

Friday February 6, 2009

Closing prices of February 5, 2009

We said Tuesday night “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.” Investors shrugged off weak reports on Jobless Claims and Factory Orders Thursday as stocks rallied on increasing volume. All S&P sectors traded higher led by Energy +2.65% and Materials +2.58%. Short-term indicators are not overbought, leaving room for stocks to trade higher. The S&P 500 and the Dow Jones Industrials remain just below their 20-day moving averages, but the Nasdaq Composite is above its 20 and 50-day averages. This has become a split market, with selectivity being very important.

The key technical focus on the S&P 500 is on the 20-day moving average which recently crossed under the 50-day. The last three times this occurred there were sharp declines. In addition, 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, 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. 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 (191.77) was up 1.627% Thursday. Average price per share was up 1.57%. Volume was 121% of its 10-day average and 140% of its 30-day average. 76.26% of the S&P 1500 stocks were up, with up volume at 63.75% and up points at 80.75%. Up Dollars was 92.27% of total dollars, and was 145% of its 10-day moving average. Down Dollars was 16% of its 10-day moving average. The index is up 2.42% in February, down 6.42% quarter-to-date, down 6.42% year-to-date, and down 46.19% from the peak of 356.38 on 10/11/07. Average price per share is \$22.82, down 47.21% from the peak of \$43.23 on 6/4/07.

The Put/Call Ratio was 0.748. The Kaufman Options Indicator has bounced to 1.02, showing slight optimism.

The spread between the reported earnings yield and 10-year bond yield is 52%, and 160% 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 \$8.45, a drop of 55.94%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$14.48, a drop of 34.03%.

326 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 58.6% had positive surprises, 8.9% were line, and 32.5% have been negative, a high number. The year-over-year change has been -38.3% on a share-weighted basis, -18.8% market cap-weighted and -24.4% non-weighted. Ex-financial stocks these numbers are -15.0%, -5.0%, and -3.3%, respectively.

Federal Funds futures are pricing in a probability of 90% that the Fed will leave rates unchanged, and a probability of 10.0% of raising 25 basis points to 0.50% when they meet on March 17th. They are pricing in a probability of 82.8% that the Fed will leave rates unchanged on April 29th and a probability of 16.4% of raising 25 basis points.

IMPORTANT DISCLOSURES

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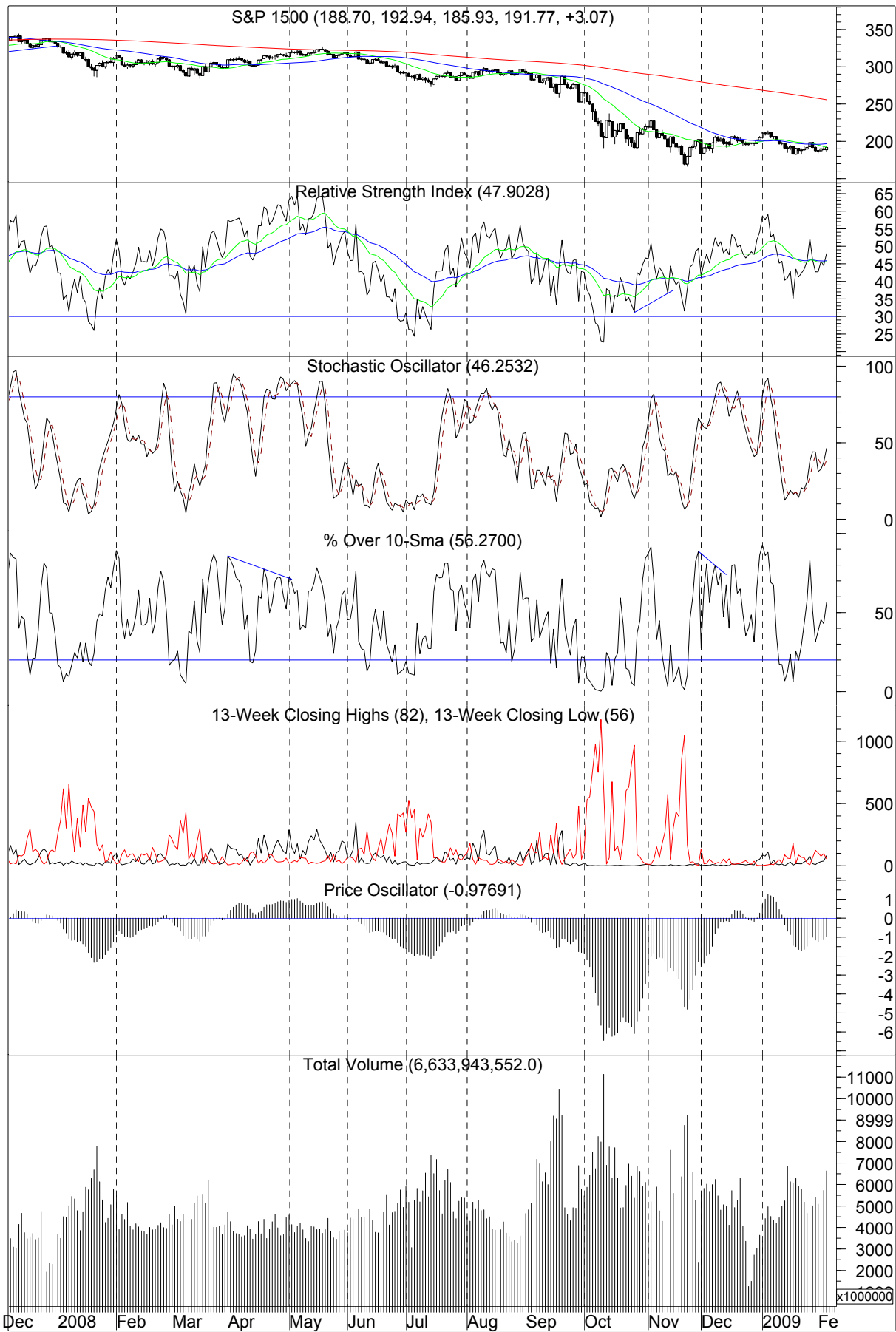
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 500 Cash (831.75, 850.55, 819.91, 845.85, +13.62)



The S&P 500 bounced off the lower trend line of the triangle for the third time on Thursday. It also ran into resistance again at the 20-sma (green). The next resistance after the 20-sma is a zone starting with the 50-sma at 869 and up to 878.

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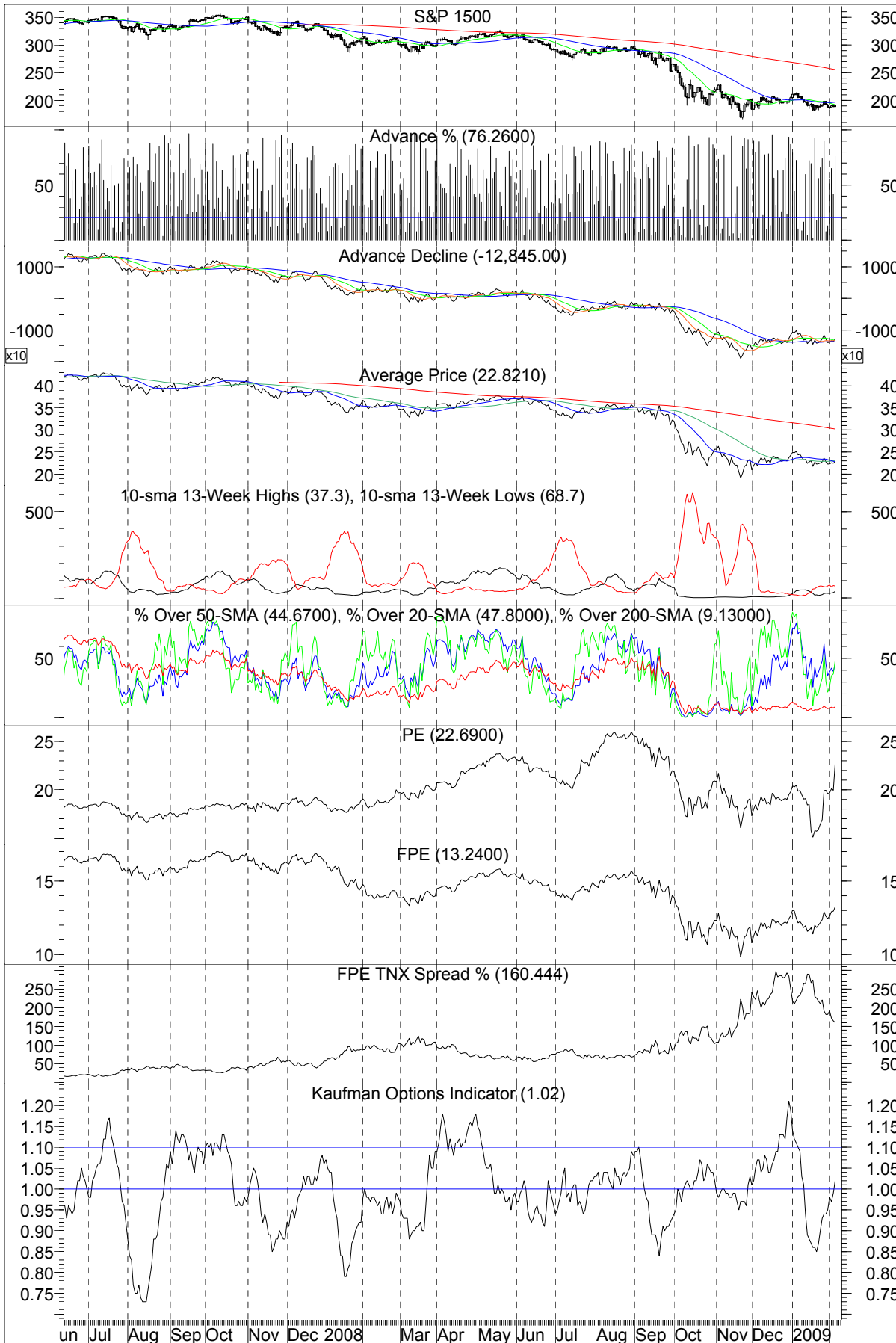


Our short-term momentum indicators have plenty of room to move higher.

13-week closing highs were greater than lows Thursday.

Volume expanded Thursday.

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



76.26% of stocks traded higher Thursday.

The P/E ratio is the highest since 9/26. The forward P/E is the highest since 10/2.

Spreads between earnings and bond yields have dropped to levels not seen since mid-November.

Our options indicator is showing slight optimism.