

Wednesday December 23, 2008

Closing prices of December 22, 2008

Stocks traded lower again Tuesday on another light volume day. The S&P 1500 moved back under its 20-day moving average. A move below the low of 12/12 will greatly increase the probabilities of testing the November lows. Our options indicator is showing the most bullishness on the part of options buyers since early May. The 5-day moving average of the put call ratio is at the lowest level since May 19<sup>th</sup>, the start of a two-month 15% decline. Too much bullishness on the part of options buyers would leave stocks vulnerable to a sharp move down if the 12/12 low is broken.

The S&P 1500 (195.45) was down 0.983% Tuesday. Average price per share was down 1.22%. Volume was 69% of its 10-day average and 59% of its 30-day average. 25.87% of the S&P 1500 stocks were up on the day, with up volume at 26.07% and up points at 20.13%. Up Dollars was 7.24% of total dollars, and was 7% of its 10-day moving average while Down Dollars was 90% of its 10-day moving average, in spite of the low total volume. The index is down 3.44% month-to-date, down 26.51% quarter-to-date, down 41.02% year-to-date, and down 45.16% from the peak of 356.38 on 10/11/07. Average price per share is \$22.92, down 46.98% from the peak of \$43.23 on 6/4/2007.

*The Put/Call Ratio was 0.786, with the 5-sma at 0.816. The Kaufman Options Indicator is 1.13. This indicates too much bullishness.*

The spread between the reported earnings yield and 10-year bond yield is 144% and 283% 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 \$10.36, a drop of 45.98%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$16.32, a drop of only 25.65%. 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 a probability of 86% that the Fed will leave rates unchanged, and a probability of 14.0% of cutting 25 basis points to 0.00% when they meet on January 28<sup>th</sup>. They are pricing in a probability of 71.6% that the Fed will leave rates unchanged on March 17<sup>th</sup>, and a probability 17.2% of raising 25 basis points to 0.50%.

The short-term, 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 long-term 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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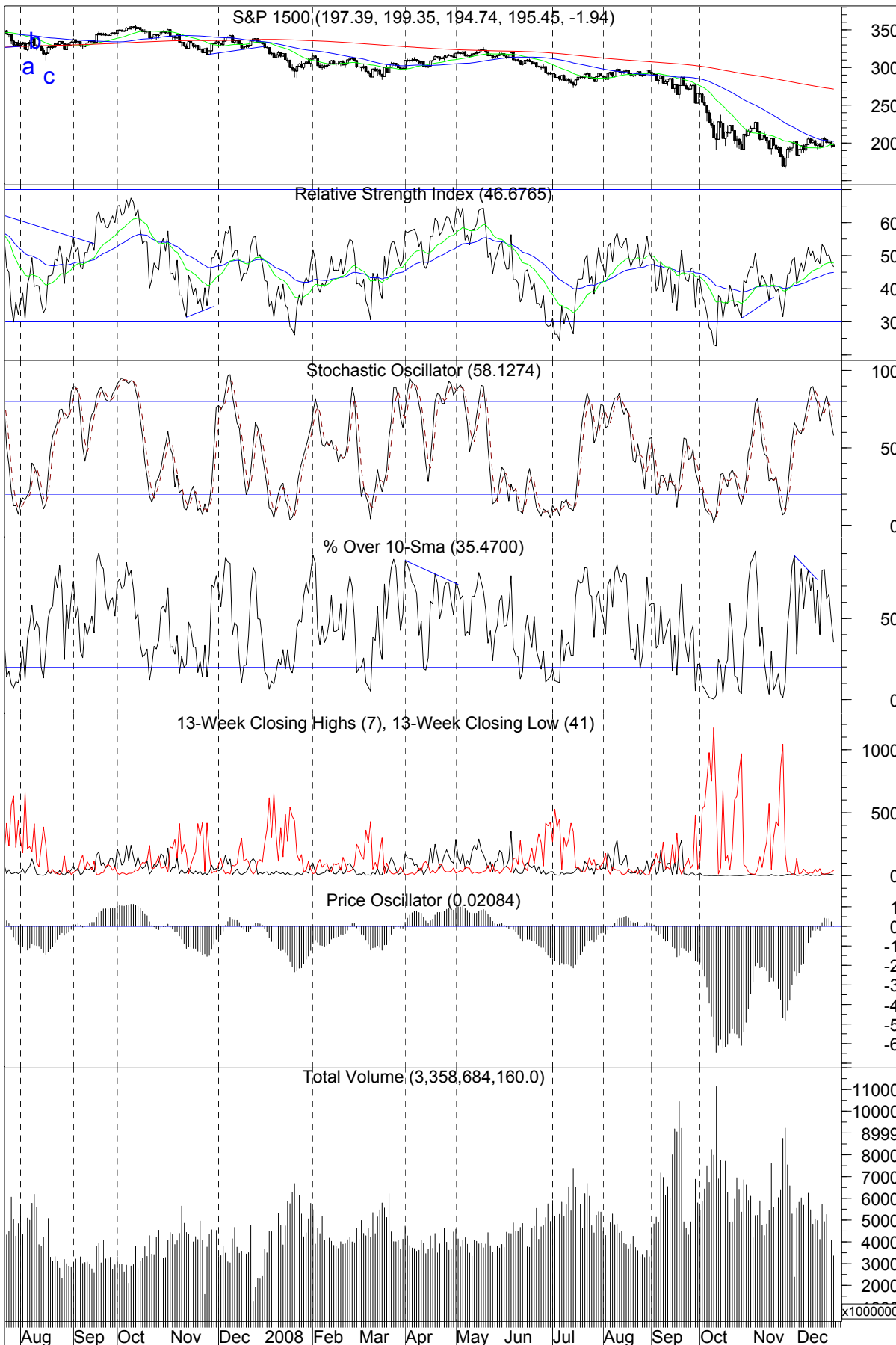
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 500 Cash (874.31, 880.44, 860.10, 863.16, -8.47)



The S&P 500 failed to hold above the 50-sma (blue) and has fallen back below the 20-sma (green). This was the lowest close since 12/4. A move below the low of 12/12, about 851, would be very bearish.

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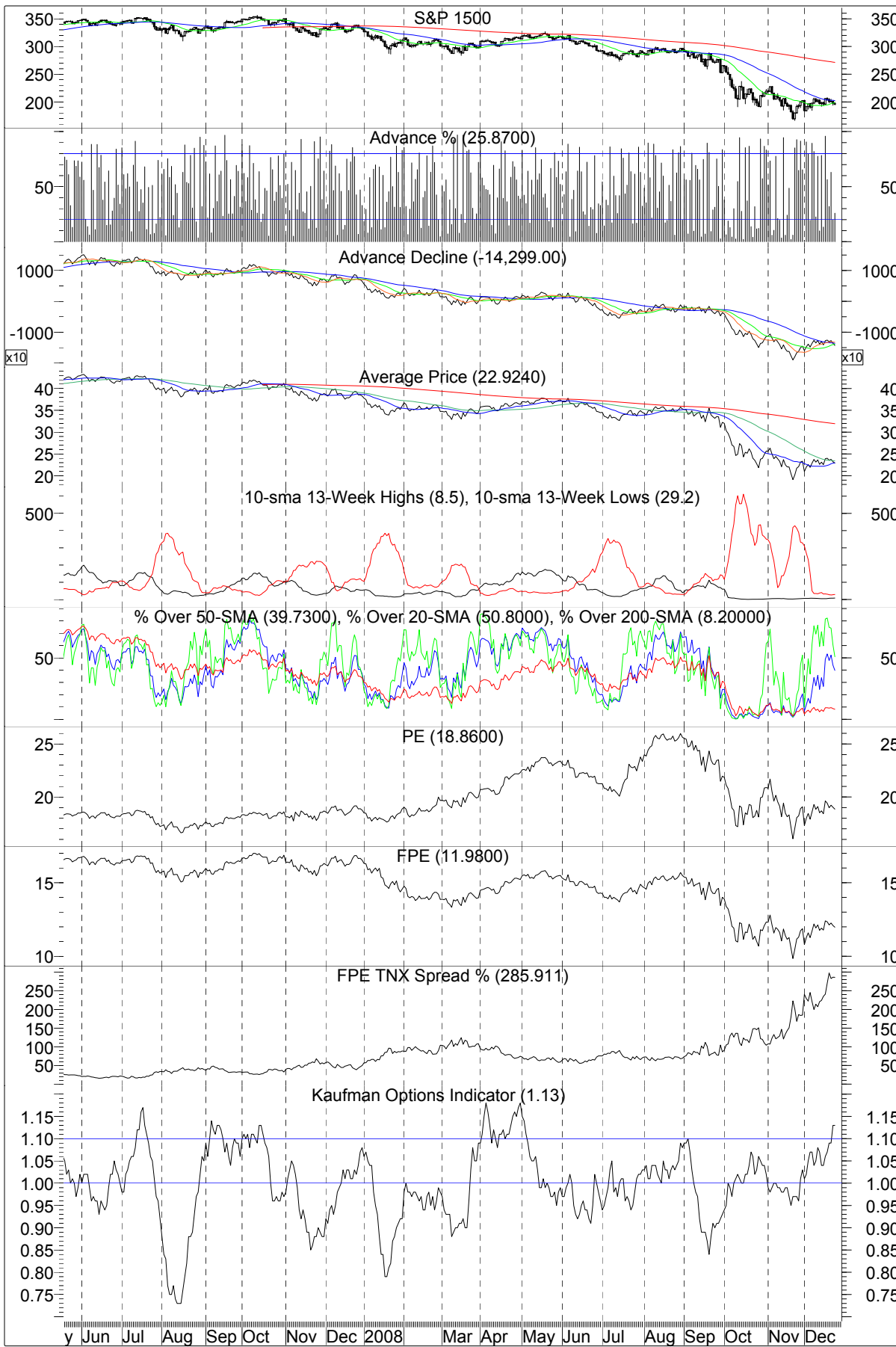
Our momentum indicators are no longer at high levels, but they are not yet oversold.

35.47% of stocks are over their 10-sma.

Our price oscillator is still in positive territory, but a move back below the neutral line would be bearish.

Volume has been very low, which is to be expected at this time.

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



25.87% of stocks traded higher Tuesday.

P/E ratios remain range-bound.

Spreads between bond and equity yields remain at incredible levels and don't seem to matter.

Our proprietary options indicator is at the highest level since early May. Too much optimism by options buyers is bearish and leaves stocks vulnerable to a sharp drop.