

Thursday December 4, 2008

Closing prices of December 3, 2008

Stocks rallied again Wednesday, and have traded higher for seven of the last eight sessions. We remain cautiously optimistic regarding this rally. Valuations based on spreads between equity and bond yields remain extremely wide, the dividend yield on the S&P 500 is greater than the 10-year bond yield for the first time since 1958, reported aggregate earnings stopped going lower (at least temporarily) on 10/24 and shouldn't move much since third quarter earnings season is 98% over, and we are seeing more stocks with constructive chart patterns. In the short-term stocks are starting to get overbought at resistance, and options buyers are getting optimistic. Therefore, caution is still advised, and this remains a trader's market.

The S&P 1500 (196.37) was up 2.581% Wednesday. Average price per share was up 2.67%. Volume was 95% of its 10-day average and 102% of its 30-day average. 79.72% of the S&P 1500 stocks were up on the day, with up volume at 83.6% and up points at 88.74%. Up Dollars was 97.8% of total dollars, and was 106% of its 10-day moving average while Down Dollars was 2.4% of its 10-day moving average. The index is down 2.99% month-to-date, down 26.17% quarter-to-date, down 40.74% year-to-date, and down 44.90% from the peak of 356.38 on 10/11/07. Average price per share is \$22.57, down 47.79% from the peak of \$43.23 on 6/4/2007.

The Put/Call Ratio was 1.027. The Kaufman Options Indicator was 1.05.

The spread between the reported earnings yield and 10-year bond yield is 103% and 222% based on projected earnings. These are unheard of levels. The dividend yield on the S&P 500 is greater 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 \$10.64, a drop of 44.53%, 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 \$16.93, a drop of only 22.87%. 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.*

491 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.3% have had positive surprises, 9.2% have been in line, and 32.5% have been negative. The year-over-year change has been -18.3% on a share-weighted basis, +5.3% market cap-weighted, and -2.6% non-weighted. *Ex-financial stocks these numbers are 10.1%, 23.7%, and 16.0%, respectively.*

Federal Funds futures are pricing in an 48.0% probability that the Fed will *cut rates 50 basis points to 0.50%*, and a 52.0% probability of *cutting 75 basis points to 0.25%* when they meet on December 16th. They are pricing in a 45.1% probability that the Fed will *cut rates 50 basis points to 0.50%* on January 28th, and a 51.8% probability of *cutting 75 basis points to 0.25%*.

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 primary downtrend must still be respected. Investors should not hesitate to move out of laggard sectors and stocks and into leaders.

IMPORTANT DISCLOSURES

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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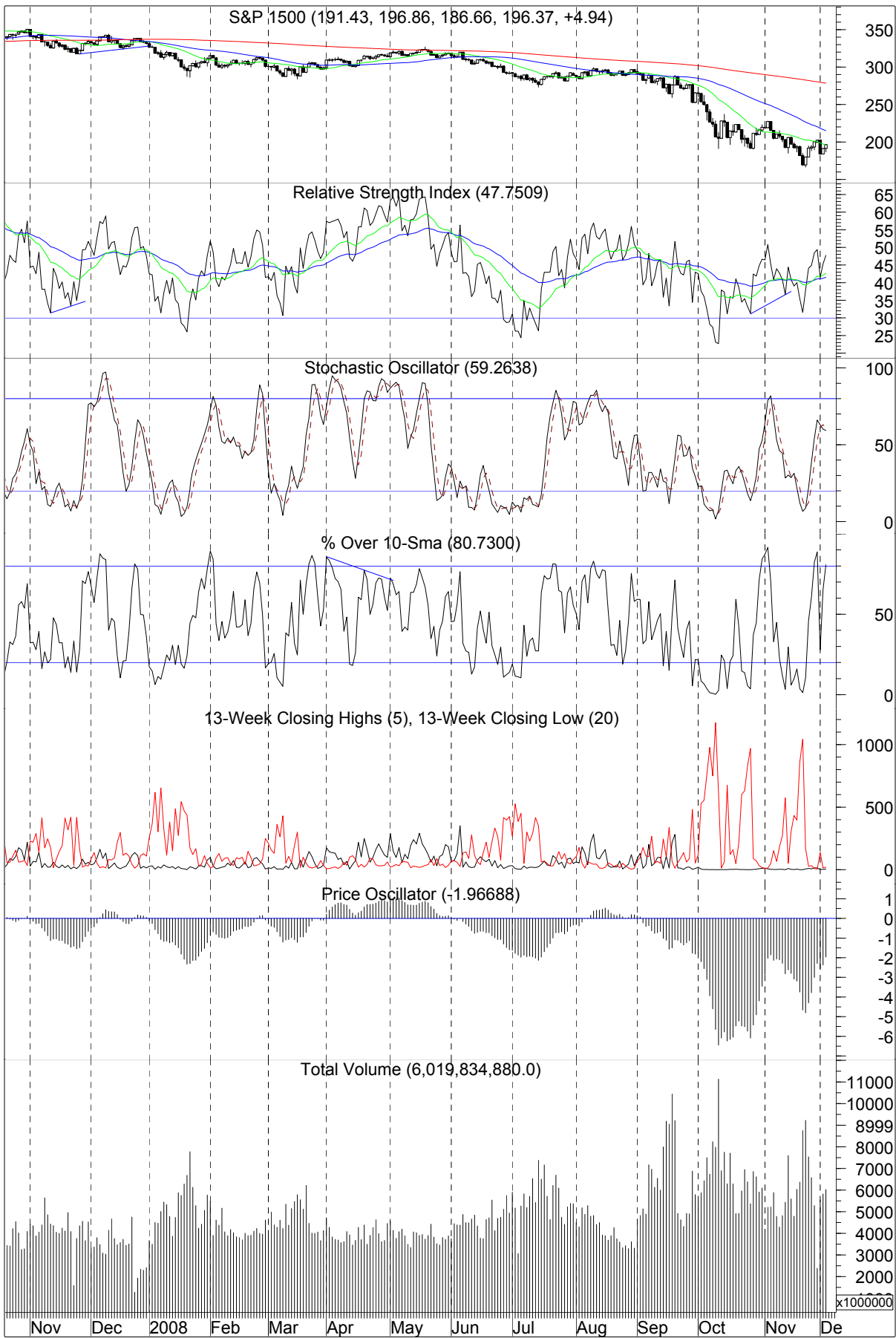
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 1500 (191.43, 196.86, 186.66, 196.37, +4.94)



The S&P 1500 closed just above the 20-day moving average. The high of 11/28 is 202.42.

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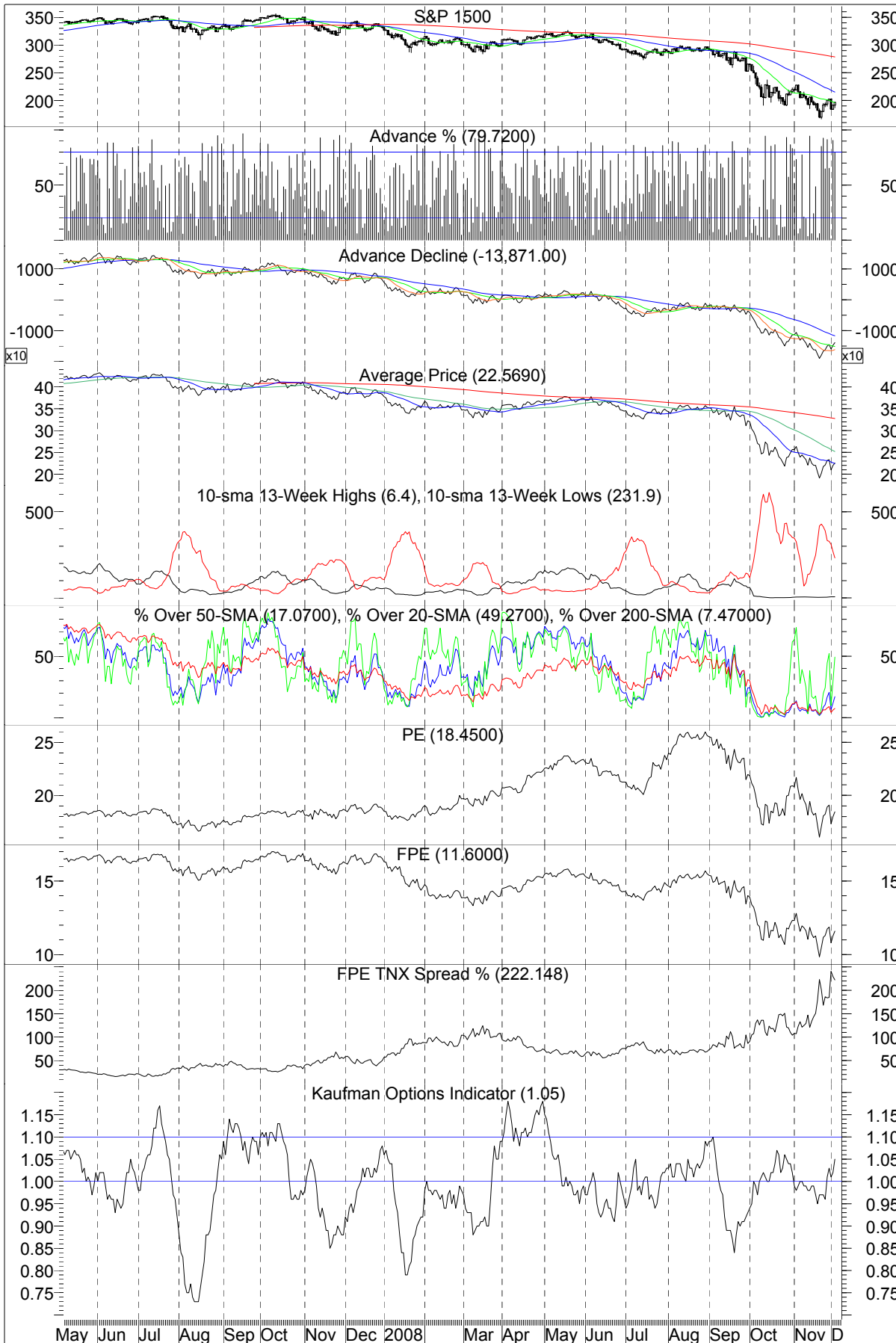


The RSI is nearing the level where it topped three time before.

The stochastic has a negative crossover.

The percent over 10-sma is in the overbought zone.

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



79.72% of stocks traded higher Wednesday.

Spreads between equity and bond yields remain at amazing levels.

Our proprietary options indicator is showing optimism among options buyers, which can leave stocks vulnerable.