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The Kaufman Report

Trade what you see, not what you think.

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Tuesday February 10, 2009 **Closing prices of February 9, 2009**

Stocks showed little movement Monday after Friday's 90% up day. Investors were indecisive as they wait for Geithner and the stimulus program with the major indexes sitting at the bottom of resistance zones. Short-term indicators are near but not yet at overbought levels so there is room to move higher. Evidently many investors are betting on that as the put/call ratio hit 0.668, the lowest level since 1/30/2006. Readings under 1.00 show optimism. The 5-day moving average also is at a low level. With indicators nearing overbought levels, options buyers becoming very optimistic, and P/E ratios vaulting to high levels, the recent rally should be due for a pause at any time.

We remain concerned about P/E ratios, which have moved up to levels not seen since the end of September. Still, we will not argue with a rally although we have our eyes on the exit.

The short-term trend is up, the intermediate-term is up, and the long-term trend remains down. This continues to be an opportunistic trader's market, prone to infuriating whipsaws, with adept traders able to take advantage long or short. However, a tradable trend may begin at any time. Investors should not hesitate to sell lagging stocks and sectors and move into leaders.

The S&P 1500 (197.31) was up 0.081% Monday. Average price per share was down 0.25%. Volume was 89% of its 10-day average and 99% of its 30-day average. 42.54% of the S&P 1500 stocks were up, with up volume at 58.01% and up points at 41.84%. Up Dollars was 34.69% of total dollars, and was 24% of its 10-day moving average. Down Dollars was 67% of its 10-day moving average. The index is up 5.378% in February, down 3.72% quarter-to-date, down 3.72% year-to-date, and down 44.64% from the peak of 356.38 on 10/11/07. Average price per share is $23.45, down 45.76% from the peak of $43.23 on 6/4/07.

The Put/Call Ratio was 0.668, the lowest since 1/30/2006. The Kaufman Options Indicator is 1.01, about neutral.

The spread between the reported earnings yield and 10-year bond yield is 39%, and 141% based on projected earnings*. *The dividend yield on the S&P 500 recently moved above 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 $8.30, a drop of 56.7%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.39, a drop of 34.44%.

341 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 58.5% had positive surprises, 8.8% were line, and 32.6% have been negative, a high number. The year-over-year change has been -38.8% on a share-weighted basis, -19.1% market cap-weighted and -24.5% non-weighted. Ex-financial stocks these numbers are -15.1%, -5.2%, and -5.0%, respectively.

Federal Funds futures are pricing in a probability of 88% that the Fed will *leave rates unchanged*, and a probability of 12.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 81.0% that the Fed will *leave rates unchanged* on April 29th and a probability of 18.1% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

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Economic News

2/6/09 – The Unemployment Rate in January hit 7.6%, slightly above the 7.5% estimate. This was up from 7.2% in December and the highest since 1992. Payrolls fell by 598,000 (estimate 540,000), the biggest decline since December 1974. This is the first time since the beginning of payroll records in 1939 that job losses exceeded 500,000 for three consecutive months. Average Hourly Earnings increased 3.9% year-over-year.

2/5/09 – Initial Jobless Claims increased by 35,000 for the week ending 1/31 to 626,000, the highest number since October 1982. Continuing Claims hit a record 4.788 million for the week ending 1/24. Silver lining: Productivity rose 3.2% in the fourth quarter versus a 1.6% forecast. U.S. December Factory Orders dropped 3.9% versus a -3.1% estimate. Excluding transportation equipment (cars and aircraft) orders fell 4.4%.

2/4/09 – ADP Employer Services report showed a loss of 522,000 jobs in January, less than the 535,000 forecast and much lower than the December loss of 659,000. The Institute of Supply Management index of non-manufacturing businesses rose to 42.9 in January from 40.6 in December, and was above the estimate of 39.0.

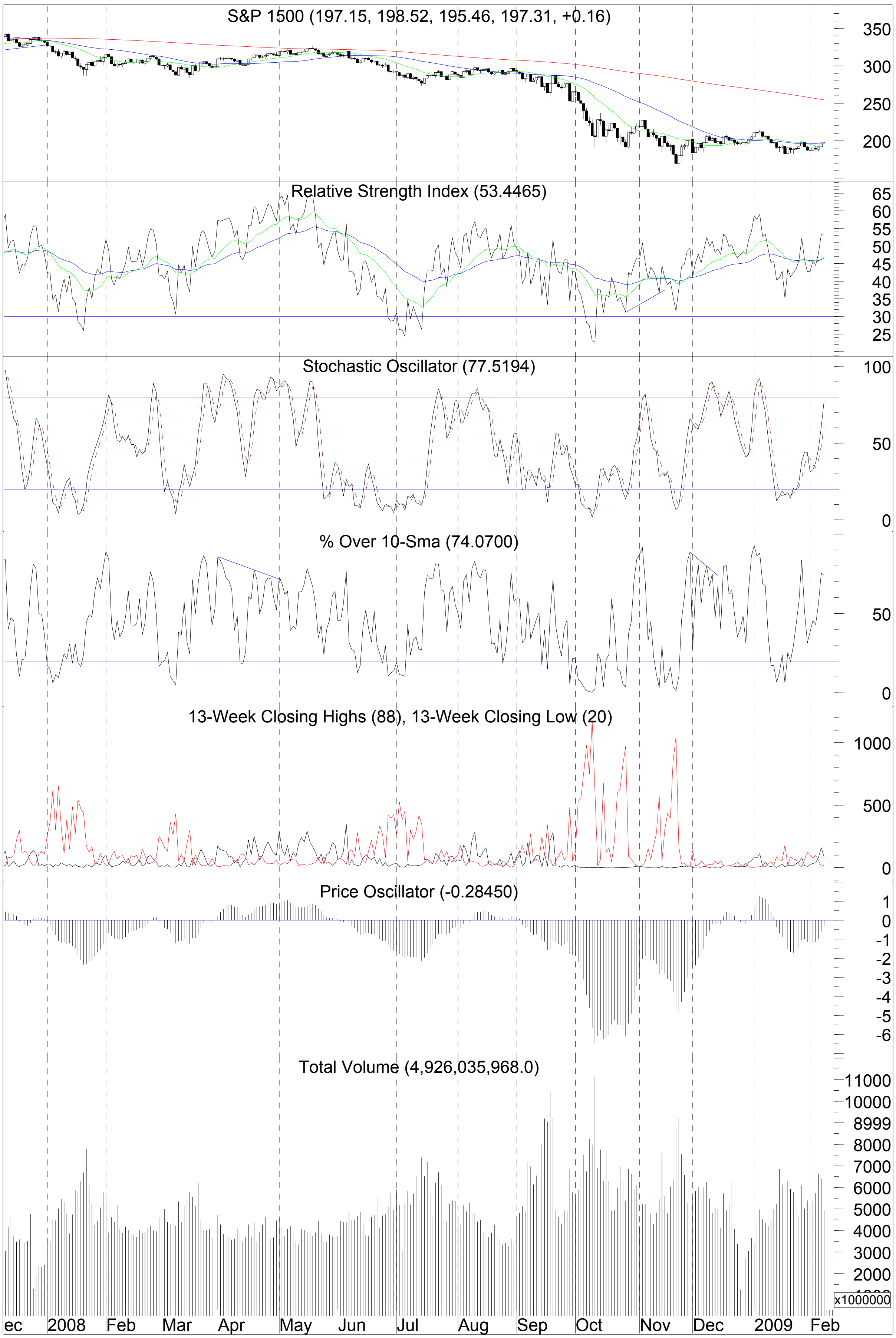
2/3/09 – U.S Pending Home Sales rose for the first time in four months. The December increase of 6.3% beat the estimate of 0.0%. November showed a drop of 4%. According to the U.S. Census Bureau, a record 19 million U.S. houses were vacant at the end of 2008 for a 2.9% vacancy rate (vacant for sale), the highest ever. Purchases of New Homes in December, reported last week, dropped 14.7% versus November.

2/2/09 – Personal Income fell 0.2% in December, better than the -4% estimate, the third straight decline. The last three-month decline was January 1954. Personal spending in December fell 1% versus the .9% estimate, for a record sixth consecutive month. Consumer spending rose 3.6% for 2008, the smallest gain since 1961. Consumer Spending dropped at a 3.5% annual pace in Q4 versus 3.8% in Q3, the first ever declines above 3% in consecutive quarters. Silver lining: the decrease in spending pushed the savings rate up to 3.6% in December from 2.8% in November.

The high wave spinning top candle printed Monday shows indecision on the part of investors as they wait for Geithner with the S&P 500 at the bottom of the resistance zone of 869 to 878. It did manage to close just above the 50-sma.

The Nasdaq 100 is also showing indecision at resistance. Intra-day it did surpass the high of 1/6 and recorded its highest close since 11/5/08.

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

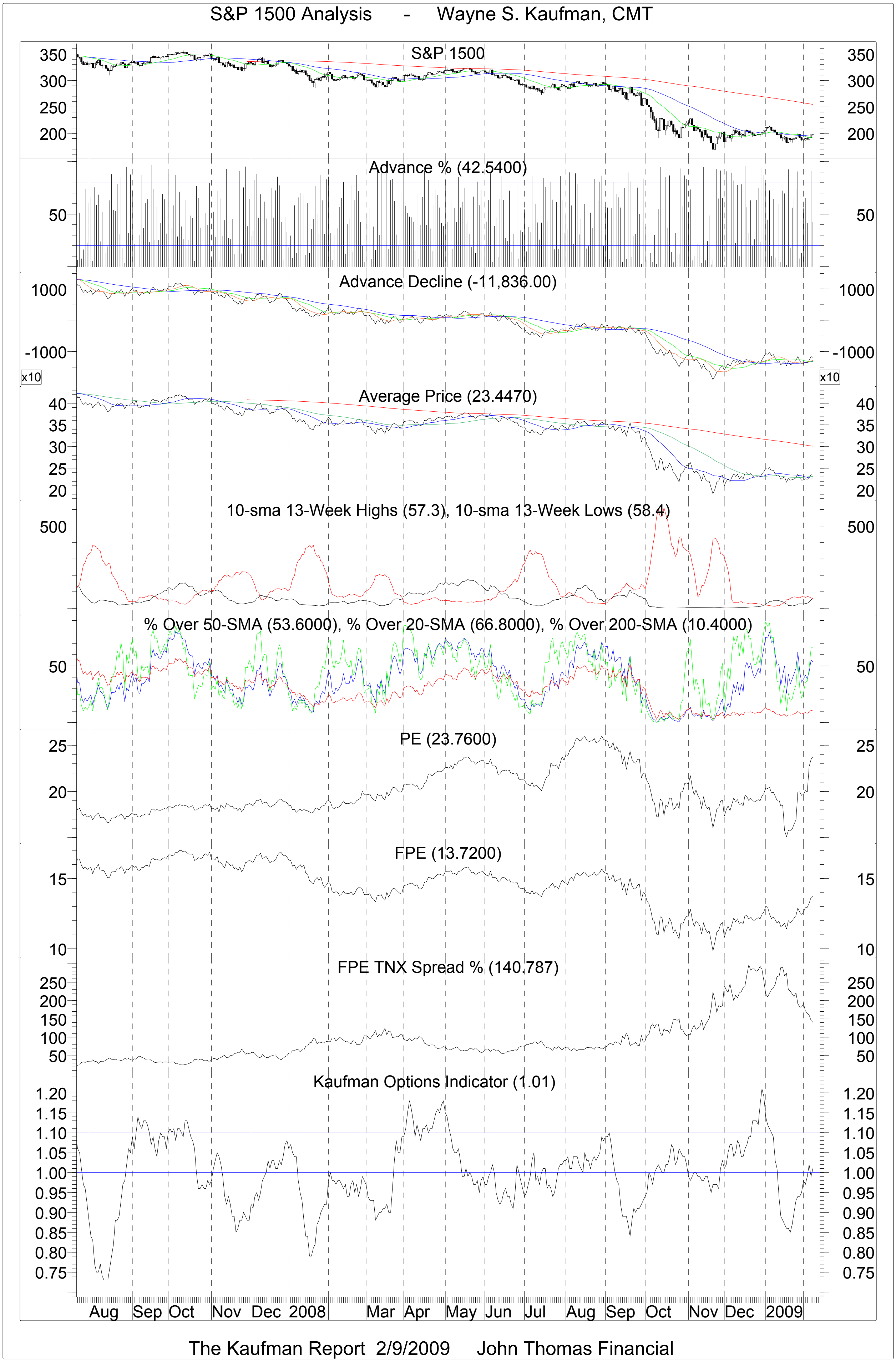


Our short-term momentum indicators are starting to reach high levels, but could go a little higher before being overbought.

13-week closing highs were greater than lows Monday.

Our price oscillator is slightly negative.

Volume dropped dramatically Monday.



Only 44.54% of stocks traded higher Monday.

P/E ratios have vaulted higher and remain worrisome.

Our options indicator remains neutral, but the put/call ratio Monday was very low at 0.668, the lowest since 1/30/06, and the 5-day moving average is also very low.