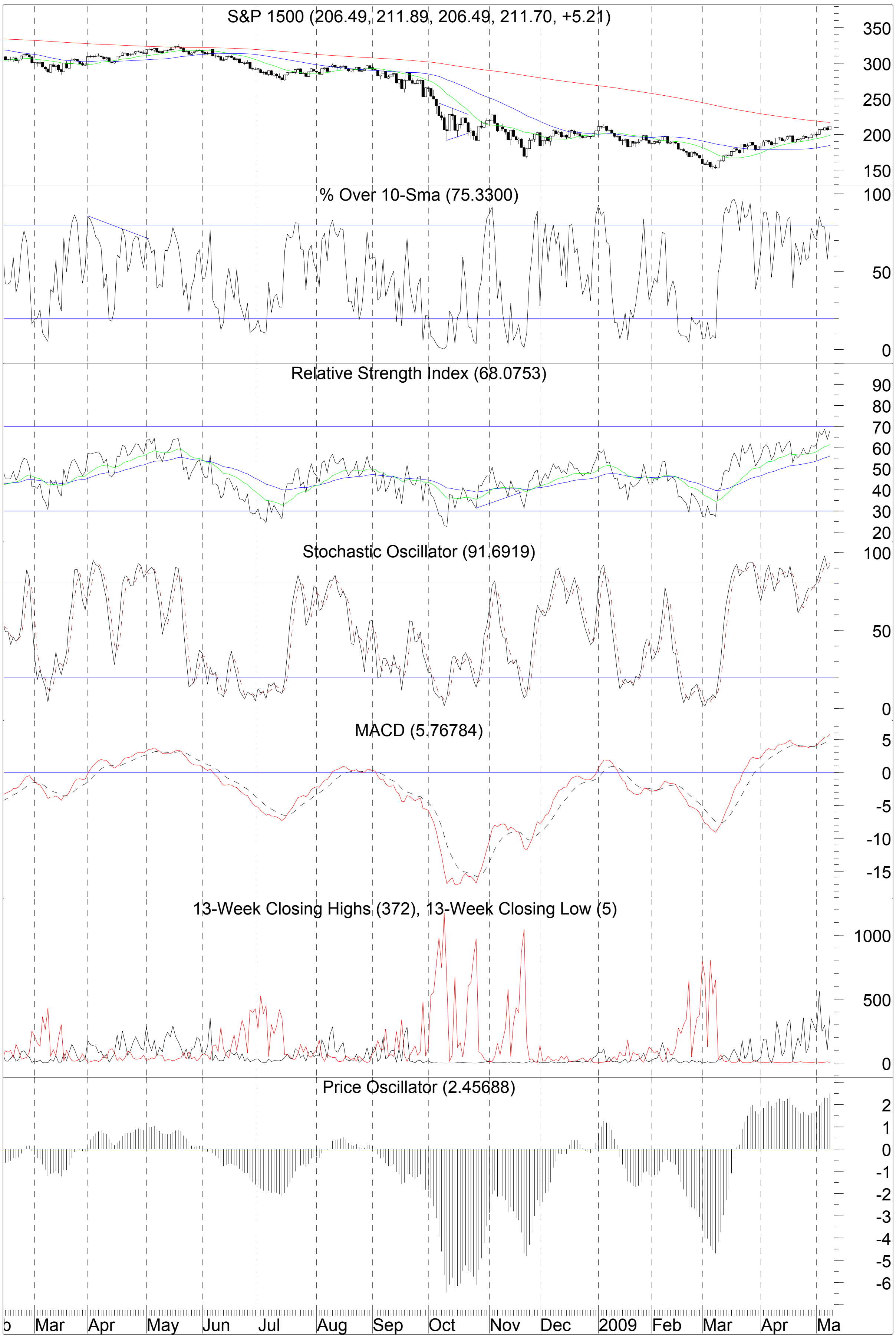
The daily chart of the Nasdaq 100 shows it finding support at the 200-sma.

Our momentum indicators are moving down from high or overbought levels with room to move lower.

The weekly chart of the Nasdaq 100 shows it's first down week after eight up weeks in a row. It printed a spinning top candle, a sign of indecision showing the bulls and bears fighting to a near draw.

The stochastic has a negative crossover from the overbought zone. It can remain overbought for a few weeks.

The Kaufman Report - Wayne S. Kaufman, CMT



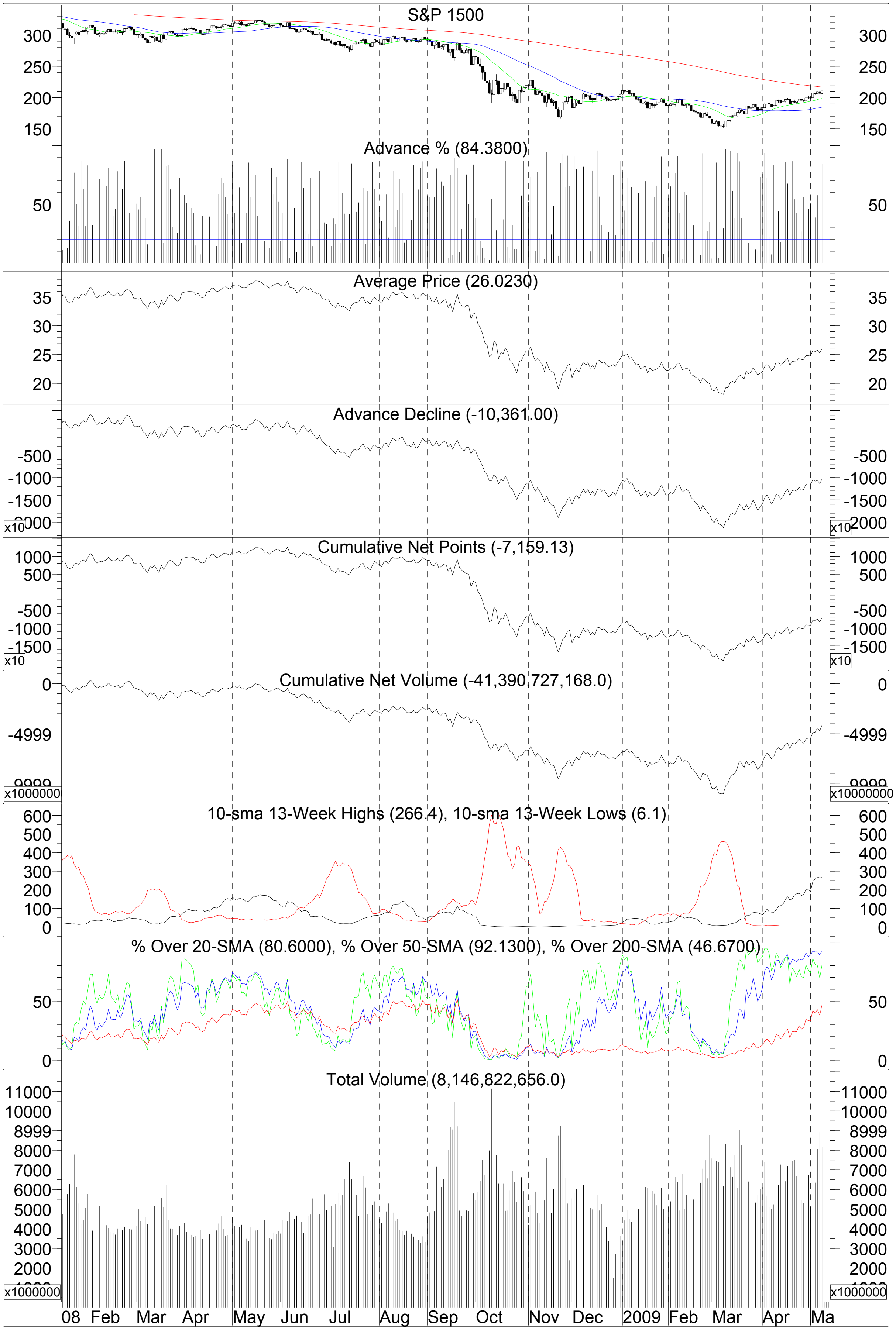
The percent over 10-sma still has a negative divergence, but so far it has had no real effect on the S&P 1500 index.

The RSI is at its highest levels in quite a while, which is a sign of strength.

The stochastic remains in the overbought zone.

Friday only saw 372 13-week closing highs, compared to the 560 on 5/4.

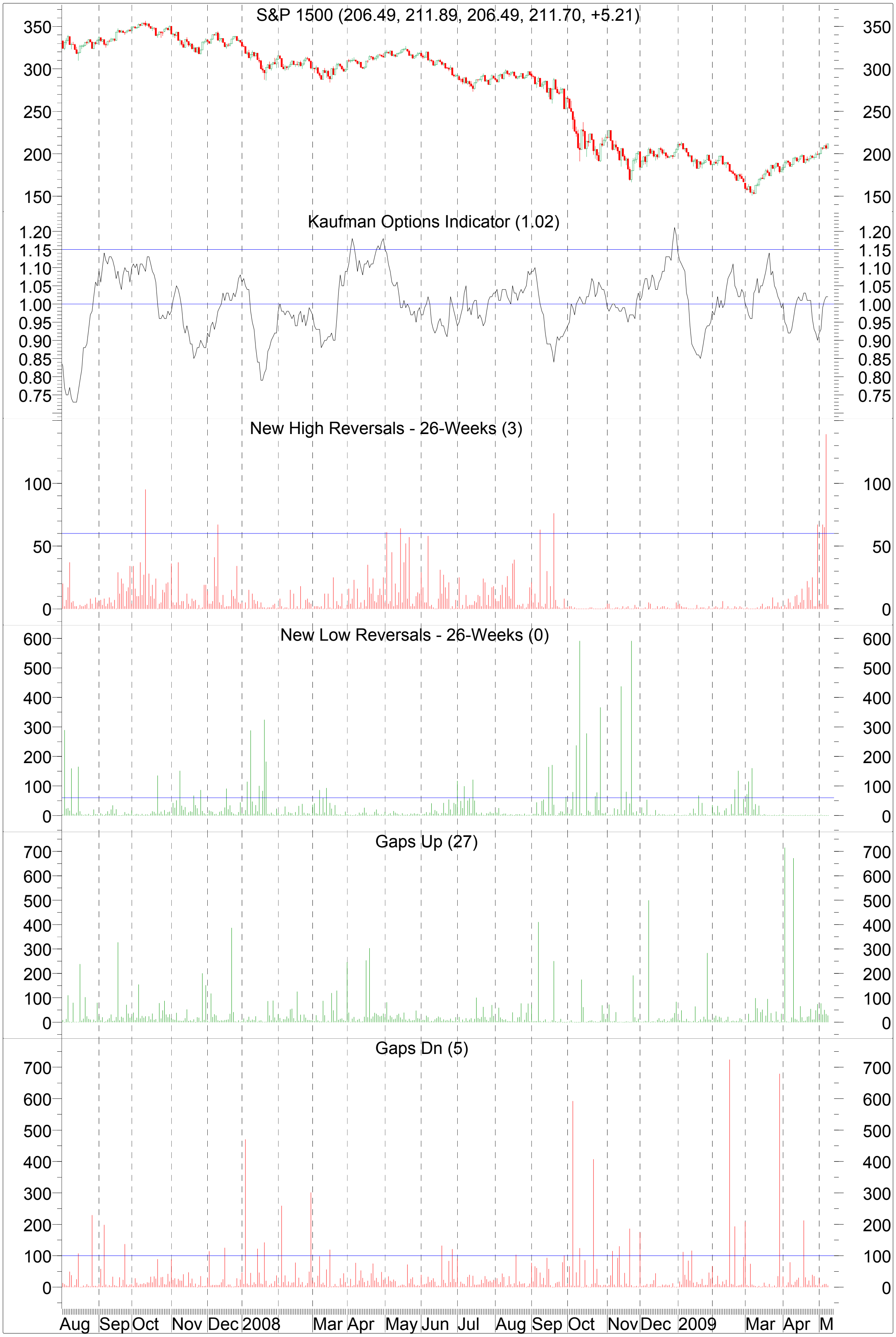
The Kaufman Report - Wayne S. Kaufman, CMT

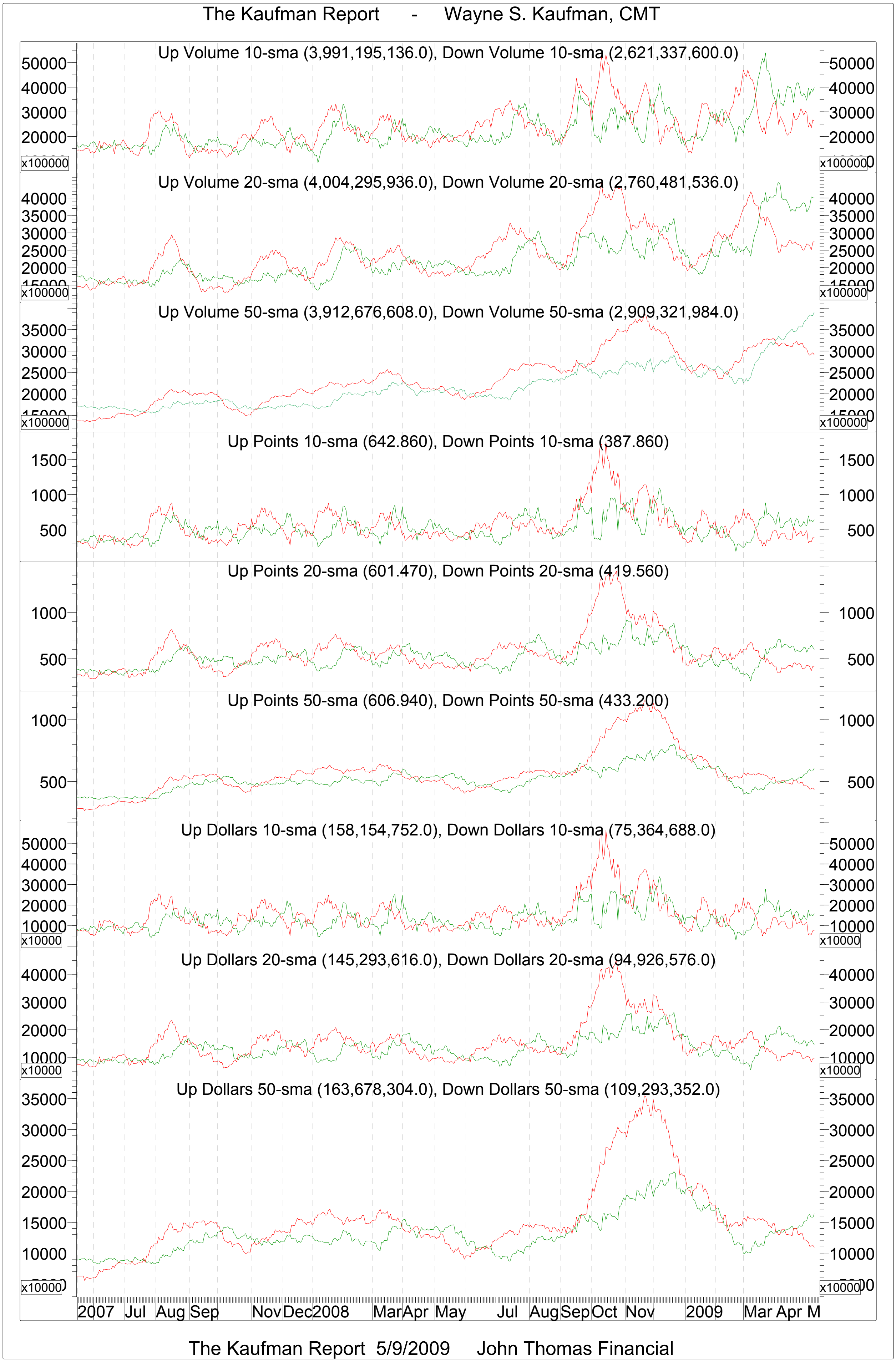


Our statistics of market breadth are all making new rally highs confirming the high in the index and pointing to higher prices in the future.

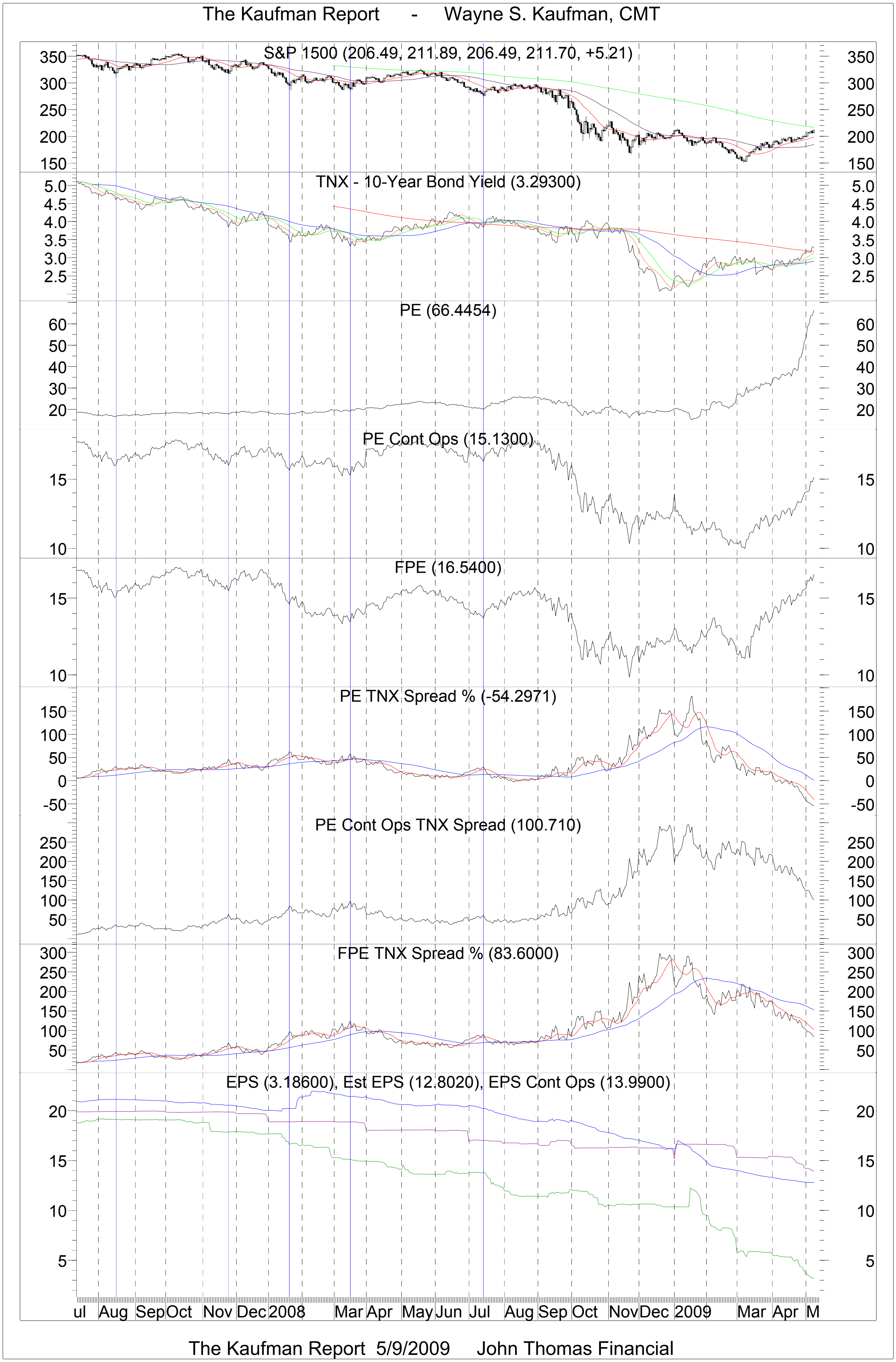
92.13% of stocks are over their own 50-day moving averages, while the percent over 200-sma is 46.67, the most since 9/19.

The Kaufman Report - Wayne S. Kaufman, CMT





Our statistics of supply (red) versus demand (green) are showing positive crossovers for all time periods. Still, buying has not been enthusiastic recently while sellers have stepped to the sidelines.



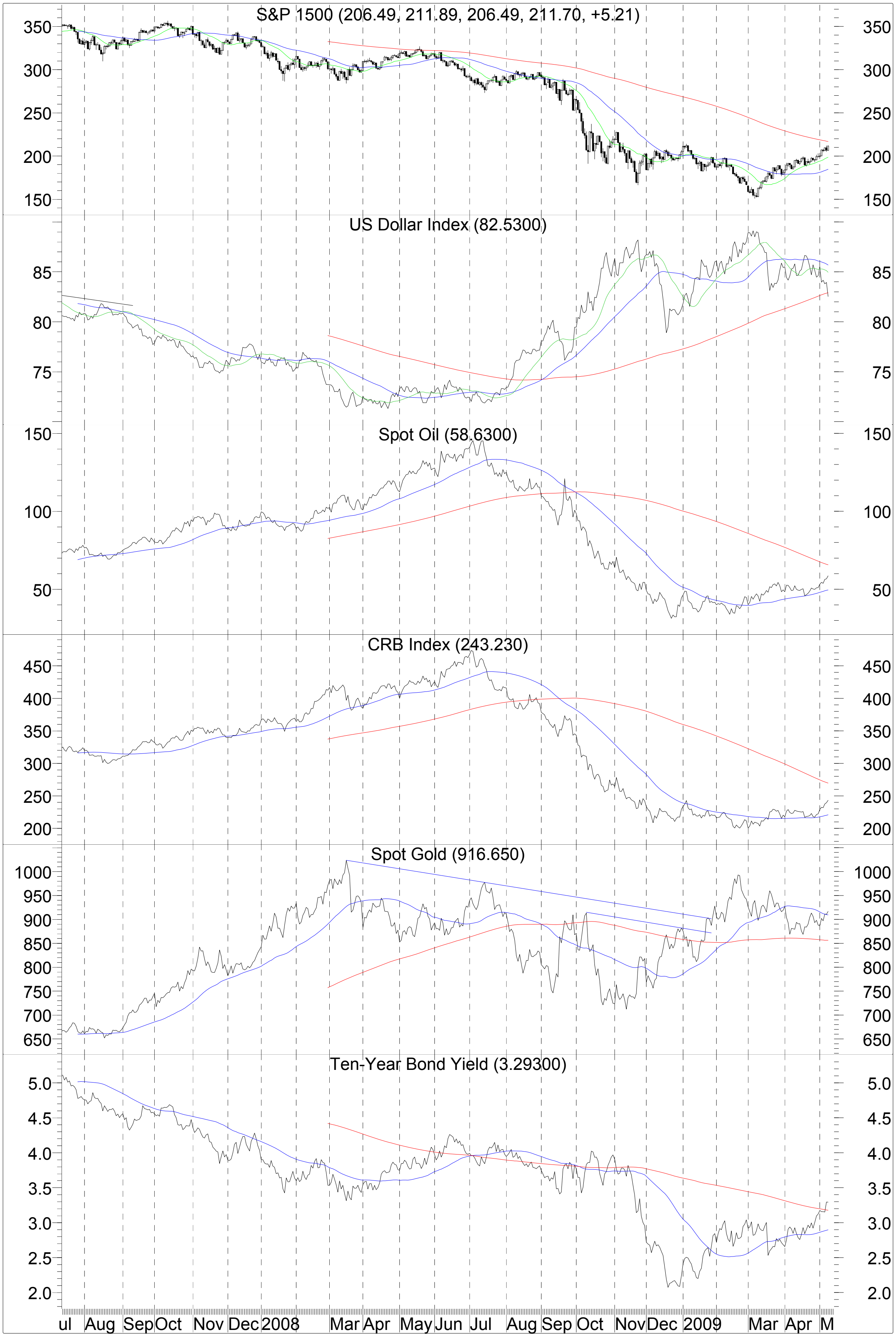
10-year bond yields are back above the 200-sma.

The P/E based on aggregate reported earnings is at very high levels, while the P/Es based on continuing operations and forecasts have moved up but are still reasonable.

Spreads between earnings yields and 10-year bond yields continue to plummet. Based on reported earnings stocks are expensive, while based on continuing operations and forecasts they are attractive. Will the analysts estimates finally become even nearly correct?

Reported earnings, earnings from continuing operations, and earnings estimates are all moving inexorably lower.

The Kaufman Report - Wayne S. Kaufman, CMT



We have been saying the U.S. Dollar Index was toppy, and Friday it closed below the 200-sma for the first time since August 2008.

Crude oil remains in an intermediate-term up trend and is at the highest level since November.

The commodities index is at the highest level since January 6th.

After holding support at the 200-sma twice gold has closed above its 50-sma (blue).