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The Kaufman Report

Trade what you see, not what you think.

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Monday November 9, 2009 **Closing prices of November 6, 2009**

The big news last week was the unemployment rate climbing to 10.2%, the highest level since 1983. That headline shocker came a day after a terrific productivity number for the third quarter showed a 9.5% increase, the fastest growth in six years. Combined with the second quarter number of 6.9% productivity growth, the economy showed its biggest back-to-back productivity gains since 1961.

At this point everyone has heard that unemployment is a lagging indicator, with increases in productivity and temporary employment the indicators that foreshadow an increase in hiring down the road. Maybe there is light at the end of the tunnel. What investors should be concerned about is how far off the Obama administration has been in forecasting these numbers. **In January Christina Romer, the Chairwoman of the White House Council of Economic Advisors, projected that with the government stimulus the unemployment rate would stay under 8%. She also projected that without the stimulus it would be under 9%.** Good job!

Keep in mind Vice-President Biden's recent comment regarding the stimulus that "in my wildest dreams I never thought it would work this well." What does this say regarding the ability to forecast the costs of the other massive programs of the Obama administration? How can investors and citizens have any faith in the U.S. Government's ability to pay its bills as it piles on more and more debt? Tax receipts are declining while bailouts and stimulus pile up. Obama just signed an extension of unemployment benefits, needed because about 35% of the unemployed are out of work for six months or more and their benefits are running out. Where will the money for all of these programs come from?

Obviously, from the future. The House of Representatives just passed $1 trillion health care legislation where the taxes begin now but the benefits don't begin for four years. We will bet anyone it will cost way more than $1 trillion. The FDIC is facing a shortfall and wants banks to pre-pay their quarterly risk assessments for all of 2010, 2011, and 2012 in the hope of raising $45 billion. What's next, citizens being asked to prepay their taxes one or two years ahead?

A New York Times business section headline on November 7th said "Unemployment in the double digits puts new pressure on policy makers." **This is the problem, the concept that government can create prosperity**. The more our feckless legislators do the worse things will get. This was true in the Great Depression according to two UCLA economists, Harold Cole and Lee Ohanian, who blamed ill-conceived government stimulus for prolonging the Depression, which by their estimate could have ended seven years before it actually did. As Will Rogers once said "when you find yourself in a hole, stop digging."

The answer is not more government intervention. The answer is the American entrepreneur, who needs to be unshackled so he can harness his creativity and competitiveness in order to help the country recapture the greatness of American capitalism. Note to Obama, Pelosi, Waxman, Reid, and Frank: **Put the shovel down!**

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Monday November 9, 2009 **Closing prices of November 6, 2009**

Stocks rebounded from oversold levels last week and are once again at an inflection point. The S&P 500 is at the bottom trend line of the recently broken bearish rising wedge, and it is just under its 20-sma. October closed with bearish shooting star candles on the monthly charts of major indexes. The 10-day moving average of 13-week closing lows is now well above the 10-day average of 13-week closing highs. Momentum indicators on weekly charts are turning down from high levels. Of the six weeks that have ended in the fourth quarter, the three with the highest volume have shown losses, while the three lowest volume weeks have shown the gains.

We have been saying that due to end of October "noise" it would be difficult to ascertain the direction of trends until early November. Now that we have entered the best three-month period for stock performance on a historical basis, and with earnings season almost 90% over and 80.6% of companies exceeding analyst estimates, one would think that investors would continue to be reluctant to part with their holdings. A move below the 11/2 low of 1029.38 would be bearish and should put investors on high alert.

Therefore, investors still need to be cautious regarding entry points, and positions they don't have a good reason to hold onto should be considered as a source of funds. Based on the S&P 500 the short-term trend is down, while the intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

We will remain on guard for any signs of a change in long-term trend. We have been saying there is the potential for a deep correction at some point. **However, we have also been saying since June 1st 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 or even cancel our expected bearishness. At this time the upside surprise scenario has proven to be correct. We hope that the earnings trend will be the next to improve.

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The S&P 1500 (243.55) was up 0.20% Friday. Average price per share was down 0.06%. Volume was 14% lower than Thursday, 78% of its 10-day average and 84% of its 30-day average. 44.91% of the S&P 1500 stocks were up, with up volume at 55.42% and up points at 47.17%. Up Dollars was 50.34% of total dollars, and was 40% of its 10-day moving average. Down Dollars was 30% of its 10-day moving average.

For the week the index was up 3.19% on decreasing (-13%) and about average weekly volume.

The S&P 1500 is up 3.19% in November, up 0.786% quarter-to-date, up 18.85% year-to-date, and down 31.66% from the peak of 356.38 on 10/11/07. Average price per share is $30.29, down 29.94% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 63.27%. 13-Week Closing Highs: 75. 13-Week Closing Lows: 33.
52-week closing highs: 50.

Kaufman Options Indicator: 1.00 Put/Call Ratio: 1.021.

P/E Ratios: **119.87 (before charges)**, 21.60 (continuing operations), 17.41 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: ***-76% (earnings bef. charges),*** *32% (earnings continuing ops), and 64% (projected earnings)*.

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $2.03, a drop of 89.42%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $11.28, down 43.46%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.99, a drop of 36.26%.

446 of the S&P 500 have reported 3rd quarter earnings. According to Bloomberg, 80.6% had positive surprises, 6.8% were in line, and 12.6% have been negative. The year-over-year change has been -16.8% on a share-weighted basis, +14.3% market cap-weighted and +1.7% non-weighted. Ex-financial stocks these numbers are -26.0%, -20.1%, and -22.3%, respectively.

Federal Funds futures are pricing in a probability of 57.9% that the Fed will leave rates unchanged and a probability of 42.1% of cutting rates 25 basis points to 0.00% when they meet on December 16th. They are pricing in a probability of 56.0% of no change, 37.0% of cutting 25 basis points to 0.00%, and 7.0% of raising 25 basis points to 1.7% when they meet on January 27th.

	Daily	WTD	MTD	QTD	YTD
Nasdaq 100	0.56%	3.82%	3.82%	0.68%	42.84%
Nasdaq Composite	0.34%	3.29%	3.29%	-0.47%	33.95%
S&P 500	0.25%	3.20%	3.20%	1.16%	18.38%
S&P 1500	0.20%	3.19%	3.19%	0.79%	18.85%
Dow Jones Industrials	0.17%	3.20%	3.20%	3.20%	14.21%
NYSE Composite	0.12%	3.25%	3.25%	0.69%	20.87%
Bank of New York Mellon ADR	0.07%	3.24%	3.24%	1.53%	30.42%
S&P Midcap 400	-0.15%	3.37%	3.37%	-1.40%	26.58%
S&P Smallcap 600	-0.22%	2.68%	2.68%	-3.26%	14.27%

	Daily	WTD	MTD	QTD	YTD
Industrials	1.22%	6.06%	6.06%	1.12%	13.18%
Consumer Discretionary	1.02%	4.70%	4.70%	2.10%	30.46%
Health Care	0.40%	3.78%	3.78%	1.39%	9.37%
Consumer Staples	0.34%	1.76%	1.76%	2.82%	9.71%
Telecom Services	0.31%	1.01%	1.01%	-3.89%	-6.82%
Materials	0.31%	4.98%	4.98%	-0.61%	35.02%
Information Technology	0.11%	3.10%	3.10%	2.71%	48.71%
Energy	-0.21%	2.85%	2.85%	6.10%	12.40%
Utilities	-0.25%	1.62%	1.62%	-1.65%	-0.98%
Financials	-0.45%	1.81%	1.81%	-4.34%	14.02%

	Daily	WTD	MTD	QTD	YTD
Automobiles & Components	2.13%	8.87%	8.87%	3.78%	85.62%
Retailing	1.70%	3.93%	3.93%	4.73%	41.57%
Transportation	1.54%	9.06%	9.06%	5.12%	14.18%
Capital Goods	1.25%	5.44%	5.44%	0.04%	13.54%
Consumer Services	1.19%	5.93%	5.93%	0.67%	14.43%
Household & Personal Products	0.72%	4.45%	4.45%	5.33%	5.47%
Health Care Equip & Services	0.49%	5.94%	5.94%	3.53%	21.68%
Food & Staples Retailing	0.41%	-0.58%	-0.58%	1.40%	4.42%
Software & Services	0.37%	3.29%	3.29%	6.39%	44.92%
Pharmaceuticals, Biotech & Life Sciences	0.36%	2.78%	2.78%	0.33%	4.27%
Insurance	0.35%	1.21%	1.21%	-5.01%	8.96%
Telecom Services	0.31%	1.01%	1.01%	-3.89%	-6.82%
Materials	0.31%	4.98%	4.98%	-0.61%	35.02%
Media	0.30%	4.19%	4.19%	-0.07%	22.90%
Food, Beverage & Tobacco	0.14%	1.63%	1.63%	2.33%	14.98%
Semiconductors & Equipment	0.06%	1.00%	1.00%	-4.90%	36.65%
Commercial & Professional Services	-0.02%	4.13%	4.13%	1.24%	7.01%
Technology Hardware & Equipment	-0.09%	3.52%	3.52%	1.99%	55.43%
Energy	-0.21%	2.85%	2.85%	6.10%	12.40%
Utilities	-0.25%	1.62%	1.62%	-1.65%	-0.98%
Consumer Durables & Apparel	-0.28%	4.36%	4.36%	0.88%	29.36%
Banks	-0.37%	0.88%	0.88%	-2.88%	-8.81%
Diversified Financials	-0.52%	2.68%	2.68%	-4.68%	30.37%
Real Estate	-1.89%	-0.50%	-0.50%	-4.11%	5.43%

INTERNATIONAL ETFs

	Daily	WTD	MTD	QTD	YTD
Australia EWA	1.78%	4.36%	4.56%	1.46%	63.67%
Belgium EWK	0.93%	3.46%	3.58%	0.15%	49.03%
South Korea EWY	0.66%	3.64%	3.78%	-6.08%	59.10%
Singapore EWS	0.65%	3.68%	3.82%	1.21%	54.33%
Austria EWO	0.47%	4.91%	5.16%	-1.55%	65.90%
United Kingdom EWU	0.44%	4.15%	4.33%	4.19%	31.92%
Spain EWP	0.28%	3.25%	3.36%	0.16%	32.46%
Italy EWI	0.20%	4.05%	4.22%	-2.01%	22.03%
France EWQ	0.20%	4.63%	4.86%	-1.08%	22.74%
Germany EWG	0.05%	3.49%	3.62%	-1.94%	13.22%
Switzerland EWL	0.00%	2.11%	2.15%	0.55%	17.80%
Netherlands EWN	-0.05%	3.62%	3.76%	0.50%	34.99%
Canada EWC	-0.08%	4.22%	4.40%	-2.28%	42.86%
China 25 FXI	-0.09%	5.59%	5.92%	7.94%	51.84%
MSCI Emerging Markets EEM	-0.13%	5.25%	5.54%	1.90%	58.79%
Taiwan EWT	-0.17%	3.97%	4.13%	-1.87%	59.29%
Sweden EWD	-0.21%	3.33%	3.45%	4.83%	56.11%
Hong Kong EWH	-0.25%	1.77%	1.80%	1.87%	52.46%
Latin America ILF	-0.32%	6.65%	7.13%	7.53%	81.15%
Brazil EWZ	-0.39%	7.47%	8.08%	9.98%	112.60%
BRIC EEB	-0.41%	6.60%	7.06%	6.68%	79.86%
Malaysia EWM	-0.46%	2.78%	2.86%	6.41%	48.01%
Mexico EWW	-0.49%	3.35%	3.46%	3.27%	39.79%
Japan EWJ	-0.62%	0.73%	0.73%	-3.22%	0.42%
Vietnam VNM	-0.86%	0.52%	0.53%		

The S&P 500 has rebounded from oversold levels up to the 20-sma (green) and the lower trend line of the bearish rising wedge. A move below the 11/2 low of 1029.38 would have very bearish implications.

The weekly chart of the S&P 500 shows it bounced off the 80-week moving average. Still, this was the second week with a lower high and lower low.

A negative crossover from the MACD at a high level would be a red flag.

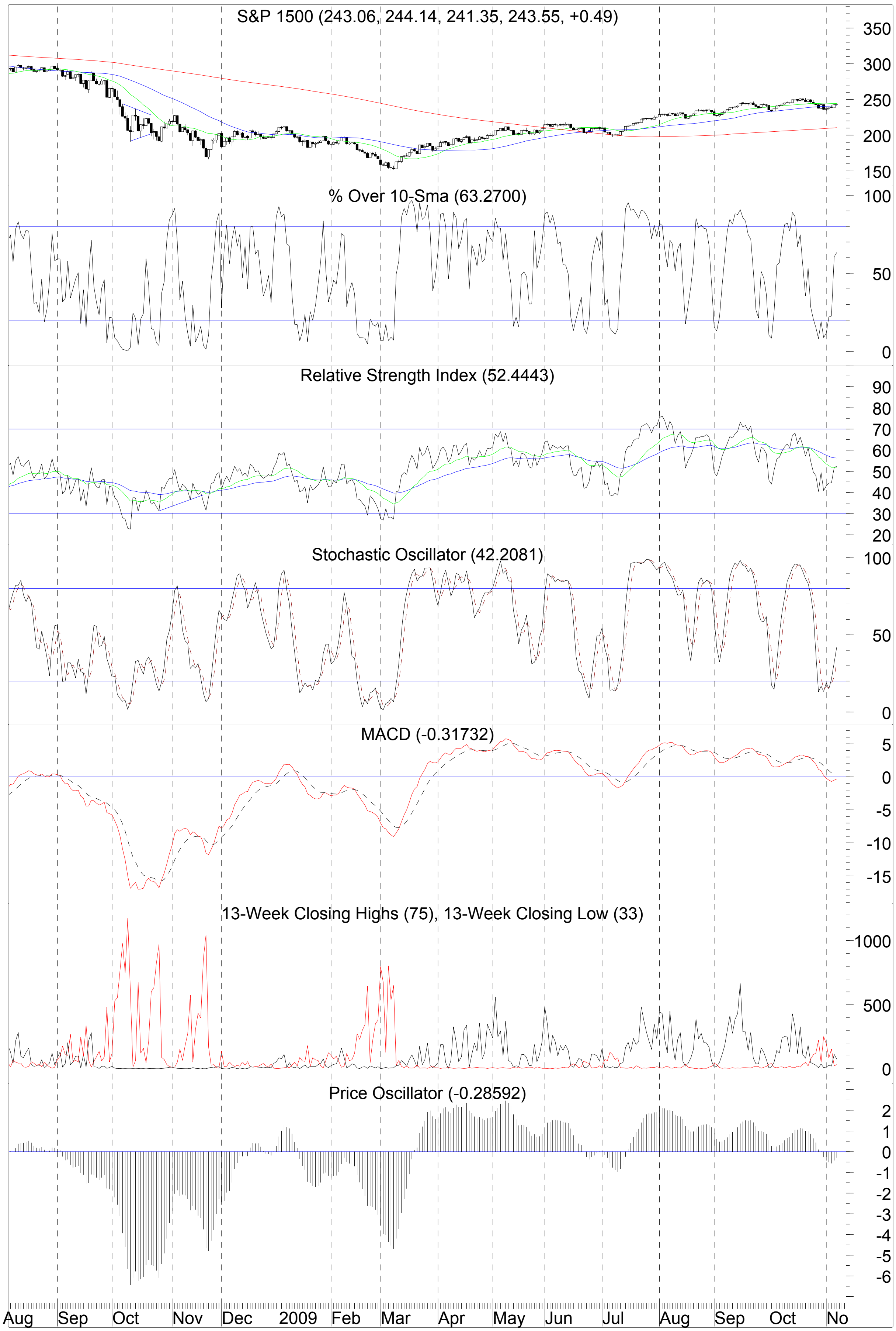
The Nasdaq 100 bounced from oversold levels at support and closed Friday above its 20-sma.

Daily momentum indicators are still at low levels.

The weekly chart of the Nasdaq 100 shows it bounced at support. Still, it printed a lower high and lower low for the second week in a row.

Weekly momentum indicators have turned down from high levels.

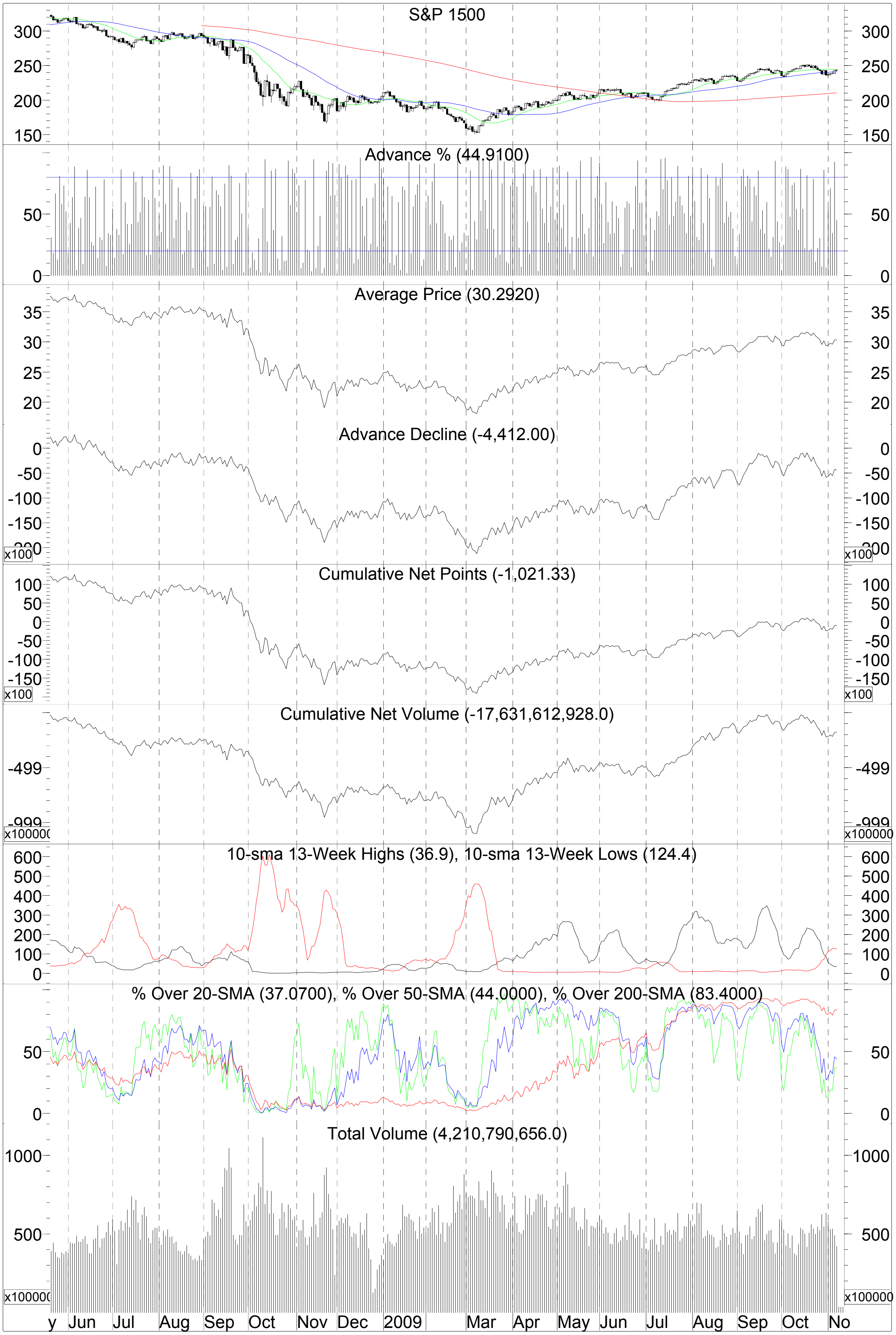
Here too a negative crossover from the MACD at high levels would be a red flag.



63.27% of stocks traded higher Friday.

Momentum indicators remain at low levels.

Our price oscillator, a good indicator of trends, remains slightly in negative territory.

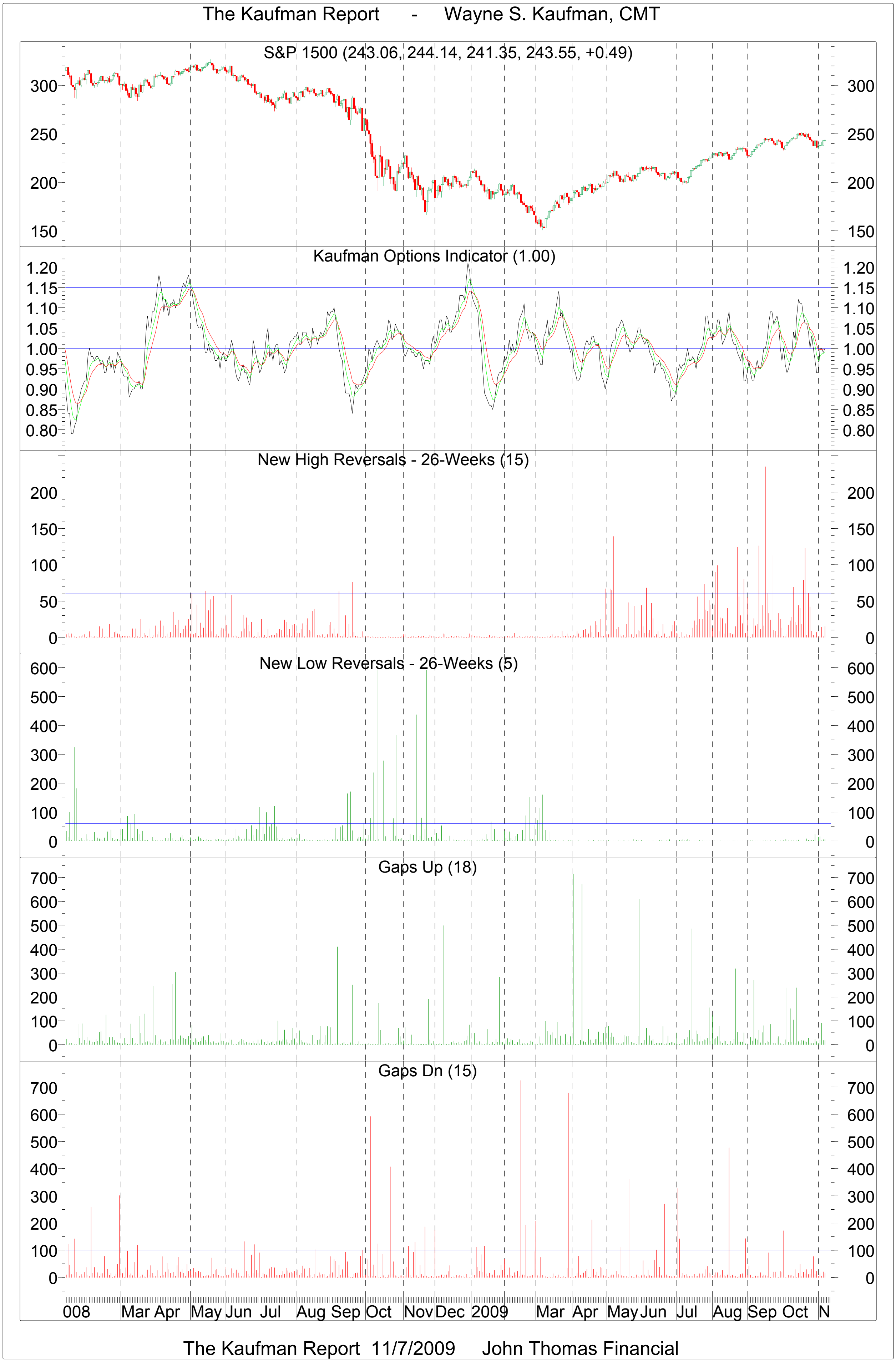


44.91% of stocks advanced Friday.

The 10-week average of 13-week closing lows remains above the average of 13-week closing highs.

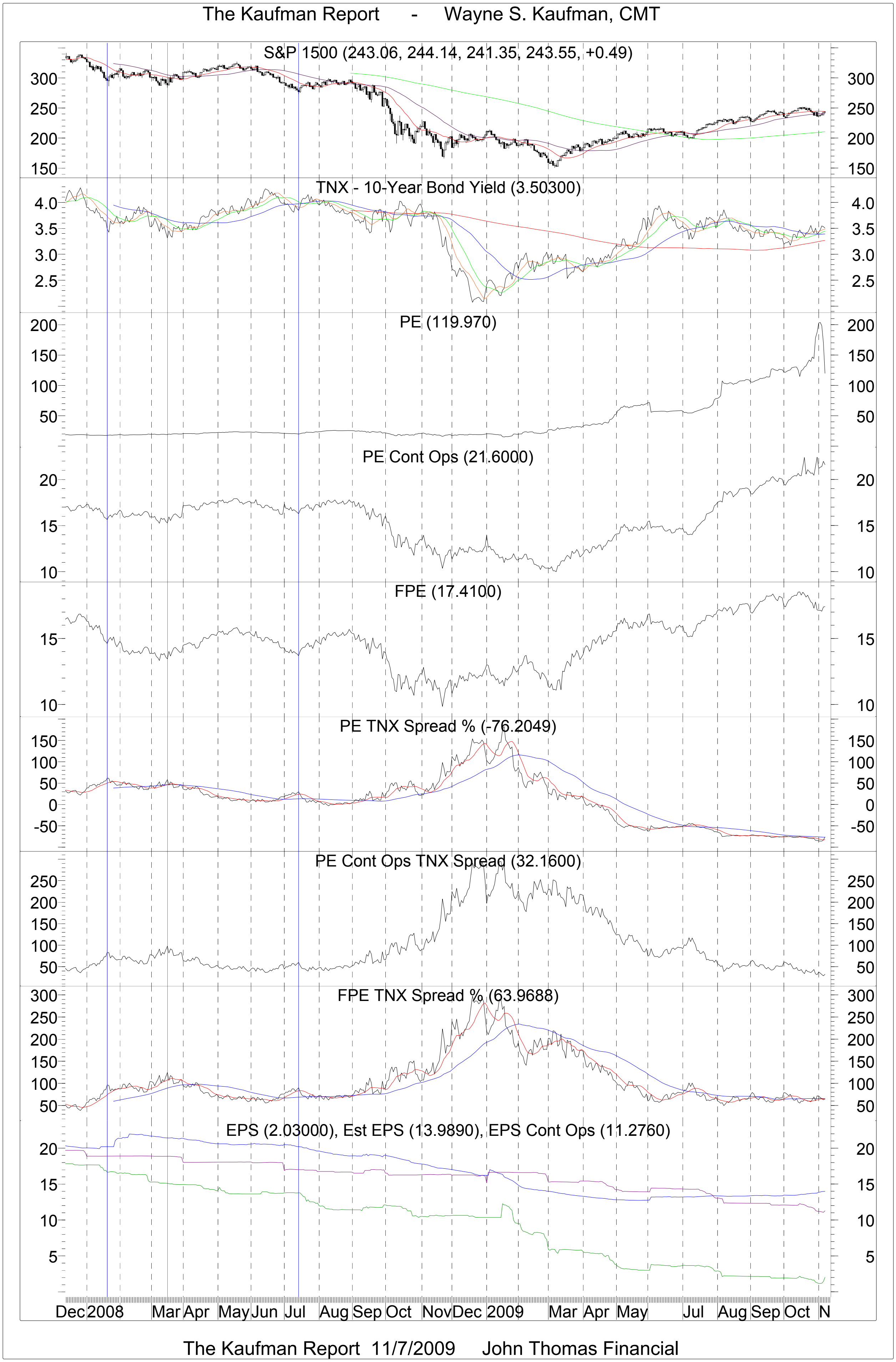
The percent over 20 and 50-sma each bounced from the levels they reached in July.

Volume dropped last week.



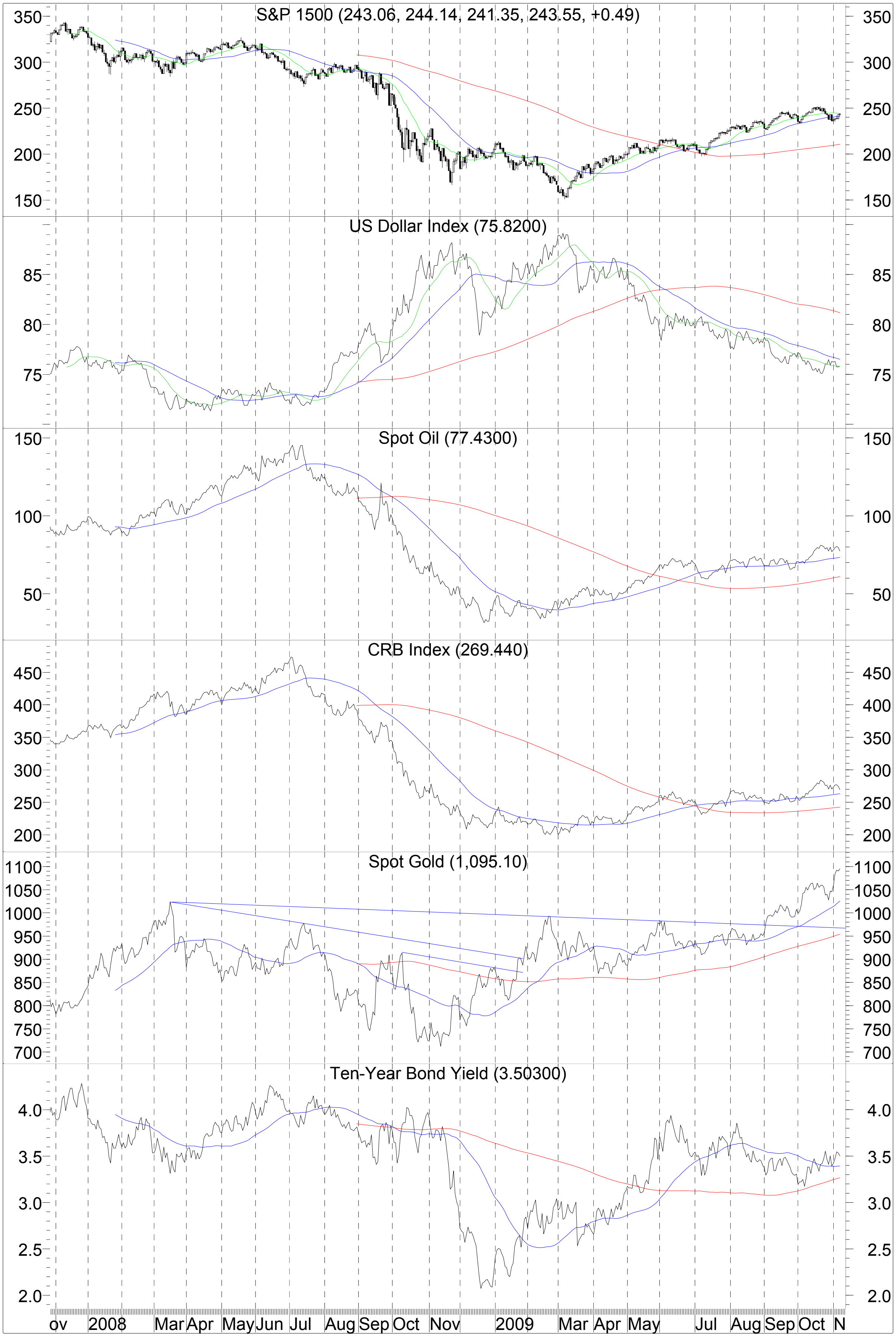
Our options indicator is at the neutral line.


Up Volume 10-sma (2,278,050,048.0), Down Volume 10-sma (3,046,778,624.0)
Up Volume 20-sma (2,263,959,040.0), Down Volume 20-sma (2,786,151,424.0)
Up Volume 50-sma (2,456,957,184.0), Down Volume 50-sma (2,577,670,656.0)
Up Points 10-sma (391.920), Down Points 10-sma (498.920)
Up Points 20-sma (375.310), Down Points 20-sma (425.300)
Up Points 50-sma (376.470), Down Points 50-sma (351.160)
Up Dollars 10-sma (107,211,984.0), Down Dollars 10-sma (140,828,624.0)
Up Dollars 20-sma (95,997,016.0), Down Dollars 20-sma (113,887,464.0)
Up Dollars 50-sma (94,052,440.0), Down Dollars 50-sma (91,583,424.0)
x100000
2007 2008 Mar Apr May Jun Jul Aug Sep Oct Nov 2009 Mar Apr May Jul Aug Sep Oct N



Spreads between equity and bond yields have been flat lining for months.

Projected earnings have continued the slow ascent they began in May.



The uncanny inverse correlation between stocks and the U.S. Dollar Index remains intact.

The U.S. Dollar Index closed just above its 20-sma and below its 50-sma (blue).

Crude oil is showing a little weakness and is just above support.

Gold continues to follow through on its recent breakout and is making all-time highs. There is an inverse head & shoulders pattern that targets the 1300 area.