

Tuesday October 14, 2008

Closing prices of October 13, 2008

A historically oversold condition for stocks finally gave way to a huge rally as stocks leaped to their biggest gains in seven decades. All ten S&P sectors were up over 7%, with eight of them up over 10%. The MSCI World Index, created in 1970, had the biggest increase in its history.

It was a 90% up day, which coming after multiple 90% down days is usually a signal that a multi-week or multi-month rally may be getting under way. However, in these historic times traders need to be mindful of risk management.

There is still room for stocks to trade higher before hitting significant resistance, but in the very short-term they will get overbought soon. Traders should also keep in mind that this is an options expiration week, and the action early in the week can change dramatically towards the end.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$11.91, a drop of 37.9%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$18.56, a drop of only 15.44%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.* The earnings numbers jumped up recently as Lehman, Fannie and Freddie were unceremoniously kicked out of the S&P indexes, highlighting the old expression that sometimes less is more. *We are waiting for GM to be kicked out of the Dow.*

37 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 67.6% have had positive surprises, 7.2% have been in line, and 25.2% have been negative. The year-over-year change has been -22.8% on a share-weighted basis, -40.0% market cap-weighted, and +14.6% non-weighted. Ex-financial stocks these numbers are 4.3%, 5.0%, and 93.1%, respectively.

Federal Funds futures are pricing in an 86.0% probability that the Fed will *cut rates 25 basis points to 1.25%*, and a 14.0% probability of *cutting 50 basis points to 1.00%* when they meet on October 29th. They are pricing in a 62.7% probability that the Fed will *cut rates 25 basis points to 1.25%* at the meeting on December 16th, and a 33.5% probability of *cutting 50 basis points to 1.00%*.

The S&P 1500 (228.14) was up 11.375% Monday. Average price per share was up 9.77%. Volume was 96% of its 10-day average and 103% of its 30-day average. 94.52% of the S&P 1500 stocks were up on the day. Up Dollars was 585% of its 10-day moving average and Down Dollars was 1/5 of 1% of its 10-day moving average.

Options expire this week on October 17th. November options expire November 21st.

IMPORTANT DISCLOSURES

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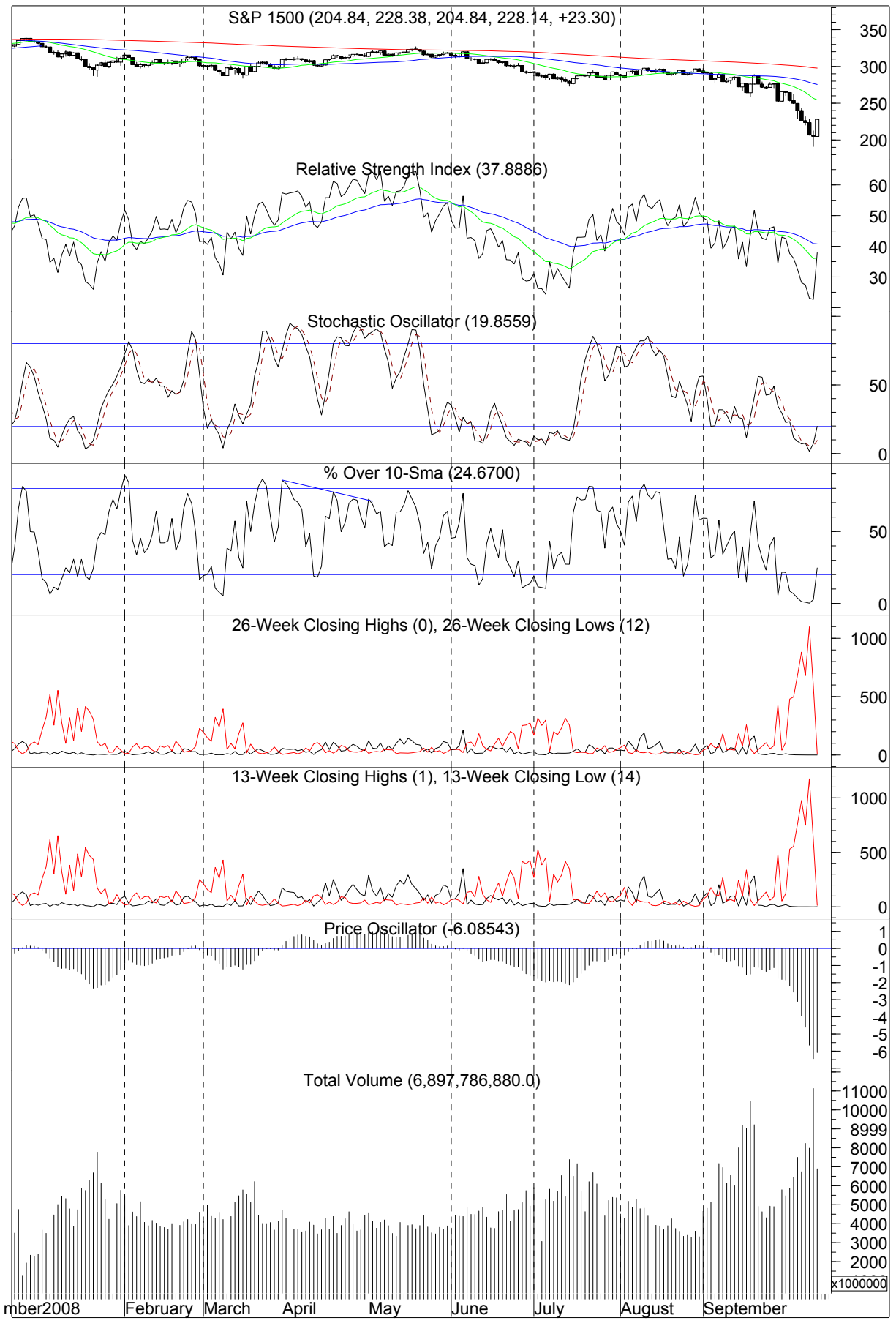
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S&P 1500 (204.84, 228.38, 204.84, 228.14, +23.30)



An incredibly oversold condition finally gave way to the most explosive rally in decades. There is room to move higher before significant resistance comes into play, although in the very short-term stocks will be overbought soon.

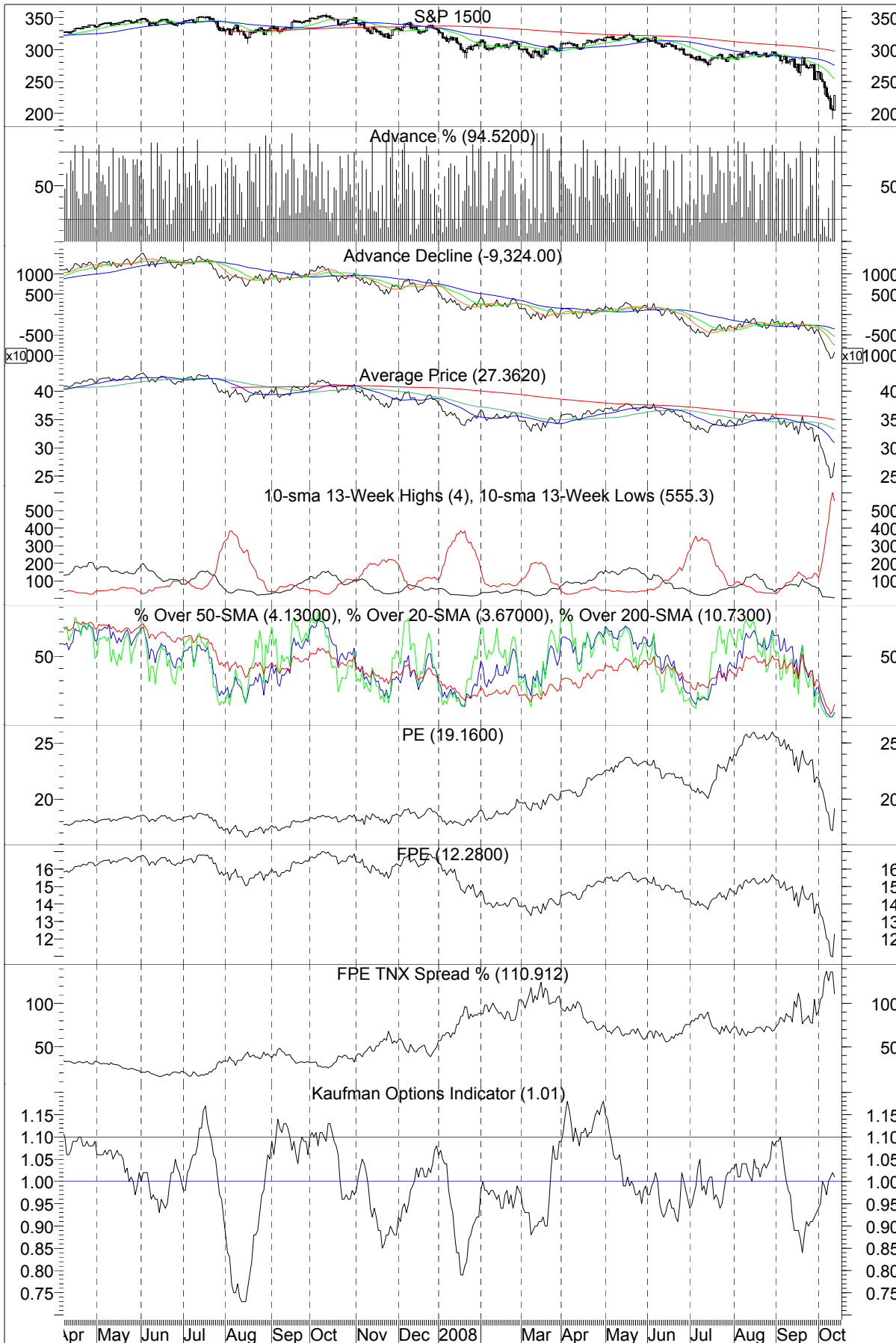
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Our oscillators reached extreme oversold levels and still have a lot of room to move higher.

Our price oscillator is still deeply oversold.

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94.52% of stocks traded higher Monday.

The percent of stocks over the 20, 50, and 200-day moving averages is still very low.

The forward P/E is still very low.

Our proprietary options indicator is about neutral. We will be watching for too much bullishness.