

Monday December 1, 2008

Closing prices of November 28, 2008

Stocks rallied broadly in the traditionally strong Thanksgiving holiday week. For the week the S&P 1500 index was up 12.46%, and its five-day 19.5% winning streak is the best in decades. We believe the low is in for 2008. Reported aggregate earnings haven't moved lower since 10/27, and with third-quarter earnings season 97% over this number shouldn't move too much until January. This should help keep valuations between equity and bond yields at levels where stocks should be attractive. Therefore, we are cautiously optimistic while we gauge the potential upside of this rally, while keeping in mind that in an environment of bad news there can at times be sharp pull backs, and there may still be liquidations of hedge and mutual funds.

The S&P 1500 (202.42) was up 0.968% Friday. Average price per share was up 0.88%. Volume was 38% of its 10-day average and 41% of its 30-day average. 65.34% of the S&P 1500 stocks were up on the day, with up volume at 69.8% and up points at 70.7%. Up Dollars was 88.8% of total dollars, and was 58% of its 10-day moving average while Down Dollars was 9% of its 10-day moving average. The index is down 7.79% month-to-date, down 23.89% quarter-to-date, down 38.92% year-to-date, and down 43.2% from the peak of 356.38 on 10/11/07. Average price per share is \$23.33, down 46.03% from the peak of \$43.23 on 6/4/2007.

The Put/Call Ratio was 1.45. The Kaufman Options Indicator was 1.03.

The spread between the reported earnings yield and 10-year bond yield is 77% and 185% based on projected earnings. These are unheard of levels.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$10.61, a drop of 44.68%, and have been moving sideways since 10/27. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$17.06, a drop of only 22.28%. Analysts have obviously been very late in lowering estimates. If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.

486 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.5% have had positive surprises, 9.3% have been in line, and 32.2% have been negative. The year-over-year change has been -18.3% on a share-weighted basis, +5.4% market cap-weighted, and -2.3% non-weighted. Ex-financial stocks these numbers are 10.2%, 23.8%, and 16.5%, respectively.

Federal Funds futures are pricing in an 68.0% probability that the Fed will cut rates 50 basis points to 0.50%, and a 32.0% probability of cutting 75 basis points to 0.25% when they meet on December 16th. They are pricing in a 66.7% probability that the Fed will cut rates 50 basis points to 0.50% on January 28th, and a 25.0% probability of cutting 75 basis points to 0.25%.

The short-term trend is up, while the intermediate and long-term trends remain down. We reiterate that this continues to be an opportunistic trader's market, with adept traders able to take advantage long or short, but the primary downtrend must still be respected. Investors should not hesitate to move out of laggard sectors and stocks and into leaders.

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S&P 1500 Analysis - Wayne S. Kaufman, CMT

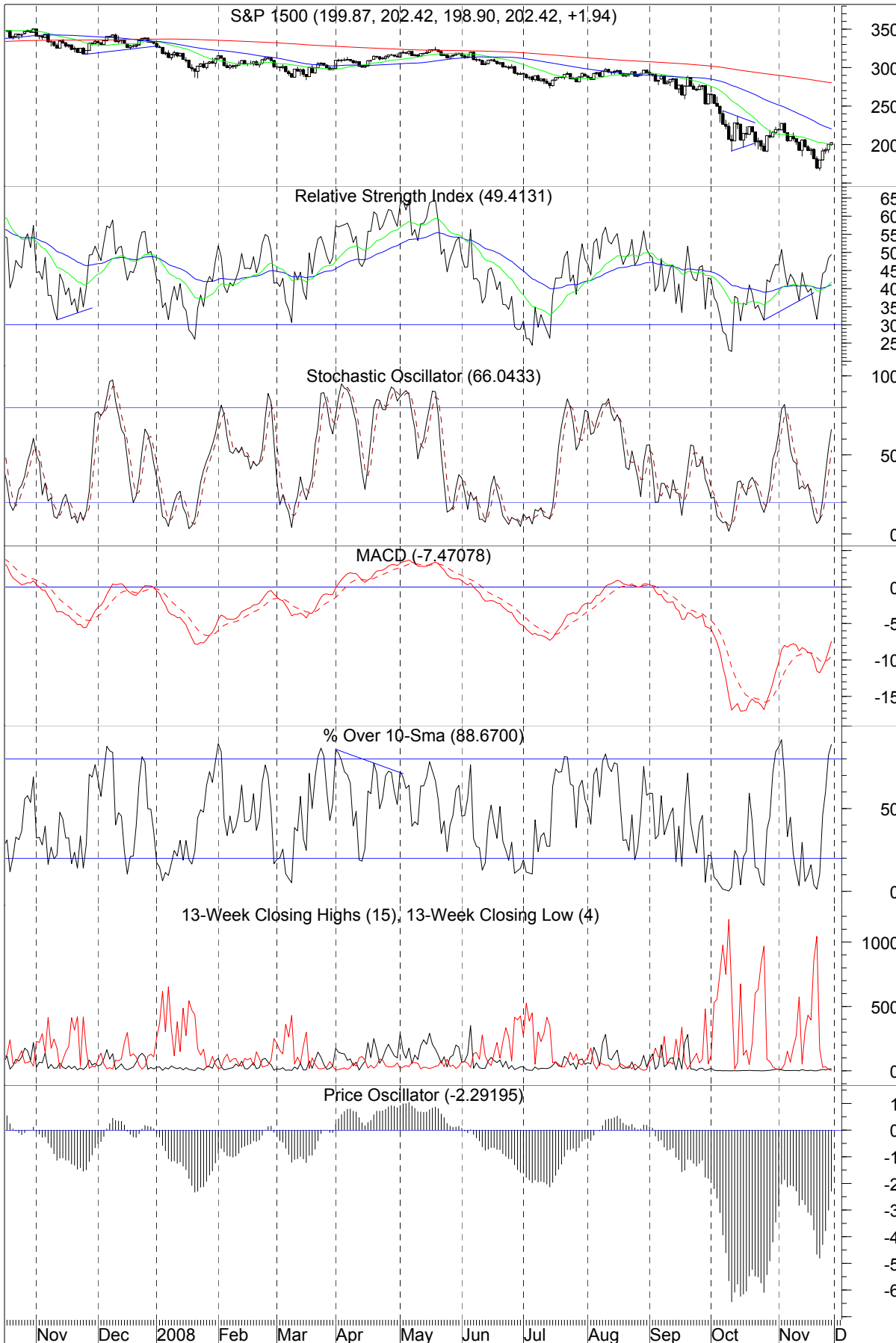
S&P 1500 (199.87, 202.42, 198.90, 202.42, +1.94)



After a terrific five-day winning streak the S&P 1500 broke above the 20-sma (green) and is short-term overbought nearing resistance.

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S&P 1500 (199.87, 202.42, 198.90, 202.42, +1.94)



The RSI is at the level where it has topped twice recently.

The stochastic is not yet overbought.

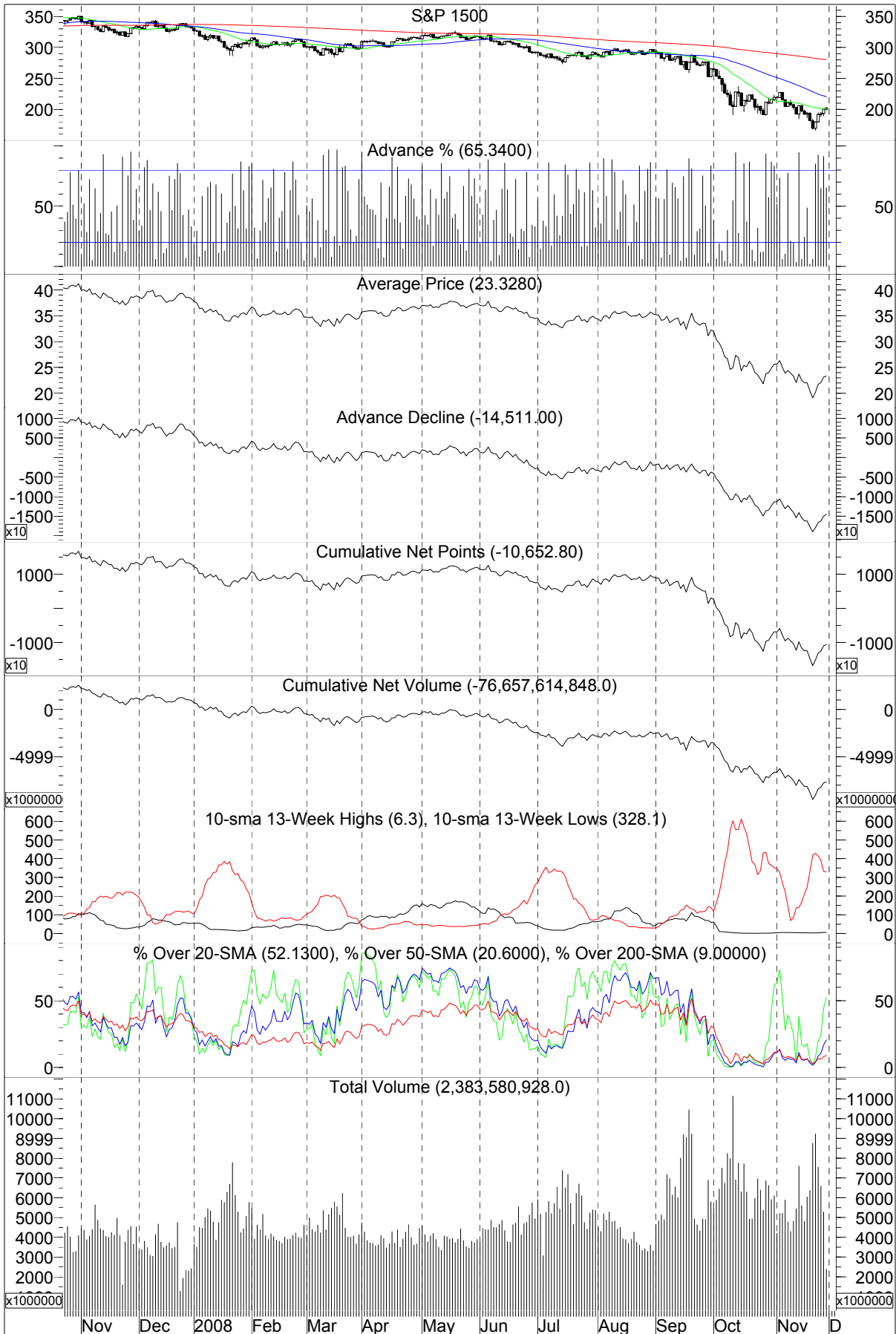
The MACD just had a positive crossover.

The percent over 10-sma is at a very overbought 88.67%.

13-week closing highs are greater than lows for the first time since September.

Our price oscillator has been in negative territory for a long time and remains there.

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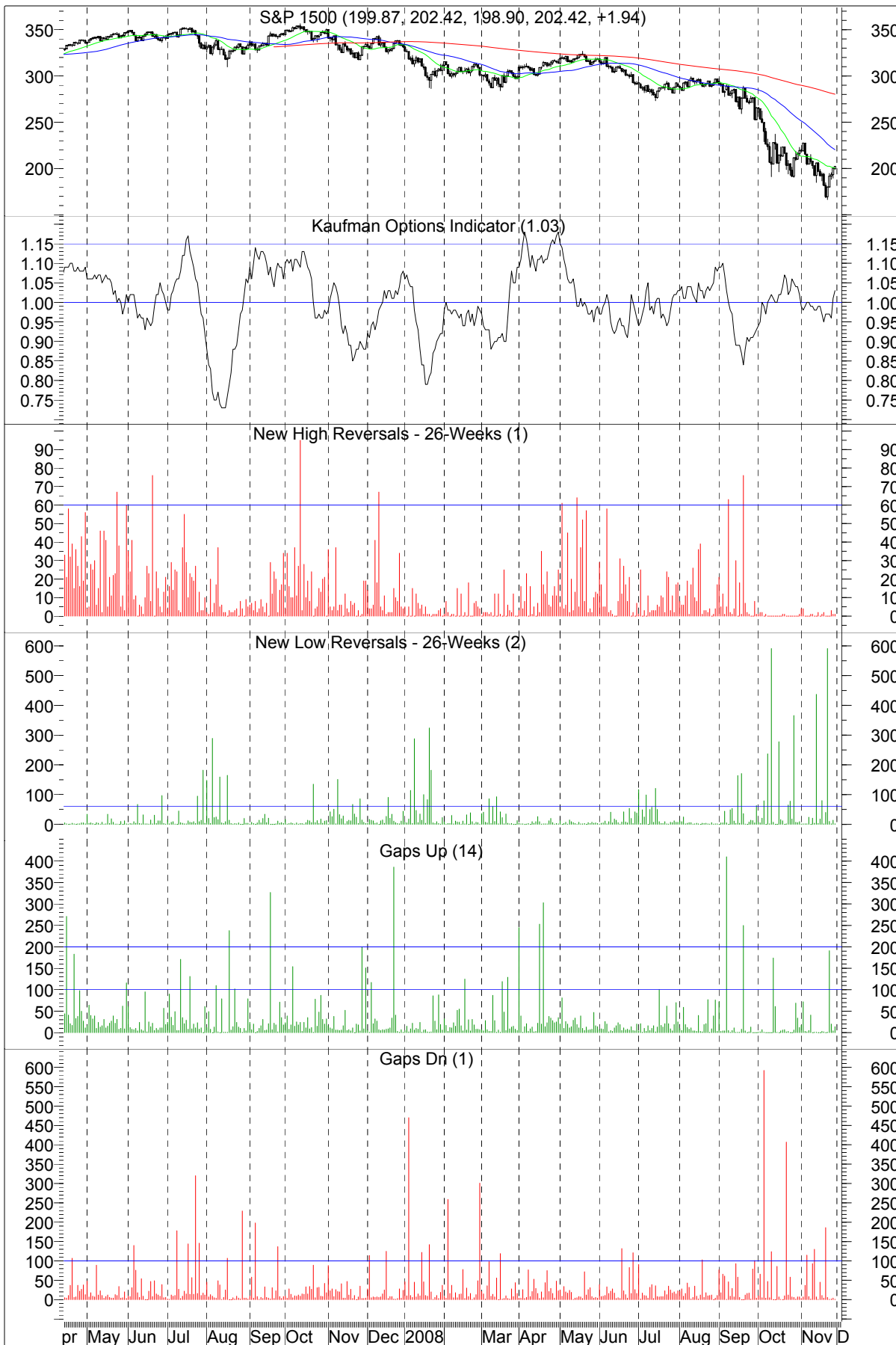


65.34% of stocks traded higher Friday.

On Thursday November 20th all of our statistics of market breadth made new lows which points to lower prices to come in the future.

Volume decreased every day during last week's rally.

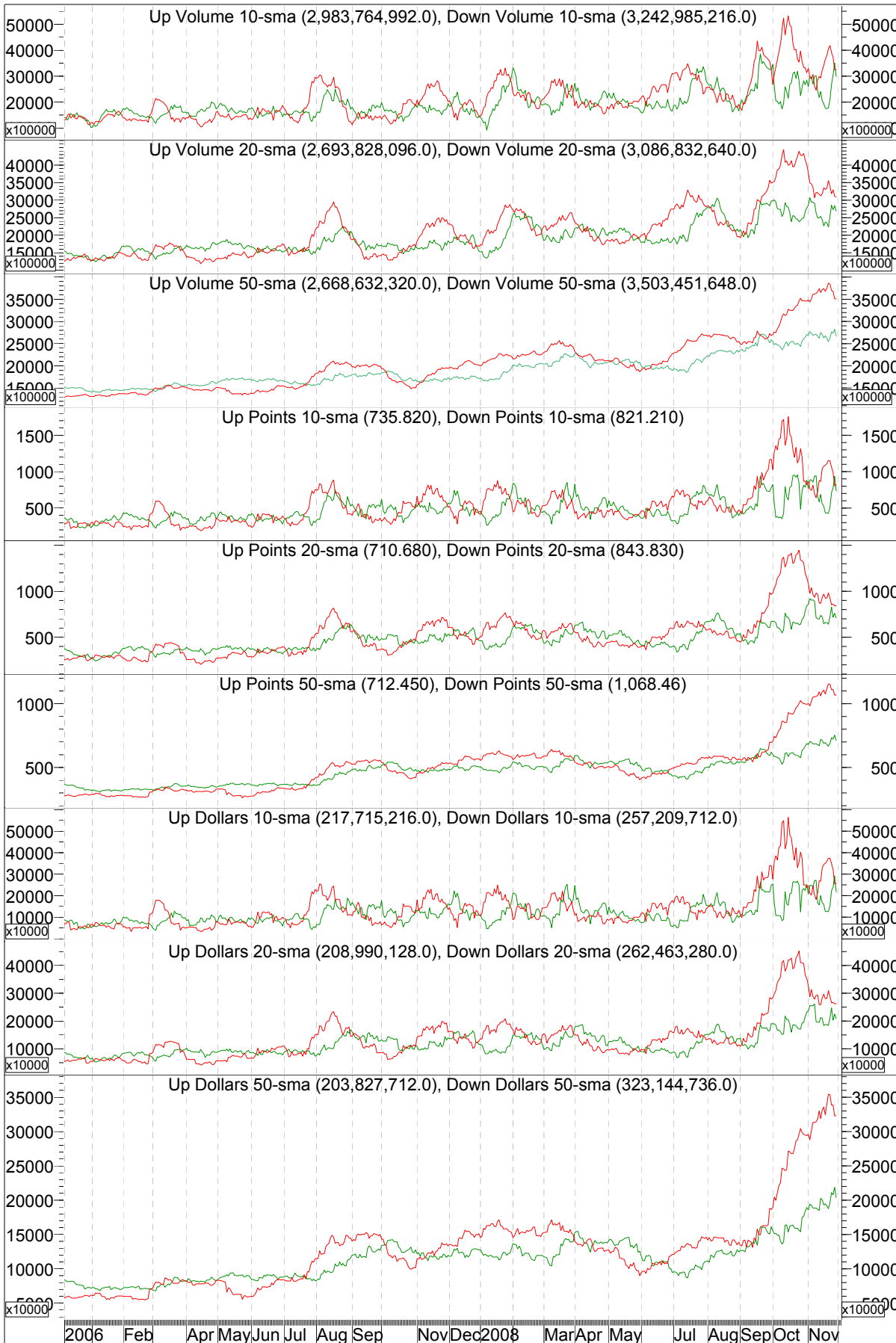
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Our proprietary options indicator is showing bullishness among options buyers. Too much bullishness will put a cap on how much stocks can rally.

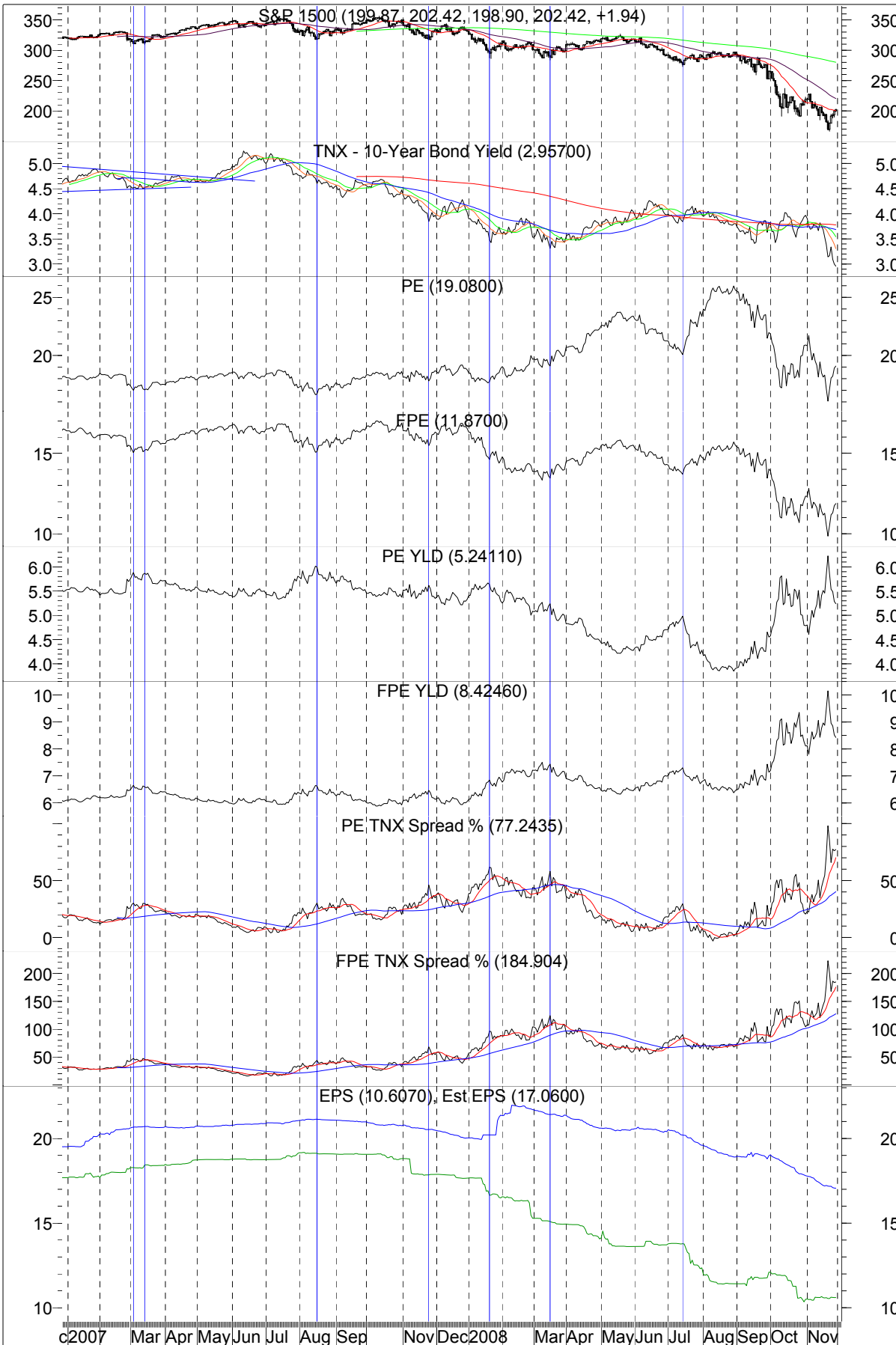
591 new low reversals on 11/21 has marked a short-term, and hopefully longer-term, bottom.

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Our 10-day statistics of demand (green) versus supply (red) show that buyers have come back while sellers have become less aggressive.

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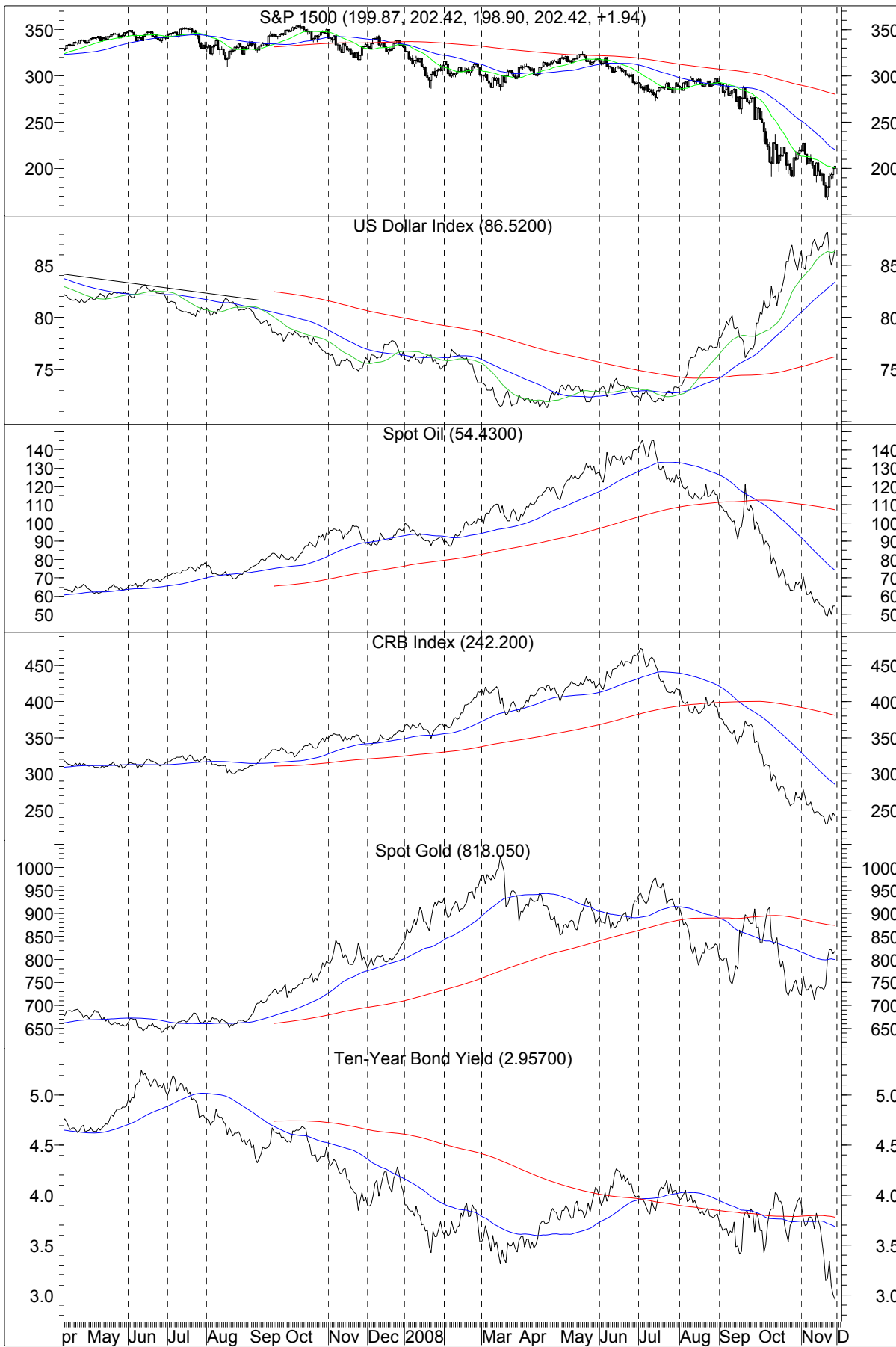
Bond yields have plunged and are very oversold (bonds overbought).

P/E ratios are within their recent ranges.

Spreads between equity and bond yields remain at wide levels where stocks should be attractive.

Reported earnings are sideways since 10/27, while projected earnings continue to move lower.

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The U.S. Dollar Index is in a sideways range since late October. It is fractionally above its 20-sma (green).

Crude oil is trying to put in a bottom.

Gold is in a flag-like pattern and traded slightly higher Friday in spite of strength in the U.S. Dollar.