

Friday December 12, 2008

Closing prices of December 11, 2008

Stocks dropped sharply Thursday in another 90% down day. We said Tuesday night that indicators were still high after reaching overbought levels, leaving room for stocks to move lower. They are still in that condition. We also expressed concern about the down trending 50-day moving average which is now back in the picture, and about the recent bullishness of options buyers as we get towards a quadruple witching expiration next week. On Wednesday our options indicator hit the highest level since 9/4, shortly before equities began a major slide. We remain hopeful that valuations will be supportive and that important price levels and trend lines will hold, but we reiterate that investors need to be selective, careful with entry points, and disciplined enough to use stop losses if recent support levels are broken.

The S&P 1500 (196.90) was down 3.072% Thursday. Average price per share was down 4.28% as small caps got walloped. Volume was 95% of its 10-day average and 88% of its 30-day average. 9.78% of the S&P 1500 stocks were up on the day, with up volume at 9.19% and up points at 3.55%. Up Dollars was 43/100 of 1% of total dollars, and was 1% of its 10-day moving average while Down Dollars was 202% of its 10-day moving average. The index is down 2.73% month-to-date, down 25.97% quarter-to-date, down 44.74% year-to-date, and down 43.75% from the peak of 356.38 on 10/11/07. Average price per share is \$22.62, down 47.68% from the peak of \$43.23 on 6/4/2007.

The Put/Call Ratio was 0.979. The Kaufman Options Indicator was 1.07.

The spread between the reported earnings yield and 10-year bond yield is 104% and 221% based on projected earnings. These are unheard of levels. The dividend yield on the S&P 500 recently moved higher than the 10-year bond yield for the first time since 1958.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$10.63, a drop of 44.58%, and have been moving slightly higher since \$10.57 on 10/24. Estimated aggregate earnings peaked at \$21.95 in February 2008, are still moving lower, and are now \$16.73, a drop of only 23.78%. 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.

498 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.1% have had positive surprises, 9.7% have been in line, and 32.3% have been negative. The year-over-year change has been -18.3% on a share-weighted basis, +5.3% market cap-weighted, and -2.7% non-weighted. Ex-financial stocks these numbers are 10.1%, 23.7%, and 15.8%, respectively.

Federal Funds futures are pricing in an 18.0% probability that the Fed will cut rates 50 basis points to 0.50%, and an 82.0% probability of cutting 75 basis points to 0.25% when they meet on December 16<sup>th</sup>. They are pricing in an 16.9% probability that the Fed will cut rates 50 basis points to 0.50% on January 28<sup>th</sup>, and a 78.2% probability of cutting 75 basis points to 0.25%.

The short-term trend is now 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.

## IMPORTANT DISCLOSURES

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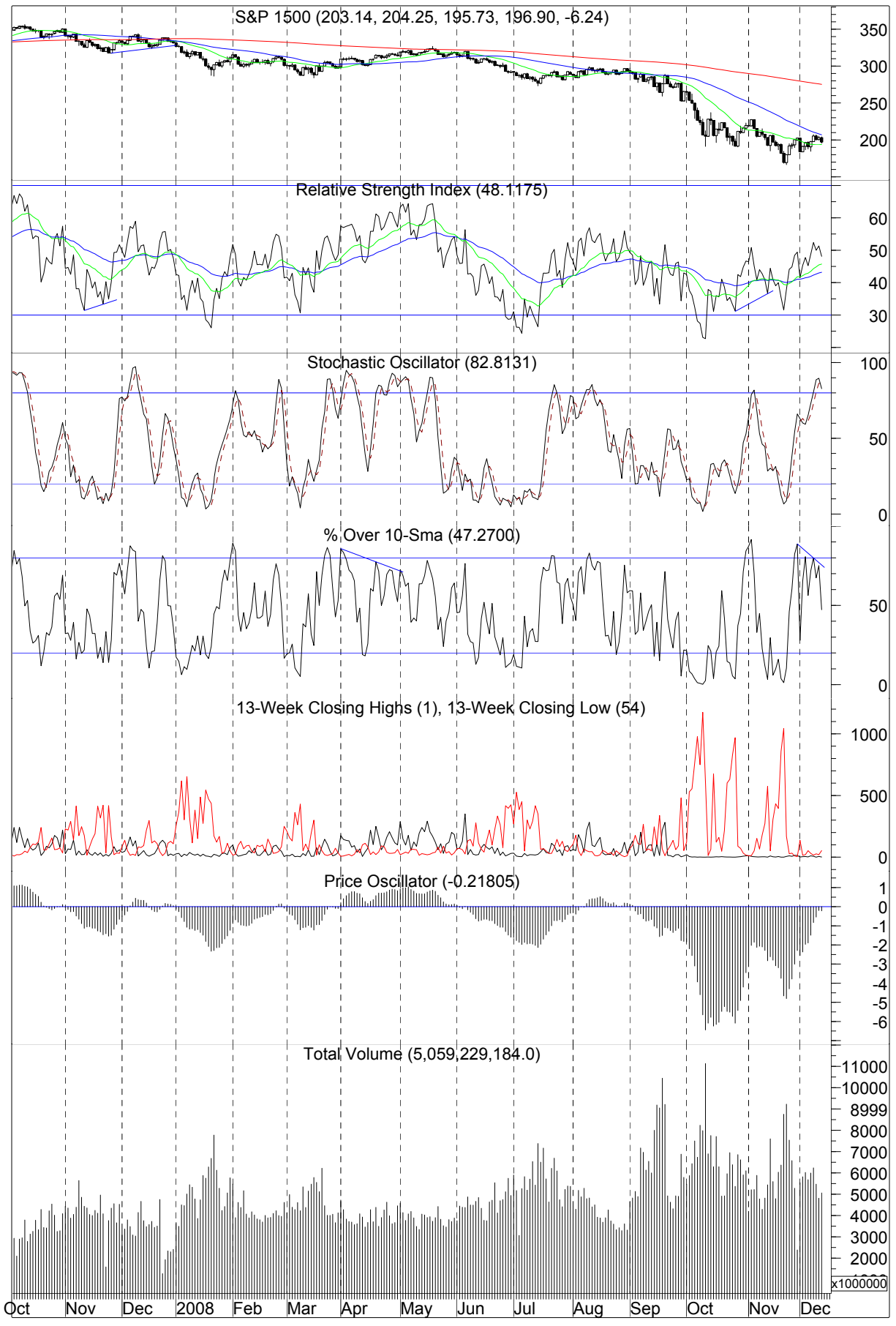
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 1500 (203.14, 204.25, 195.73, 196.90, -6.24)



We said recently that the 50-day moving average would come into play soon and it has. Now the question is whether the 20-sma (green) and the rising support line will hold, or if the S&P 1500 will get pushed down by the declining 50-sma.

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



The RSI is again unable to move above resistance and hasn't even approached the upper level for bear markets in the 65 area.

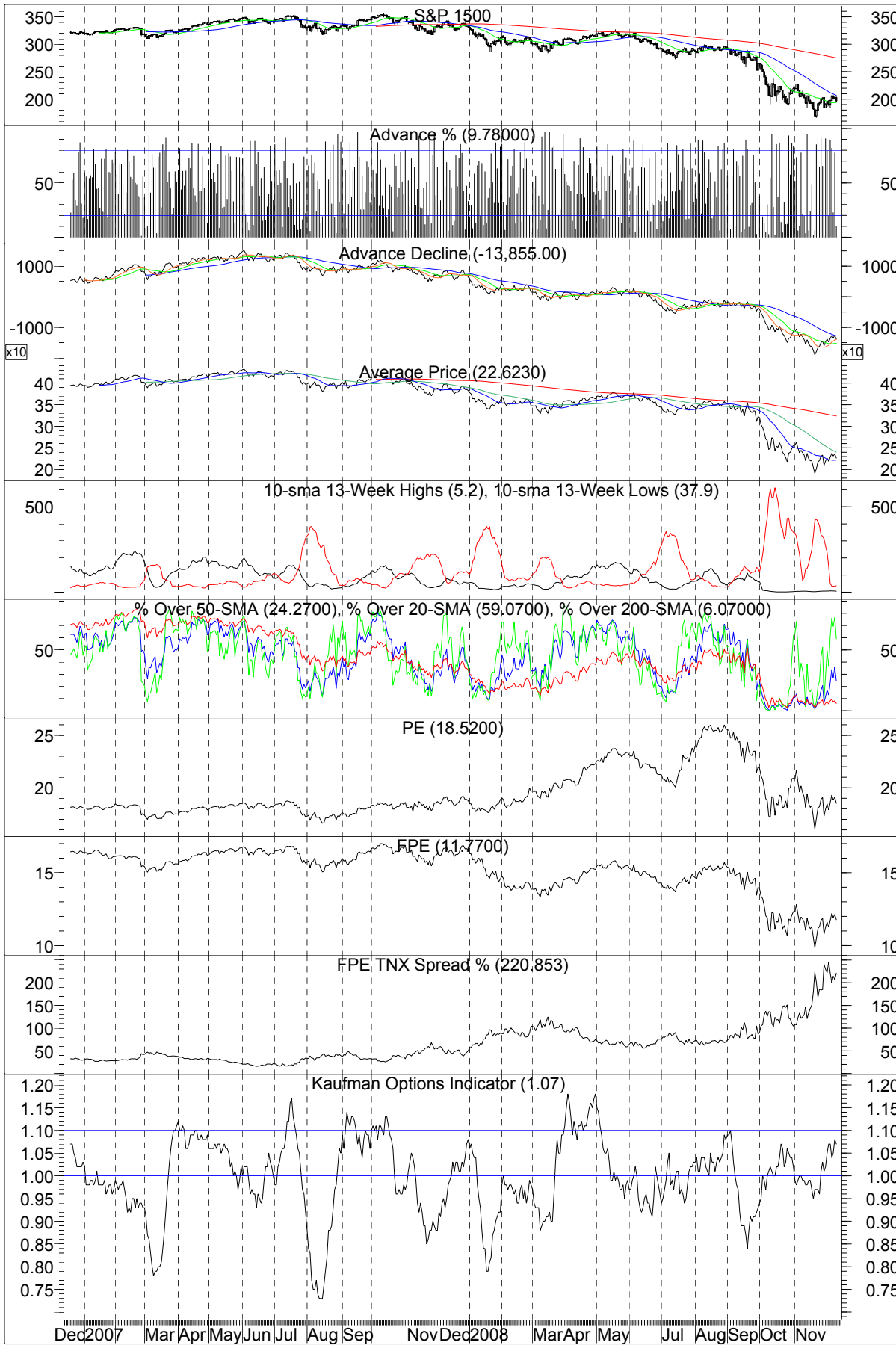
The stochastic has crossed over negatively from the overbought zone.

A negative divergence has developed on the percent over 10-sma.

Our price oscillator has reached the neutral level, which can be resistance.

Volume increased Thursday.

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



9.78% of the S&P 1500 traded higher Thursday.

P/E ratios remain range bound.

Spreads between equity and bond yields remain at extremely wide levels.

Our proprietary options indicator is showing bullishness among options buyers which leaves stocks vulnerable. On Wednesday it hit the highest level since 9/4, which was just ahead of a slide for equities.