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# The Kaufman Report

**Trade what you see, not what you think.**

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**Monday February 2, 2009** **Closing prices of January 30, 2009**

The S&P 500 finished January down 8.566%, the worst January on record. The Dow Jones Industrials were down 8.84%, surpassing the prior worst January which was way back in 1916. For the week the S&P 500 was down 0.73% as the rally off the January 21st low came to an abrupt end. We had been highlighting the end of January as an important time frame due to the number of companies which would have reported earnings by then, and the release of important economic statistics. Thursday's Jobless Claims and Durable Goods reports triggered a 90% panic-selling day which completely erased Wednesday's 90% up day. Friday's GDP report came in at -3.8%, while better than the estimated -5.5%, was still the biggest drop since 1982 and caused further selling.

Obviously, a reversal like that is very bearish, as was the failed breakout of early January. We commented at that time that the down days of January 7th, 9th, and 12th were so similar statistically that it appeared to be an orderly liquidation. The selling of this past Thursday and Friday gives us the same impression, which makes us think that there is more to come. We thought the S&P 500 would make a run at the upper trend line of the triangle pattern, and we said a breather was likely as the percent of stocks over their 10-day moving average became overbought Wednesday, but the intensity of the selling was greater than we expected, and must be viewed bearishly. For the time being the sideways whipsaw market continues, but we think this will end sometime this month.

**The short-term, intermediate-term and long-term trends remain down. This continues to be an opportunistic trader's market, prone to infuriating whipsaws, with adept traders able to take advantage long or short. The long-term downtrend must be respected. Investors should not hesitate to take profits when they get them as market direction changes rapidly and short-term profits can quickly become losses.**

**The following editorial opinion represents the views of the editor, and not the management of John Thomas Financial.**
There is very little for investors to smile about at this time. They certainly get no comfort from our bumbling legislators and government officials. We were critical of Hank Paulson and Ben Bernanke a long time before the financial crisis reached a boiling point, and we said the TARP would be flushing money down the toilet, which has happened. As details of the new stimulus package come out there is no wonder investors are panicked. There is a move towards socialism taking place that is essentially a coup, with the goal of increasing the size of government and the powers of certain elected officials. The leaders of this coup are the smarmy, perma-smiling Nancy Pelosi, the clownish Barney Frank, and the sanctimonious Barack Obama. President Obama said that we are in a crisis, and said that "extraordinary times call for swift action." If he wanted swift action he would not present a plan that essentially neglects consumers and takes too long to have a major effect on the economy. The personal tax cuts currently called for are a joke, with amounts so small they will pay for almost nothing. The powers that be say last year's tax rebates didn't stimulate the economy because they were used to pay down debt or they were saved. How about refunding large amounts of money to taxpayers by issuing debit cards that must be spent and can't be saved? How about cutting corporate taxes so businesses could make plans to hire and expand, not to cut back? Obama's attack on middle-class workers getting a bonus because certain other employees of their company caused a disaster is pure demagoguery. We will address details of the stimulus package later this week. The petrifying thing for investors, other than the continued incompetence and dishonesty of our elected officials, is that it hasn't taken long at all to see that President Obama, as many observed about his days as a basketball player, can only go left.

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**The S&P 1500 (187.24) was down 2.301% Friday. Average price per share was down 2.22%. Volume was 95% of its 10-day average and 116% of its 30-day average. 13.03% of the S&P 1500 stocks were up on the day, with up volume at 12.50% and up points at 9.41%. Up Dollars was 1.2% of total dollars, and was 2.38% of its 10-day moving average while Down Dollars was 156% of its 10-day moving average. The index was down 8.632% in January, down 8.632% quarter-to-date, down 8.632% year-to-date, and down 47.46% from the peak of 356.38 on 10/11/07. Average price per share is $22.27, down 48.48% from the peak of $43.23 on 6/4/2007. The index was down 0.705% for the week on rising and above average weekly volume.**

***The Put/Call Ratio was 1.026. The Kaufman Options Indicator has bounced to .95, not far from neutral.***

***The spread between the reported earnings yield and 10-year bond yield is 80%, and 182% 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 $9.57, a drop of 50.10%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $15.04, a drop of 31.48%.**

**236 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 59.7% have had positive surprises, 9.3% have been in line, and 30.9% have been negative, a high number. The year-over-year change has been -41.6% on a share-weighted basis, -18.4% market cap-weighted and -24.4% non-weighted. Ex-financial stocks these numbers are -14.6%, -4.0%, and -2.6%, respectively.**

**Federal Funds futures are pricing in a probability of 82% that the Fed will *leave rates unchanged,* and a probability of 18.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 73.8% that the Fed will *leave rates unchanged* on April 29th and a probability of 24.4% of *raising 25 basis points*.**

## IMPORTANT DISCLOSURES

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


The S&P 500 reversed Wednesday's 90% up day with a 90% down day Thursday as the index couldn't get through the 20 and 50-sma. Obviously this is very bearish, as was the failed breakout of early January. The index is not yet oversold, but could find support at the lower support line of the triangle. Price support is at the 1/21 low of 804.30.

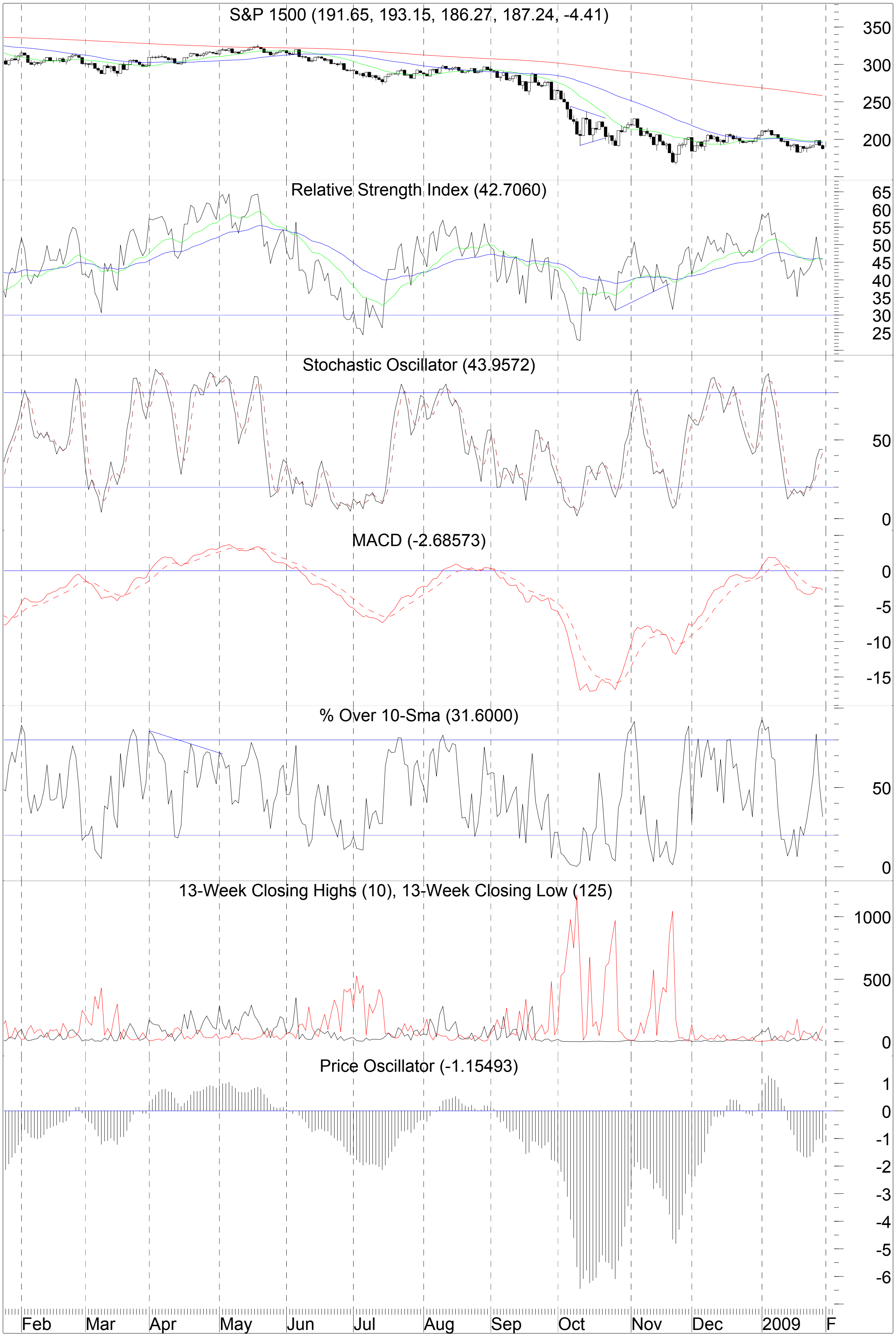
S&P 1500 Analysis - Wayne S. Kaufman, CMT


The S&P 500 printed an inverted hammer last week, following the regular hammer of the prior week. Hammers are bottoming candles, and a move below them would be another very bearish signal.

The weekly stochastic is nearing oversold levels, but isn't there yet.


The monthly chart of the S&P 500 shows that a real bottom wasn't in until the MACD had a positive crossover, which occurred well after the RSI and Stochastic had bottomed.

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



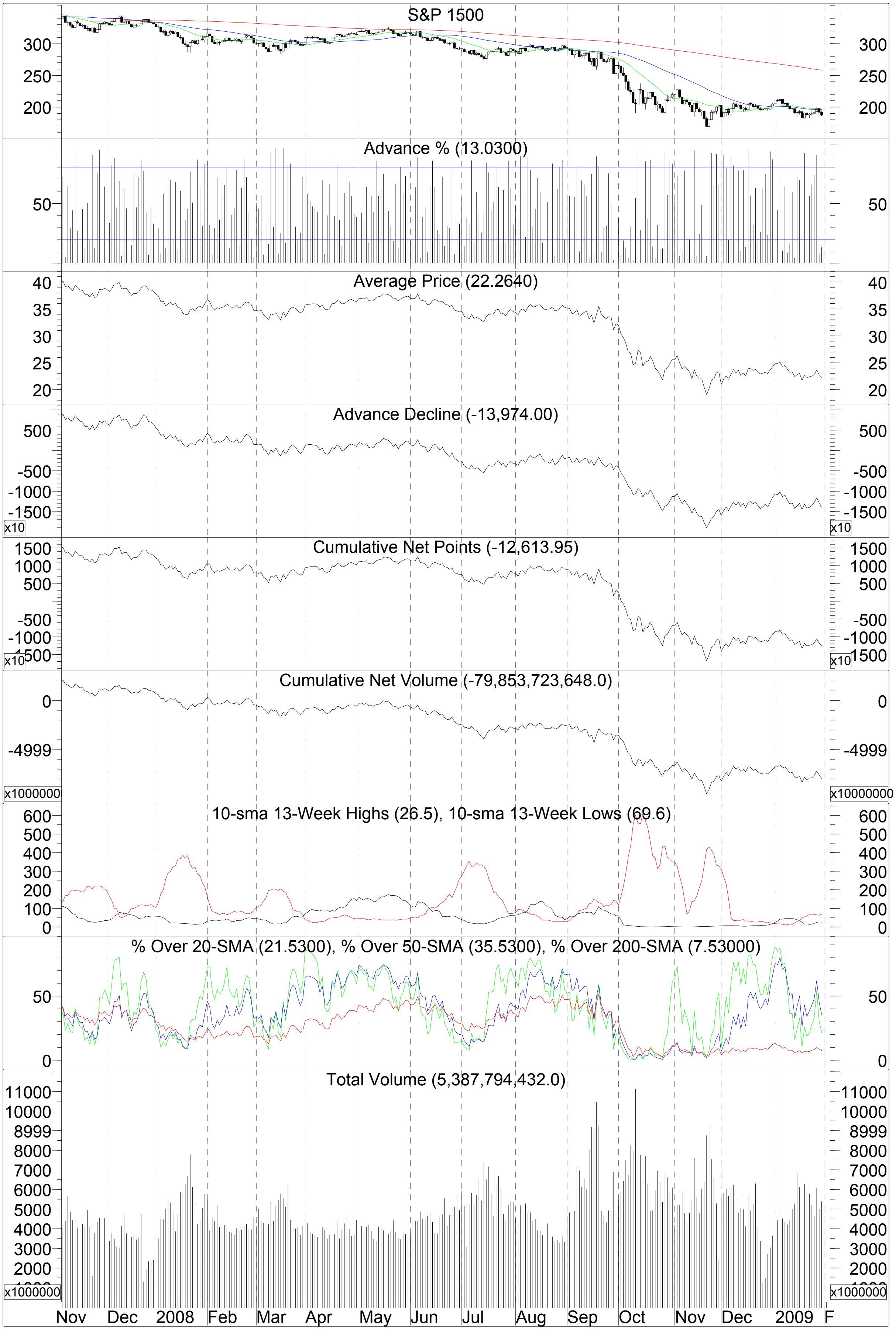

Our momentum indicators are neutral.

31.6% of stocks are over their own 10-sma.

New lows were greater than highs Friday, and are expanding.

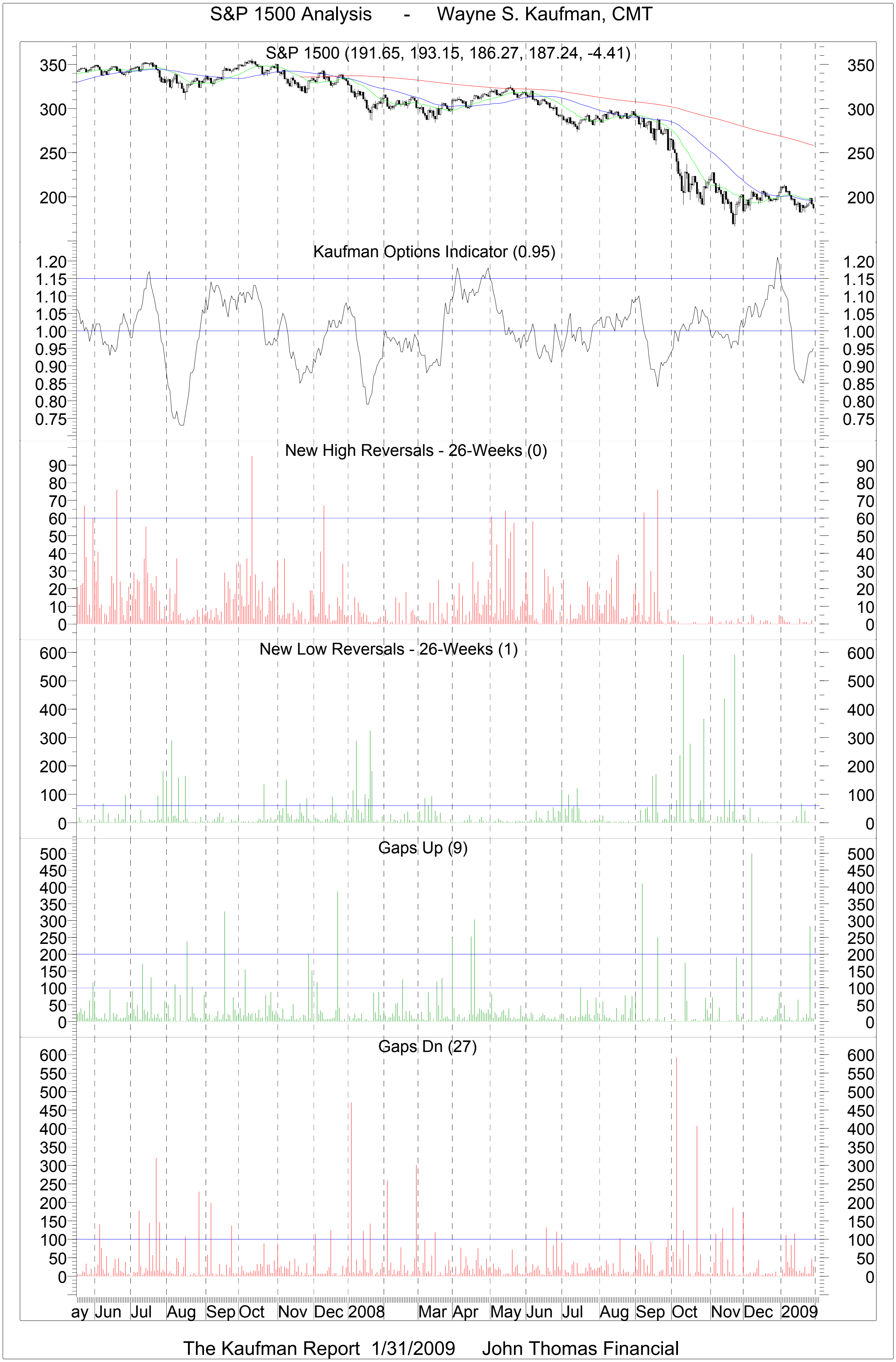
Our price oscillator remains in negative territory.

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

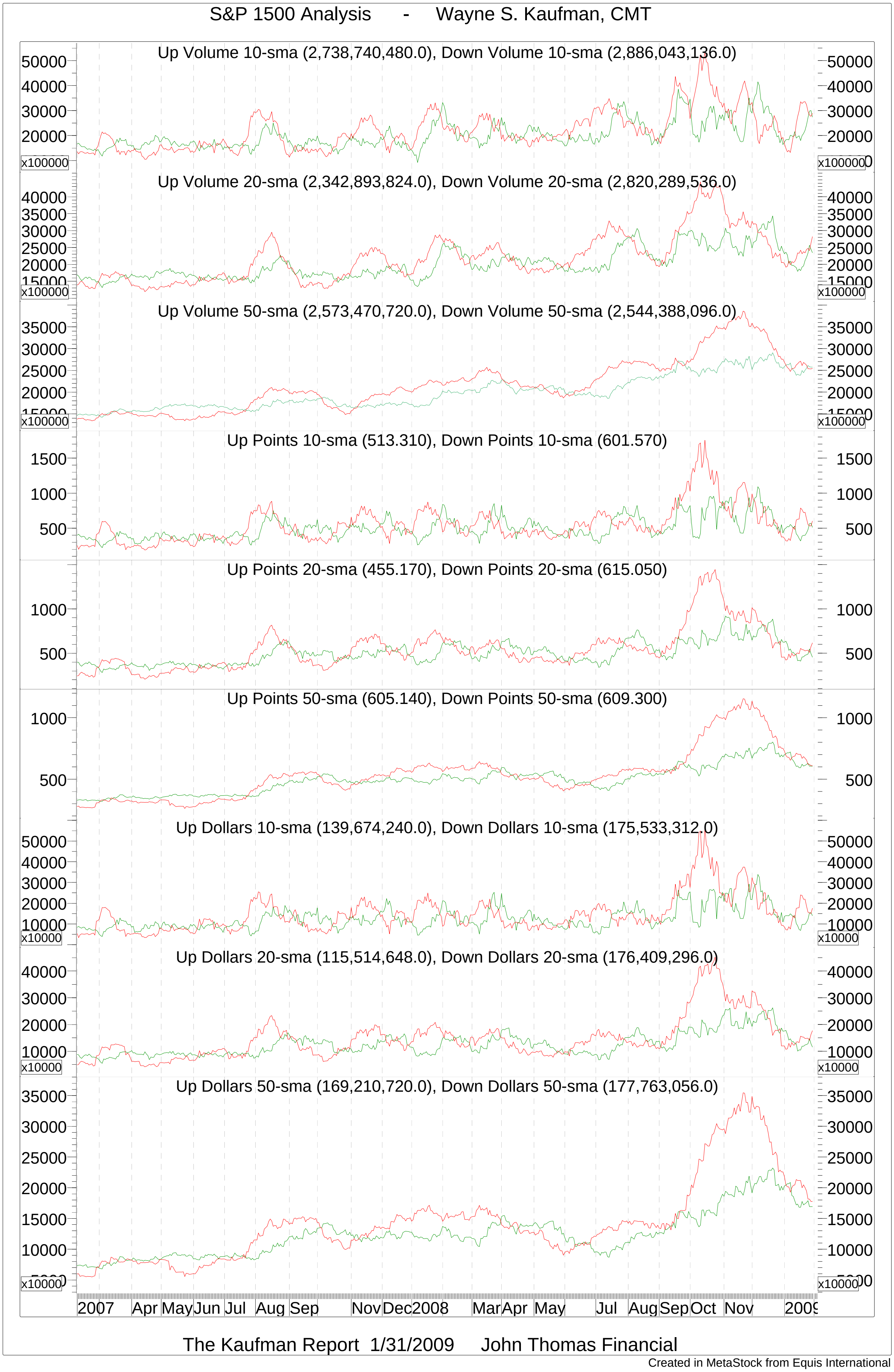



Only 13.03% of stocks traded higher Friday.

Volume rose Friday.

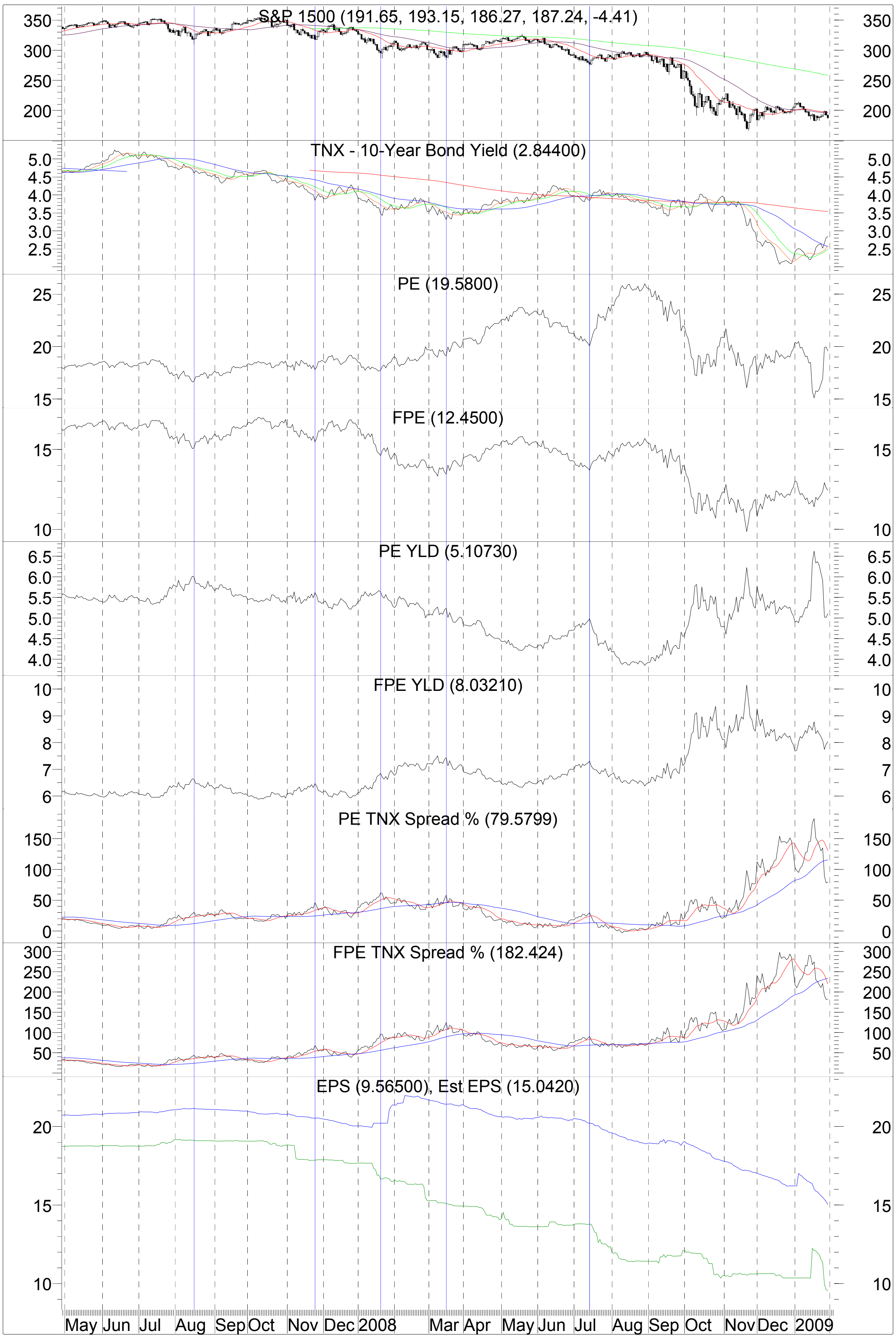



Our proprietary options indicator is still in negative territory, but doesn't really tell us much at these levels.




Our statistics of supply (red lines) versus demand (green lines) have negative crossovers for all time periods. Simply put, supply continues to dominate demand. A quick glance at the selling statistics shows consistent numbers for all time periods, while it is the demand side that shows the greatest fluctuations. If the selling remains steady, but buyers see no catalyst to increase their activity, stocks will not be able to make a sustainable move higher.

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



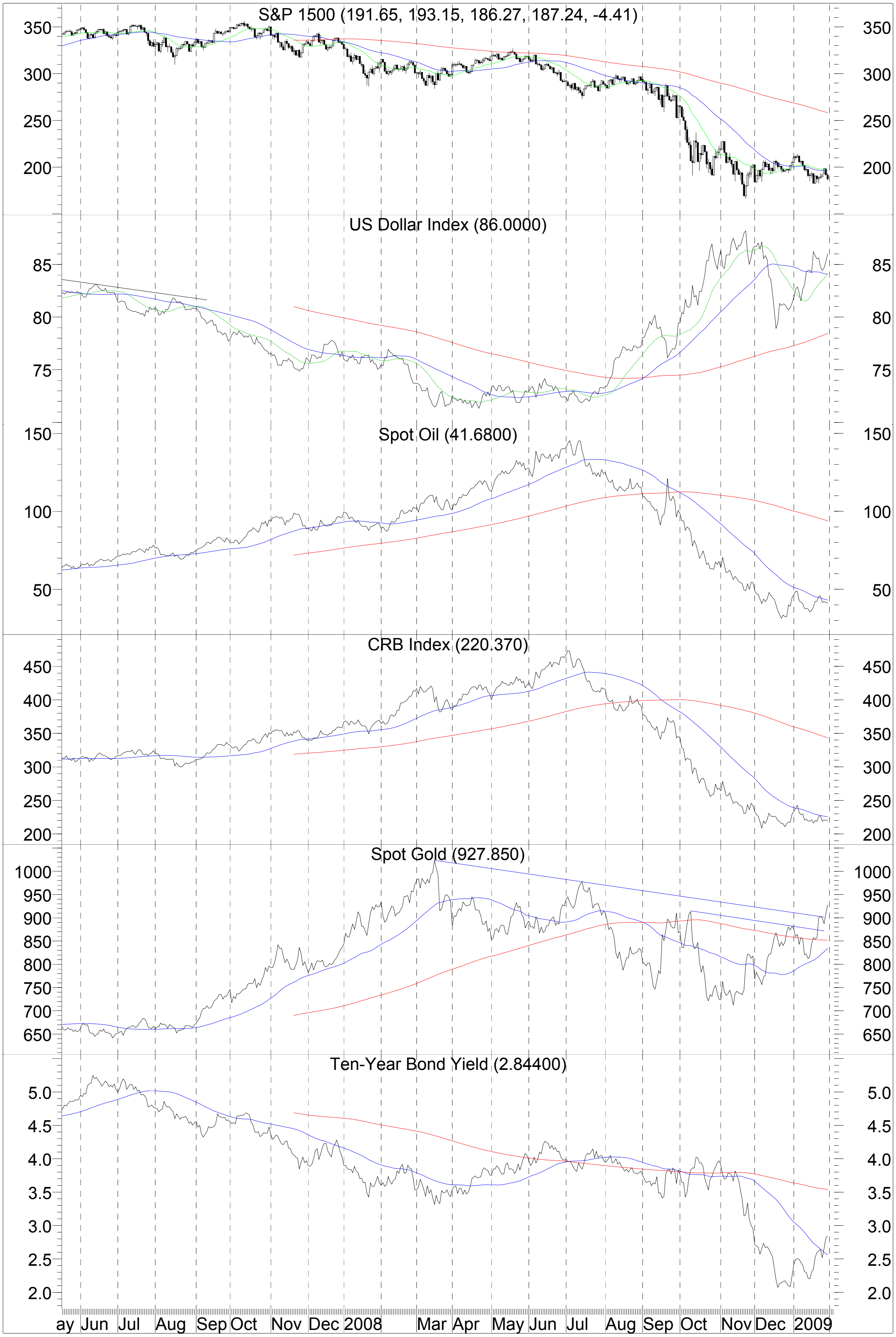

10-year bond yields are above the 20 and 50-sma and are not overbought. Their is no major resistance until the 3.2 area.

P/Es couldn't get through the resistance they hit in early January.

Spreads between equity and bond yields are dropping rapidly from extreme levels.

Reported (green) and projected (blue) earnings continue to march inexorably lower.

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




The U.S. Dollar Index showed strength last week, but is looking toppy with resistance at 88 to 92.

Crude oil has support in the 40 area and resistance at 48 - 50. It is currently just below the 50 and 20-sma.

Gold followed through its first trend line break and took out the trend line from March. It is getting overbought but should trade higher over time.