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# The Kaufman Report

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

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**Wednesday February 4, 2009** **Closing prices of February 3, 2009**

**Stocks followed through to the upside Tuesday after finding support Monday at the lower boundary of the triangle pattern. It wasn't a very robust rally, with new 13-week closing lows greater than 13-week new highs. Nine of the ten S&P sectors traded higher, led by Consumer Discretionary, +2.86%. The laggard was Financials, down 2.52%. A Dow Theory sell signal was registered Monday as the Industrials and Transports each broke support, but there was no follow through Tuesday as each printed a bullish engulfing candle on the daily chart, and the Dow Industrials popped back over the important 8,000 level. The key technical focus on the S&P 500 is on the 20-day moving average which just crossed under the 50-day. The last three times this occurred there were sharp declines. In addition, we are concerned about P/E ratios, which are at levels where stocks topped on January 6th. If sellers are exhausted at this point, maybe this time will be different. Still, investors need to be on high alert that key economic indicators this week, particularly the Jobless Claims Thursday and Payrolls Friday, could be the catalysts to fulfill what looks like an excellent setup for shorts. On the other hand, if sellers don't step up on any further bad news then buyers may feel emboldened and that could spark a rally.**

**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 S&P 1500 (190.03) was up 1.485% Monday. Average price per share was up 1.24%. Volume was 98% of its 10-day average and 115% of its 30-day average. 65.06% of the S&P 1500 stocks were up on the day, with up volume at 60.62% and up points at 75.32%. Up Dollars was 89.45% of total dollars, and was 107% of its 10-day moving average while Down Dollars was 17% of its 10-day moving average. The index is up 1.49% in February, down 7.271% quarter-to-date, down 7.271% year-to-date, and down 46.68% 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 1.026. 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 75%, and 172% 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.***

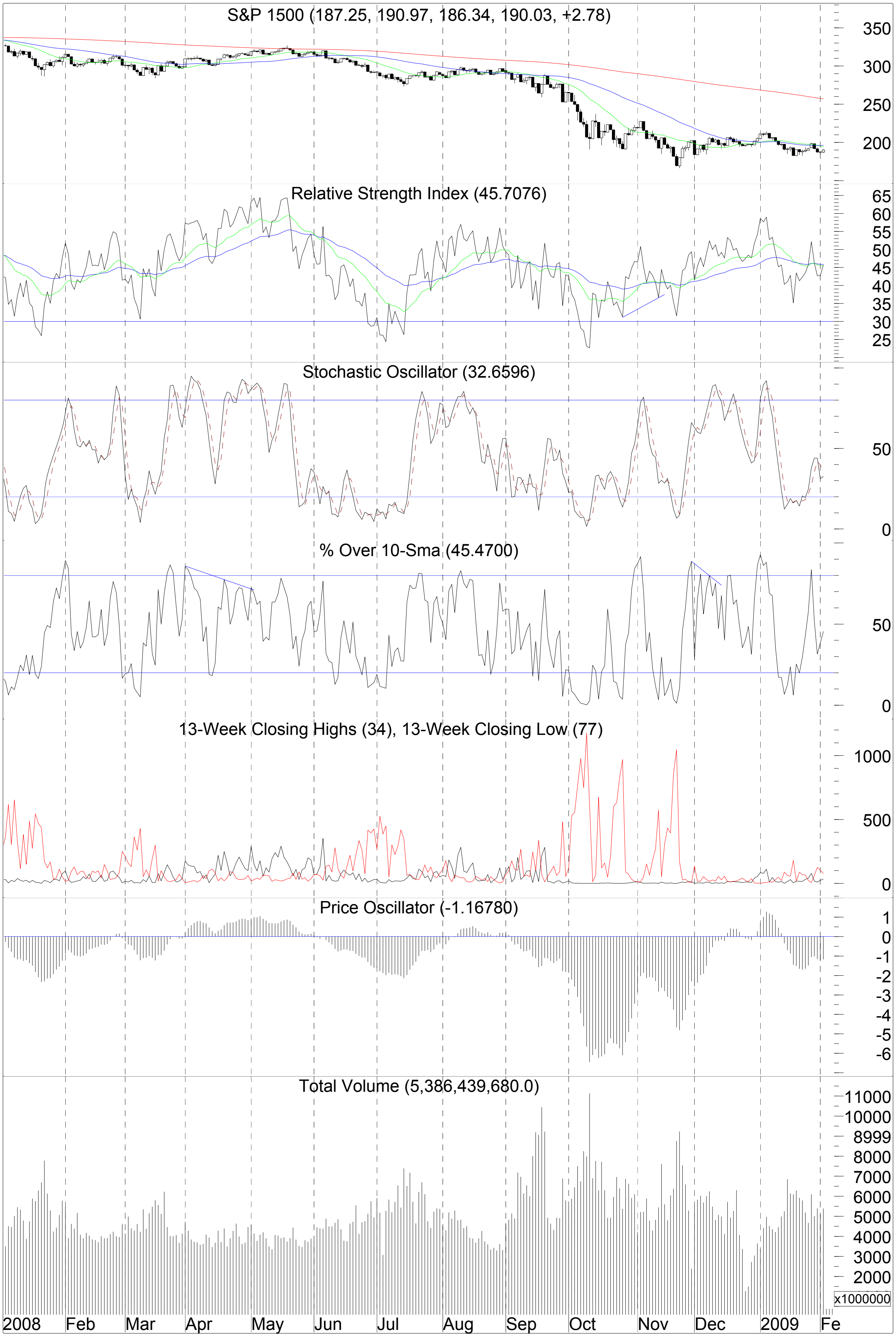
**Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $9.46, a drop of 50.68%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $14.70, a drop of 33.03%.**
**272 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 58.8% have had positive surprises, 8.1% have been in line, and 33.1% have been negative, a high number. The year-over-year change has been -39.9% on a share-weighted basis, -18.4% market cap-weighted and -24.2% non-weighted. Ex-financial stocks these numbers are -15.5%, -4.5%, and -5.7%, respectively.**
**Federal Funds futures are pricing in a probability of 94% that the Fed will *leave rates unchanged,* and a probability of 6.0% of *raising 25 basis points to 0.50%* when they meet on March 17th. They are pricing in a probability of 86.5% that the Fed will *leave rates unchanged* on April 29th and a probability of 13.0% of *raising 25 basis points*.**

## 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.


The S&P 500 bounced off the lower boundary of the triangle Monday and followed through on Tuesday. The major resistance is above at the 855 - 867 zone in the form of the 20 and 50-day moving averages. Unfortunately, the 20 has just crossed under the 50. The last three times this occurred it led to extended declines. In addition, the P/E and forward P/E ratios are near or above the levels they were at when stocks peaked on January 6th. Support remains the lower trend line and then 804.30, the low of 1/21.

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




Our short-term momentum indicators are neutral.

In spite of the S&P 1500 index trading higher Tuesday there were more new lows than highs.

Our price oscillator remains negative.

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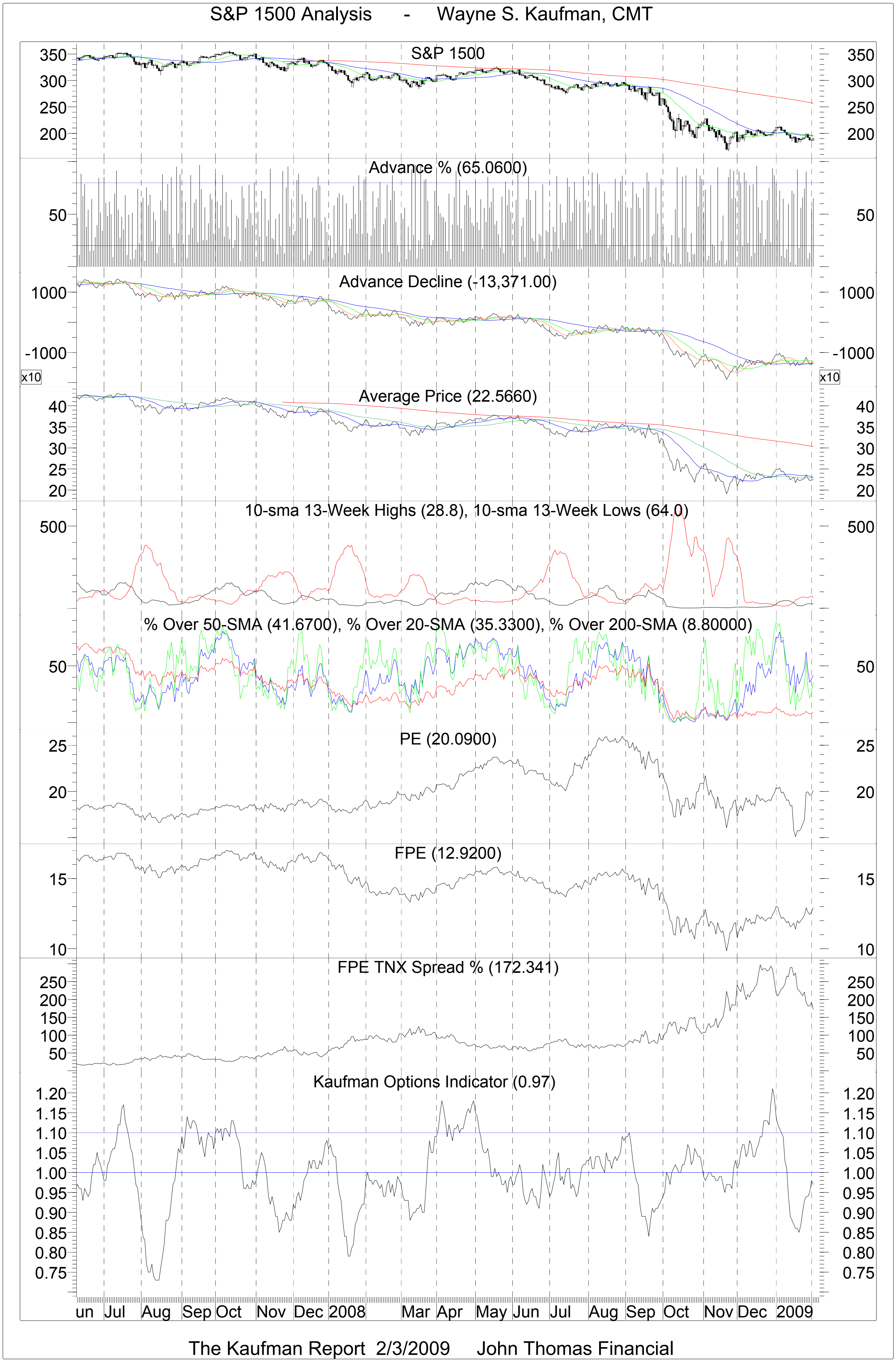


65.06% of stocks traded higher Tuesday.

The P/E and forward P/E ratios are about where they were at the top of January 6th.

Spreads between equity and bond yields have dropped dramatically but are still at levels where stocks would be attractive in normal markets.

Our proprietary options indicator is just under the neutral line.