

Tuesday April 21, 2009

Closing prices of April 20, 2009

On Sunday we said that stocks had arrived at the mother of all inflection points. The S&P 500 index was almost exactly at the apex of a bearish rising wedge and on Friday it entered an important resistance zone at 875 – 878 before pulling back at the close. On Monday it broke decisively through the support line of the bearish rising wedge. It was a broad sell off just missing a 90% panic-selling down day. Financials led the way again, down 11.42%. Since Financials have been the leader of the recent rally, can the rally continue without them? We have been recommending that investors play the long side of this rally while keeping stops tight and being careful with entry points. **With short-term momentum indicators turning down from high levels investors should be defensive at this time.** The “V” bottom stocks made in March came after the “omigod everyone’s going out of business” decline to the “omigod everyone’s not going out of business” rally. Now the question is fair valuation. Based on aggregate earnings before charges, stocks are overvalued. Based on earnings from continuing operations (after charges) and analysts forecasts stocks are cheap. Are the charges really one-time? Will the analysts finally start getting it at least nearly correct? If so, the recent rally is justified and a pullback should not be too deep. **If not, that’s what stop loss orders are for, and they should be kept tight.**

The short-term and intermediate-term trends are up, while the long-term trend remains down. This continues to be an opportunistic trader’s market, with adept traders able to take advantage long or short. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

The S&P 1500 (189.36) was down 4.412% Friday. Average price per share was down 4.86%. Volume was 119% of its 10-day average and 107% of its 30-day average. 3.54% of the S&P 1500 stocks were up, with up volume at 12.81% and up points at 1.57%. Up Dollars was 6/100 of 1% of total dollars, and was 1/4% of its 10-day moving average. Down Dollars was 410% of its 10-day moving average. The index is up 4.625% in April, up 4.625% quarter-to-date, down 7.60% year-to-date, and down 46.87% from the peak of 356.38 on 10/11/07. Average price per share is \$23.15, down 46.45% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 85.00%. 13-Week Closing Highs: 12. 13-Week Closing Lows: 13.

Put/Call Ratio: 0.919. Kaufman Options Indicator: 1.03.

P/E Yield 10-year Bond Yield Spreads: -1% (earnings before charges), 172% (earnings continuing ops), and 142% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and **are now at \$5.33, a drop of 72.21%**. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and **are now \$15.35, down 23.06%**. Estimated aggregate earnings peaked at \$21.95 in February 2008 and **are now \$13.02, a drop of 40.68%**.

68 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 64.7% had positive surprises, 7.4% were in line, and 27.9% have been negative. The year-over-year change has been -5.2% on a share-weighted basis, -1.3% market cap-weighted and -21.3% non-weighted. **Ex-financial stocks these numbers are -18.5%, -0.7%, and -16.3 %, respectively.**

Federal Funds futures are pricing in a probability of 74.0% that the Fed will **leave rates unchanged**, and a probability of 26.0% of **cutting 25 basis points to 0.0%** when they meet on April 29th. They are pricing in a probability of 67.3% that the Fed will **leave rates unchanged** on June 24th, a probability of 22.4% of **cutting 25 basis points to 0.0%**, and a probability of 10.3% of **raising 25 basis points.**

IMPORTANT DISCLOSURES

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Economic News

4/20/09 – Leading Indicators for March were -0.3% versus the -0.2% estimate. They have not risen in the past nine months. Coincident Indicators were -0.4%, and Lagging Indicators were -0.4%. Of the ten indicators making up the leading index, three were positive. Those were real, in order of contribution, money supply, interest rate spread, and consumer expectations. Negative were building permits, stocks prices, supplier deliveries, average weekly manufacturing hours, average weekly unemployment claims, and new orders for non-defense capital goods.

4/17/09 – The University of Michigan Confidence number came in at 61.9 versus the 58.5 estimate. March was 57.3.

4/16/09 – **Initial Jobless Claims for w/e 4/11 were 610K versus the 660K estimate. This was the lowest number since January.** Continuing Claims were a record 6,022K versus the 5,893K estimate. Housing Starts for March were 510K annualized versus the 540K estimate. **Single family homes were started at a 358K annual rate, the same rate as the prior month.** Building Permits were 513K versus the 549K estimate. The Philadelphia Fed Index for April was -24.4 versus the -32.0 estimate.

4/15/09 – MBA Mortgage Applications for w/e 4/10 were -11%. The prior week was +4.7%. Consumer Price Index for March MoM was -0.1% versus the +0.1% estimate. Ex Food & Energy it was +0.2% versus the +0.1% estimate. **CPI YoY was -0.4% versus the -0.1% estimate, the first annual decline since 1955.** Ex Food & Energy YoY it was +1.8% versus the +1.7% estimate. Empire Manufacturing Index for April was -14.65, better than the -35.00 estimate and the March -38.23, which was the lowest since 2001. Net Long-term TIC Flows for February were \$22.0 billion versus the \$14.0 billion estimate and January's -\$43.0 billion as international investors bought long-term securities, mostly notes and bonds. Total Net TIC Flows were -\$97.0 billion versus January's -\$148.9 billion. Industrial Production for March was -1.5% versus the -0.9% estimate and February's -1.5%. **Capacity Utilization for March was 69.3%, the lowest ever, versus the 69.6% estimate and February's 70.9%.** NAHB Housing Market Index for April came in at 14 versus the estimate of 10 and March's 9.

4/14/09 – Producer Price Index for March MoM was -1.2% versus the 0.0% estimate. Ex Food & Energy it was 0.0% versus the 0.1% estimate. YoY the PPI was -3.5% versus the -2.2% estimate. Ex Food & Energy it was +3.8% versus the +4% estimate. Advance Retail Sales for March were -1.1% versus the +0.3% estimate. Retail Sales Less Autos was -0.9% versus the 0.0% estimate. Business Inventories for February were -1.3% versus the -1.2% estimate, the sixth consecutive monthly decrease. At the current rate of sales there is 1.43 months of inventory, the lowest since November. ABC Consumer Confidence for w/e 4/12 was -51 versus the -50 estimate and the prior -50.

4/11/09 – China's bank loans increased more than six-times versus one year ago and money supply grew 25.5% in a sign that the government's stimulus plan was beginning to have an effect.

4/10/09 – The Monthly Budget Statement for March showed a deficit of \$192.3 billion versus the estimate of -\$165.0 billion as tax payments dropped and the government spent more to reeve the economy. The deficit for the first six months of this fiscal year already exceeds the record set in the entire prior year.

4/9/09 – The Trade Balance for February was -\$26.0 billion versus the -\$36.0 billion estimate and January's -\$36.2 billion. **It was the smallest trade gap since November 1999, the smallest with China in three years, and the smallest with Japan since 1984.** The Import Price Index for March MoM was 0.5%, the first rise in eight months, versus the 0.9% estimate. **YoY it was -14.9%, the biggest drop on record, versus the -14.7% estimate.** Excluding energy prices fell for the third straight month, down 0.7%. Initial Jobless Claims for w/e 4/4 were 654K versus the 660K estimate and down from the prior 674K. Continuing Claims for w/e 3/28 were a record 5,840K versus the 5,810K estimate and the prior 5,745K. U.S. March ICSC Chain Store Sales YoY in March were -2.1% versus the -0.8% estimate.

4/8/09 – MBA Mortgage Applications for w/e 4/3 rose 4.7% for the fifth straight gain and above the prior +3.0%. Wholesale Inventories for February dropped 1.5%, more than the -0.7% estimate and the -0.7% in January. Sales at U.S. wholesalers rose for the first time in since June and contributed to the inventory drop. At the current sales pace distributors have 1.31 months of inventory on hand, the lowest since November. **Stockpiles of durable goods fell 1.2%, the biggest decline on record, as durable sales climbed 2%, the most since April 2008.**

Economic News

4/7/09 – IBD/TIPP Economic Optimism for April was reported at 49.1 versus the estimate of 45.8 and above the prior 45.3. Consumer Credit for February was -\$7.5 billion versus the -\$3.0 billion estimate and down from the \$8.1 billion increase in January. ABC Consumer Confidence for w/e 4/5 was -50 versus the -49 estimate and the prior -49.

4/3/09 – Nonfarm Payrolls for March lost 663K jobs versus the 660K estimate and up from the prior 651K for February. Unemployment for March came in as expected at 8.5%, up from 8.1% in February and the highest level since 1983. Manufacturing Payrolls for March were -161K versus the estimate of -162K, and slightly better than February's -169K. Average Hourly Earnings for March MoM were in line at +0.2%, while YoY they were +3.4% versus the +3.5% estimate. Average Weekly Hours for March were 33.2 versus the 33.3 estimate. The ISM Non-Manufacturing Composite for March was 40.8 versus the 42.0 estimate.

4/2/09 – Initial Jobless Claims for w/e 3/28 were 669K versus the estimate of 650K. Continuing Claims for w/e 3/21 were 5,728K versus 5,590K. Factory Orders for February were up 1.8% versus the estimate of +1.5%, the first increase in seven months. Excluding transportation equipment orders rose 1.6%.

4/1/09 – MBA Mortgage Applications for w/e 3/27 were +3% from the prior week, rising for the fourth consecutive week as 30-year fixed mortgage rates fell to a record low 4.61%. Challenger Job Cuts YoY for March was up 180.7%. ADP Employment Change report for March showed a loss of 742K jobs versus the -663K estimate and up from -706K in February. ISM Manufacturing for March came in at 36.3 versus the estimate of 36 for a third consecutive increase, while ISM Prices Paid was 31.0 versus the estimate of 33.0. Construction Spending MoM for February was -0.9% versus the estimate of -1.9%. Pending Home Sales MoM for February was up 2.1% versus an estimate of 0.0%. Pending Home Sales is considered a leading indicator. Total Vehicle Sales for March were 9.9 million versus the estimate of 9.2 million, while Domestic Vehicle Sales for March were 7.1 million versus the 6.5 million estimate.

3/31/09 – S&P/CaseShiller Home Price Index for January was 146.40 versus the 147.20 estimate and down from December's 150.56. The S&P/CaseShiller Composite-20 Index for January showed a YoY decline of 18.97% versus the -18.60 estimate December's -18.60%. This was the fastest drop on record for home prices in 20 U.S. cities. All 20 cities showed decreases led by -35% in Phoenix and -32.5% in Las Vegas. Chicago Purchasing Manager Index for March was 31.4 versus the 34.3 estimate and February's 34.2. Consumer Confidence for March came in at 26.0 versus the 28.0 estimate and February's 25.3. February's number was the lowest since records began in 1967. The Milwaukee Purchasing Manager's Index for March was 30.0, up from February's 29.0.

3/30/09 – Dallas Fed Manufacturing Activity for March was -49% versus the estimate of -52%, and an improvement from February's -57.3%.

3/27/09 – Personal Income in February was -0.2% versus the -0.1% estimate. Personal Spending was +0.2% matching estimates, but lower than January's +0.6%. The PCE Deflator YoY was +1% versus the +0.8% estimate. PCE Core MoM was +0.2%, matching estimates. PCE Core YoY was +1.8% versus the +1.6% estimate. University of Michigan Confidence for March was 57.3 versus the 56.8 estimate.

3/26/09 – Fourth quarter GDP was -6.3% annualized versus the -6.6% estimate. 4Q Personal Consumption was -4.3% versus the -4.4% estimate. The GDP Price Index was +0.5%, matching estimates and, and Core PCE QoQ was +0.9% versus the +0.8% estimate. Initial Jobless Claims were reported at 652K versus the 650K estimate. Continuing Claims were 5,560K versus the 5,475K estimate.

3/25/09 – Durable Goods Orders for February were +3.4% versus the -2.5% estimate, the biggest gain in over a year and the first in seven months. Ex-transport it was +3.9% versus the -2.0% estimate. Durable Goods inventories fell 0.9% after dropping 1.1% in January, the biggest two-month drop since 2003. Mortgage Applications for w/e 3/20 were +32.2% over the prior week, the third straight increase. Refinances were up 42%. New Home Sales in February were +4.7% from January to 337K annualized versus the -2.9% estimate. The median sale price fell 18% YoY, the biggest drop since records began in 1964.

3/24/09 – The House Price Index for January was up 1.7% month-over-month versus the estimate of down 0.9%. The Richmond Fed manufacturing Index for March was -20 versus the -50 estimate. The ABC News U.S. Weekly Consumer Confidence Index for March 22nd was -49 versus -47 the week before.

S&P 500 Cash (868.27, 868.27, 832.39, 832.39, -37.21)

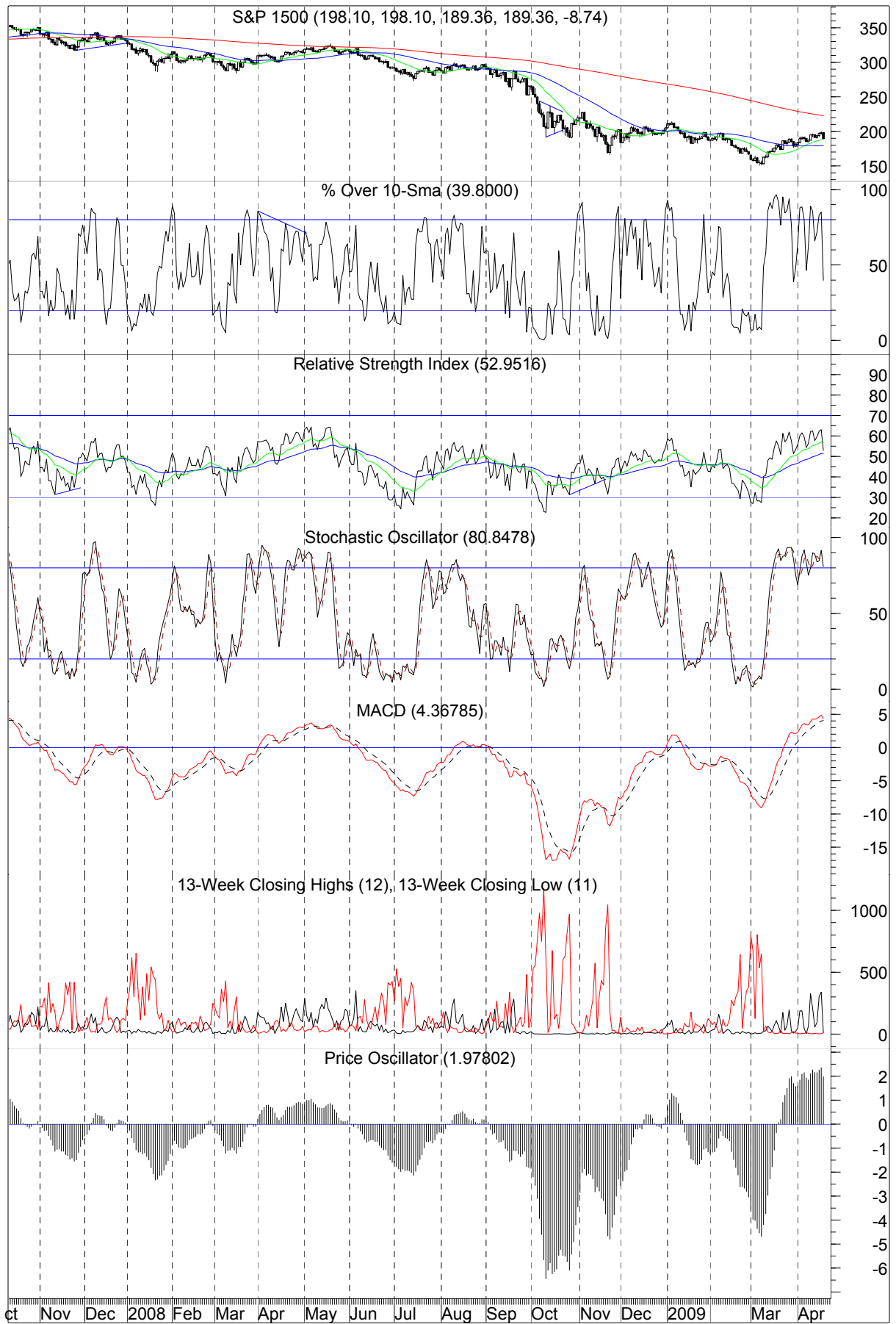


The S&P 500 broke decisively through the support line of the bearish rising wedge Monday. It is just above the 20-sma (green). With momentum indicators turning down from high levels investors need to be defensive.

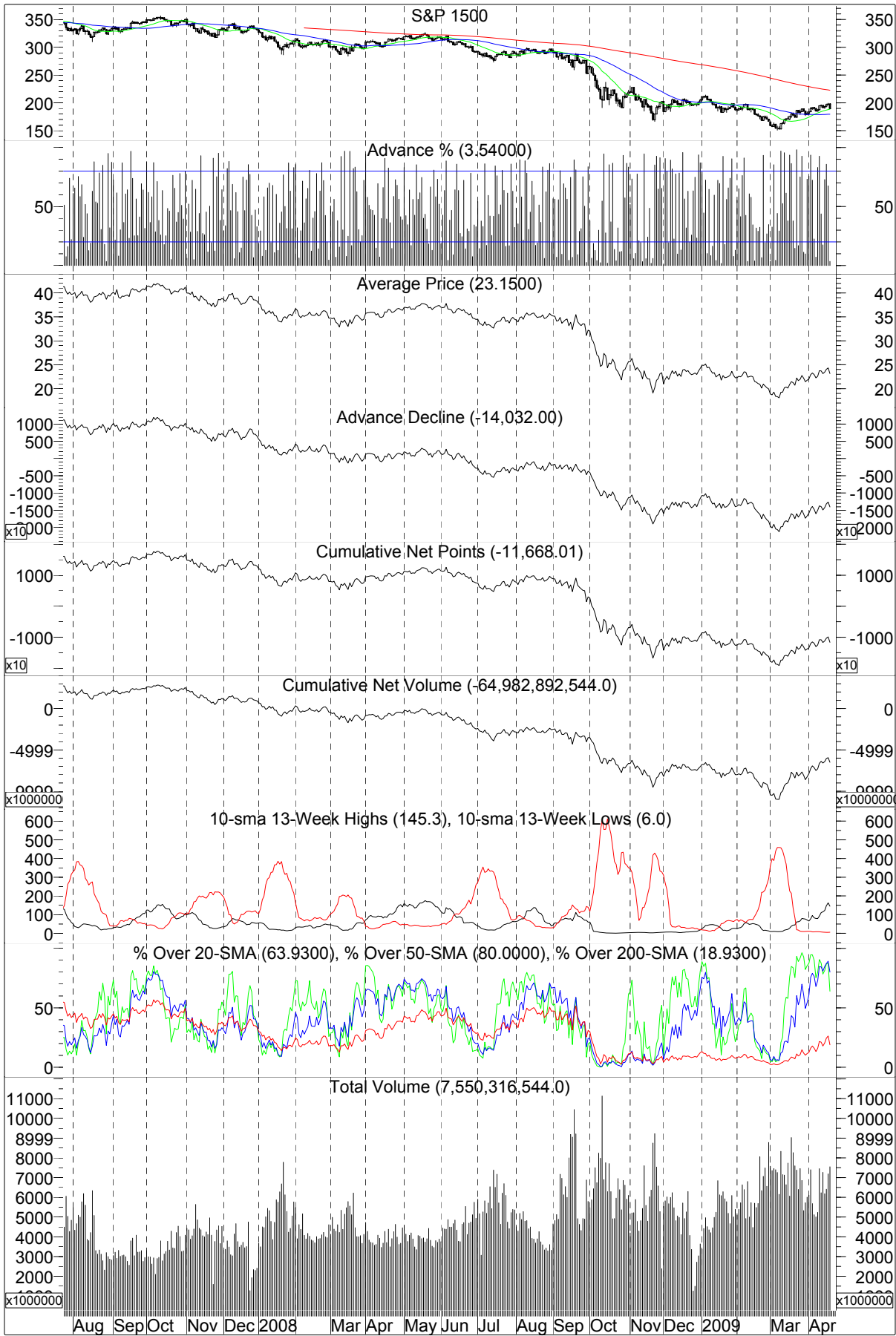
NASDAQ 100 (1,330.18, 1,333.72, 1,303.85, 1,309.37, -44.55)



The Nasdaq 100 gapped down bearishly at the open Monday and kept going. It is still above the top of the recent sideways channel and the 20-sma (green) which is at 1290. However, with momentum indicators turning down from high levels investors should be defensive.



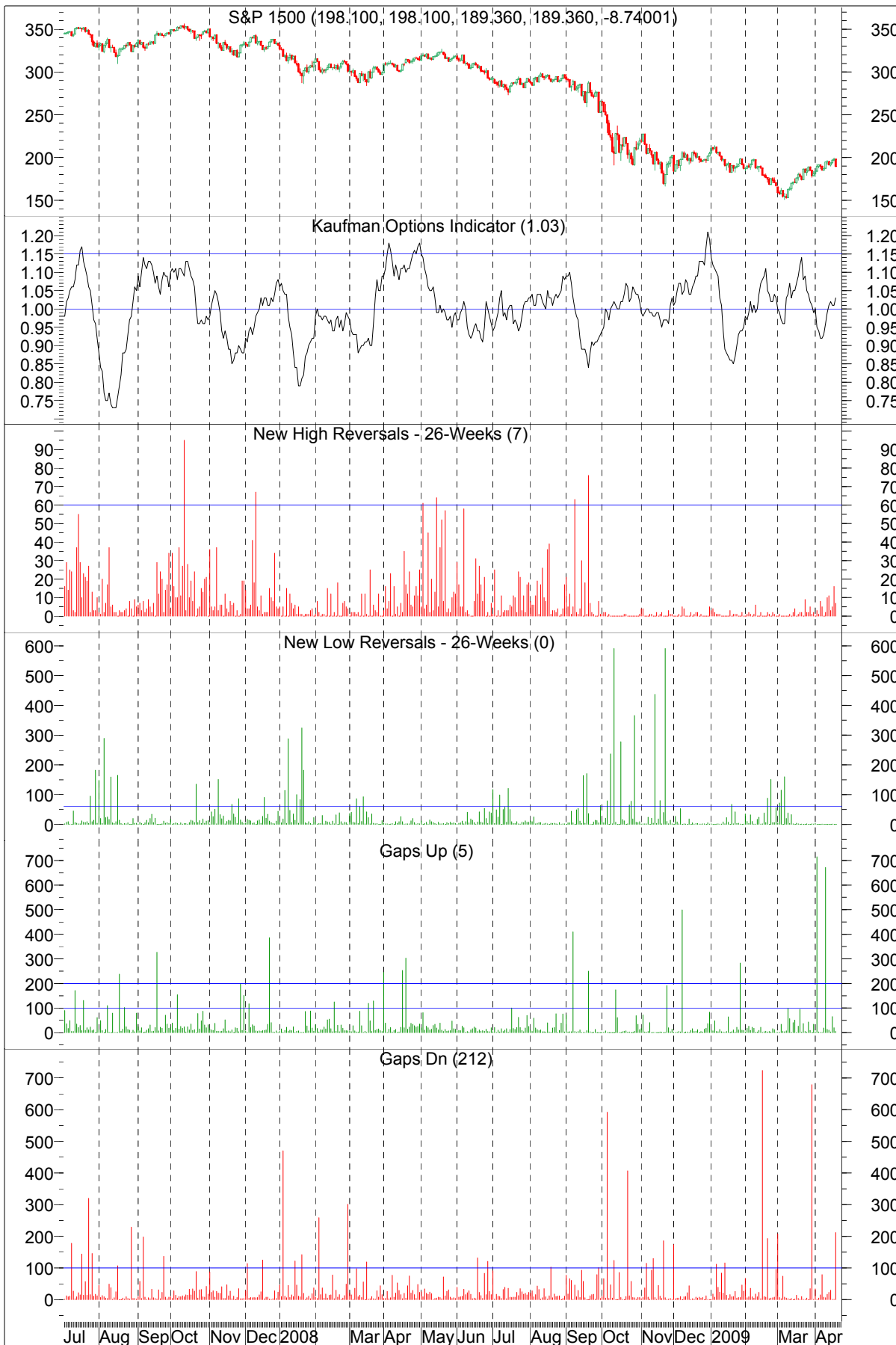
Our momentum indicators are dropping from high levels and are not oversold.



3.54% of the S&P 1500 traded higher Monday.

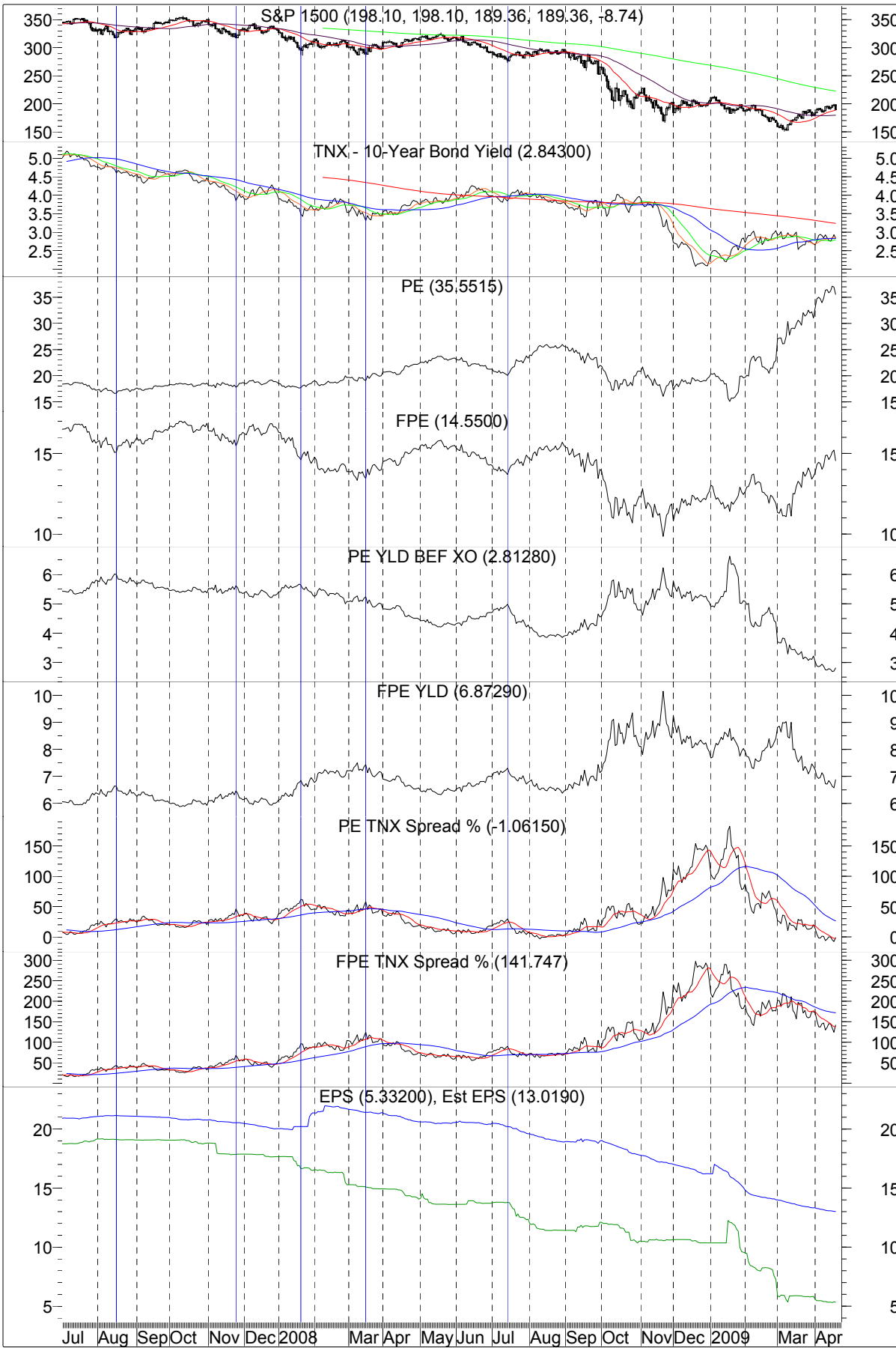
Volume expanded during Monday's sell off.

The Kaufman Report - Wayne S. Kaufman, CMT



Our proprietary options indicator is well above the area where bottoms are usually made.

212 stocks gapping down is a number that usually precedes lower prices.



P/E ratios are coming down from high levels.

Spreads are at low levels.