John Thomas Financial
14 Wall Street, 5th Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Tuesday January 20, 2009 **Closing prices of January 16, 2009**

Stocks followed through Friday after Thursday afternoon's oversold rebound. All S&P sectors traded higher except Financials. We are now entering the heart of earnings season. With Short-term indicators still at oversold levels, spreads between bond and equity yields at extremely wide levels, and with our proprietary options indicator well into negative territory, it will take very bad news to push stocks significantly lower in the near-term. Should earnings news and forecasts come in better than expected, the combination of the recent pessimism and very attractive valuations could lead to a rally.

The S&P 1500 (193.02) was up 0.822% Friday. Average price per share was up 1.21% as small and mid-caps continued to outperform. Volume was 122% of its 10-day average and 134% of its 30-day average. 69.54% of the S&P 1500 stocks were up on the day, with up volume at 57.56% and up points at 78.55%. Up Dollars was 91.28% of total dollars, and was 202% of its 10-day moving average while Down Dollars was 8% of its 10-day moving average. The index is down 5.81% month-to-date, down 5.81% quarter-to-date, down 5.81% year-to-date, and down 45.84% from the peak of 356.38 on 10/11/07. Average price per share is $23.04, down 46.7% from the peak of $43.23 on 6/4/2007For the week the index was down 4.326%.

Put/Call Ratio was 0.986. The Kaufman Options Indicator is showing pessimism at 0.87 after hitting an overbullish 1.21 on 12/30.

The spread between the reported earnings yield and 10-year bond yield is the highest yet at 176%, and a still high 267% 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 $12.25, a drop of 36.13%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $16.34, a drop of 25.56%. *The spread between reported and projected earnings is now the narrowest since February 2008.*

42 companies in the S&P 500 have reported fourth quarter earnings. According to Bloomberg, 50% have had positive surprises, 9.5% have been in line, and 40.5% have been negative, a high number. The year-over-year change has been -186.0% on a share-weighted basis, -221.4% market cap-weighted and +14.6% non-weighted. Ex-financial stocks these numbers are -8.5%, +6.7%, and +1,493.8%, respectively.

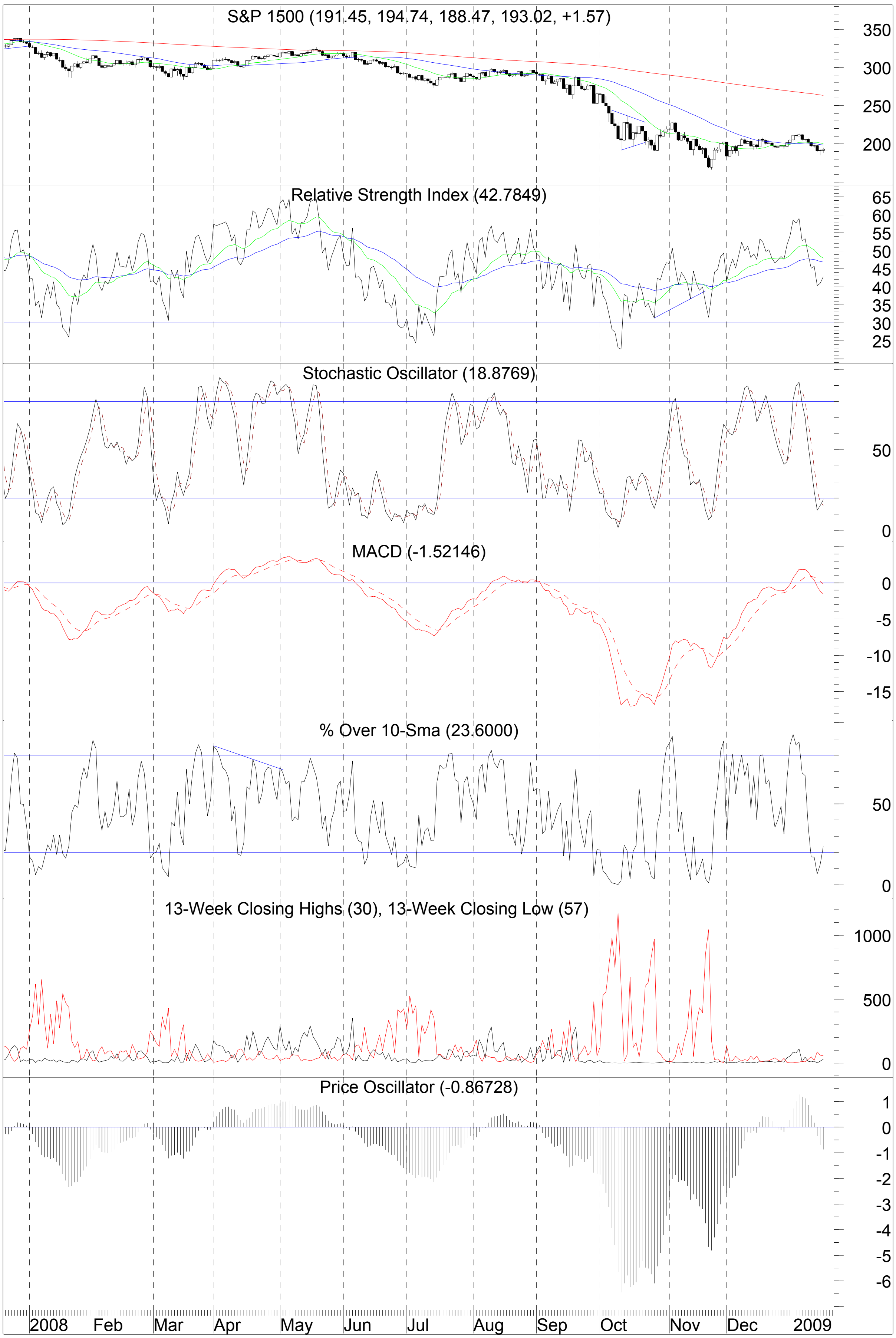
Federal Funds futures are pricing in a probability of 72% that the Fed will *leave rates unchanged*, and a probability of 28.0% of *cutting 25 basis points to 0.00%* when they meet on January 28th. They are pricing in a probability of 68.5% that the Fed will *leave rates unchanged* on March 17th, and a probability 25.7% of *cutting 25 basis points to 0.00%.*

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.

After breaking support at the 857 - 851 zone the S&P 500 found support Thursday at the 817 area, the second time the 816 - 817 area has held as support. Now resistance is at the prior support area, and after that the 20 and 50-sma will be further resistance.

It was a negative week for the S&P 500 but it did print a hammer-like candle on the weekly chart, which confirmed the 816 - 817 area as important support.

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

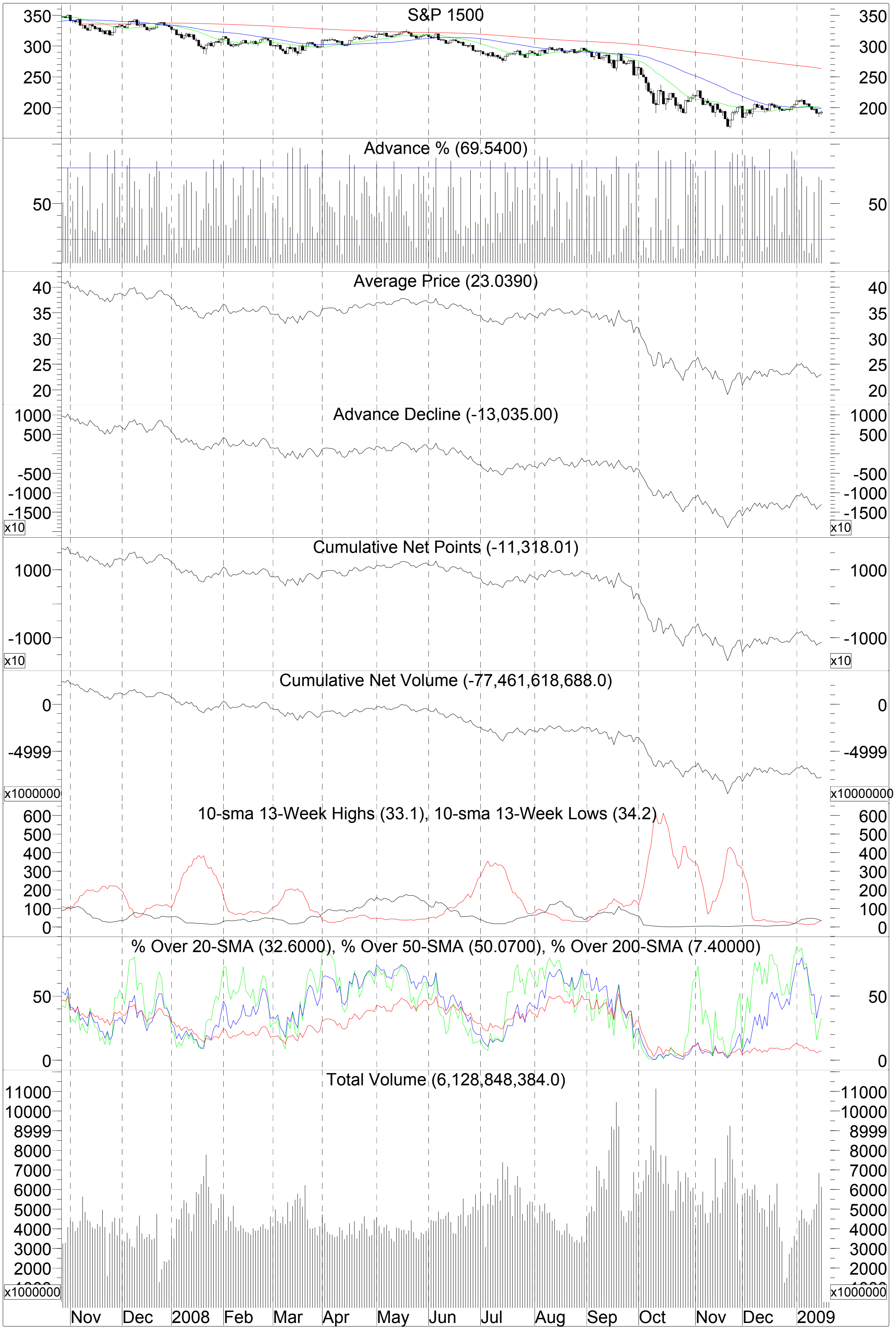


Short-term momentum indicators remain near oversold levels.

Friday had more new lows than highs.

Our price oscillator is back in negative territory.

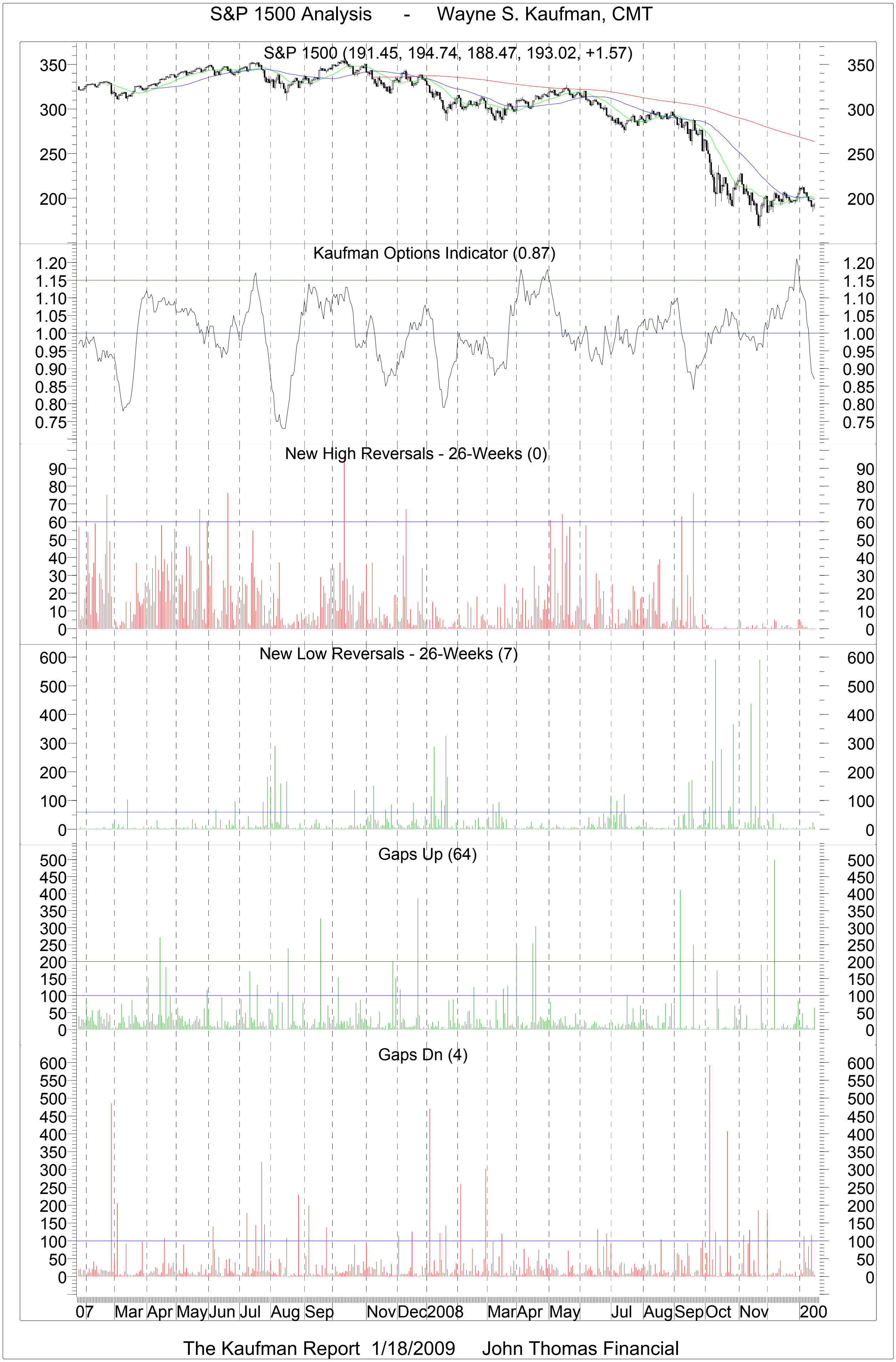
S&P 1500 Analysis - Wayne S. Kaufman, CMT



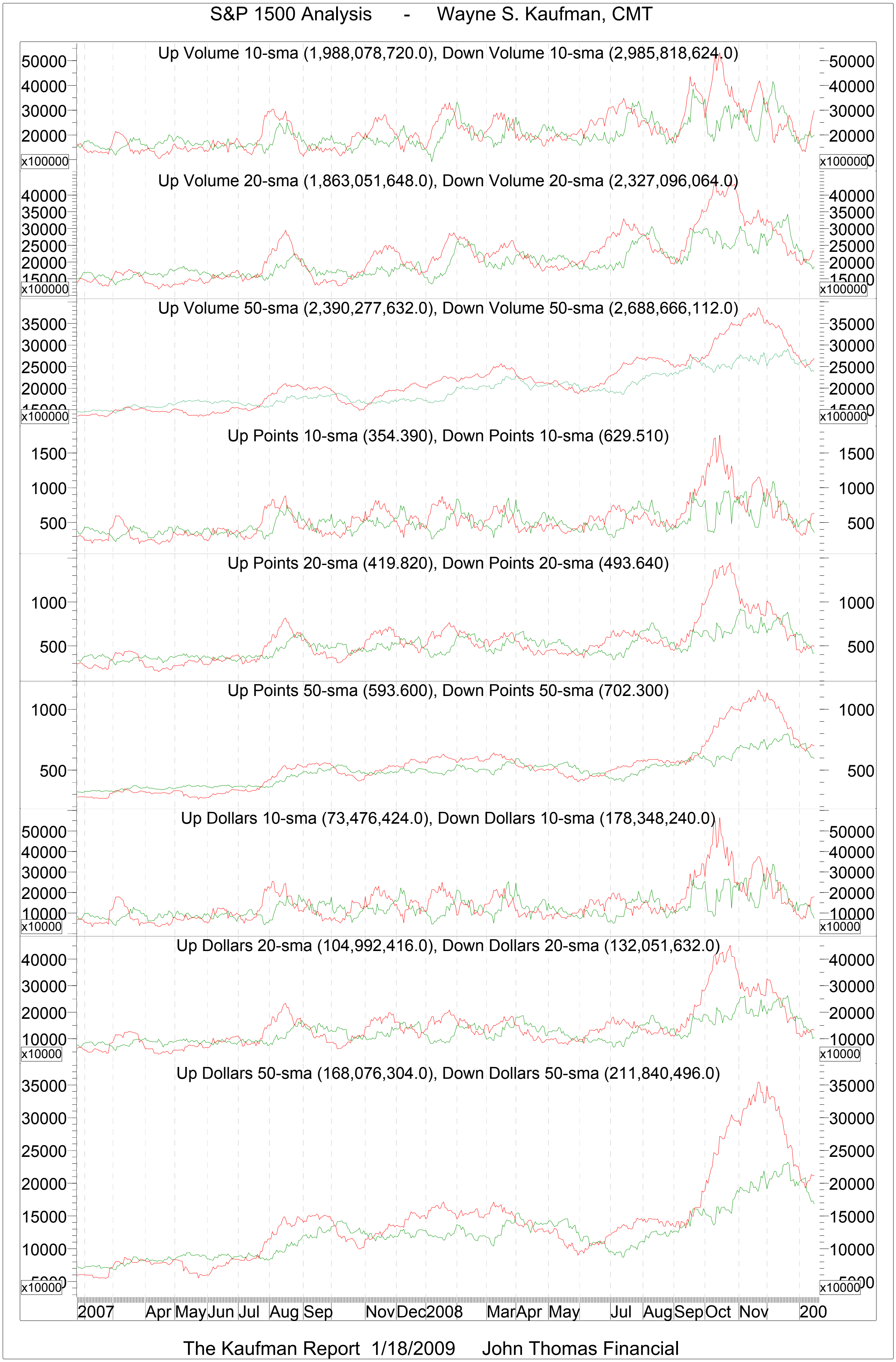
69.54% of stocks traded higher Friday.

The 10-smas of 13-week new highs and lows are about the same.

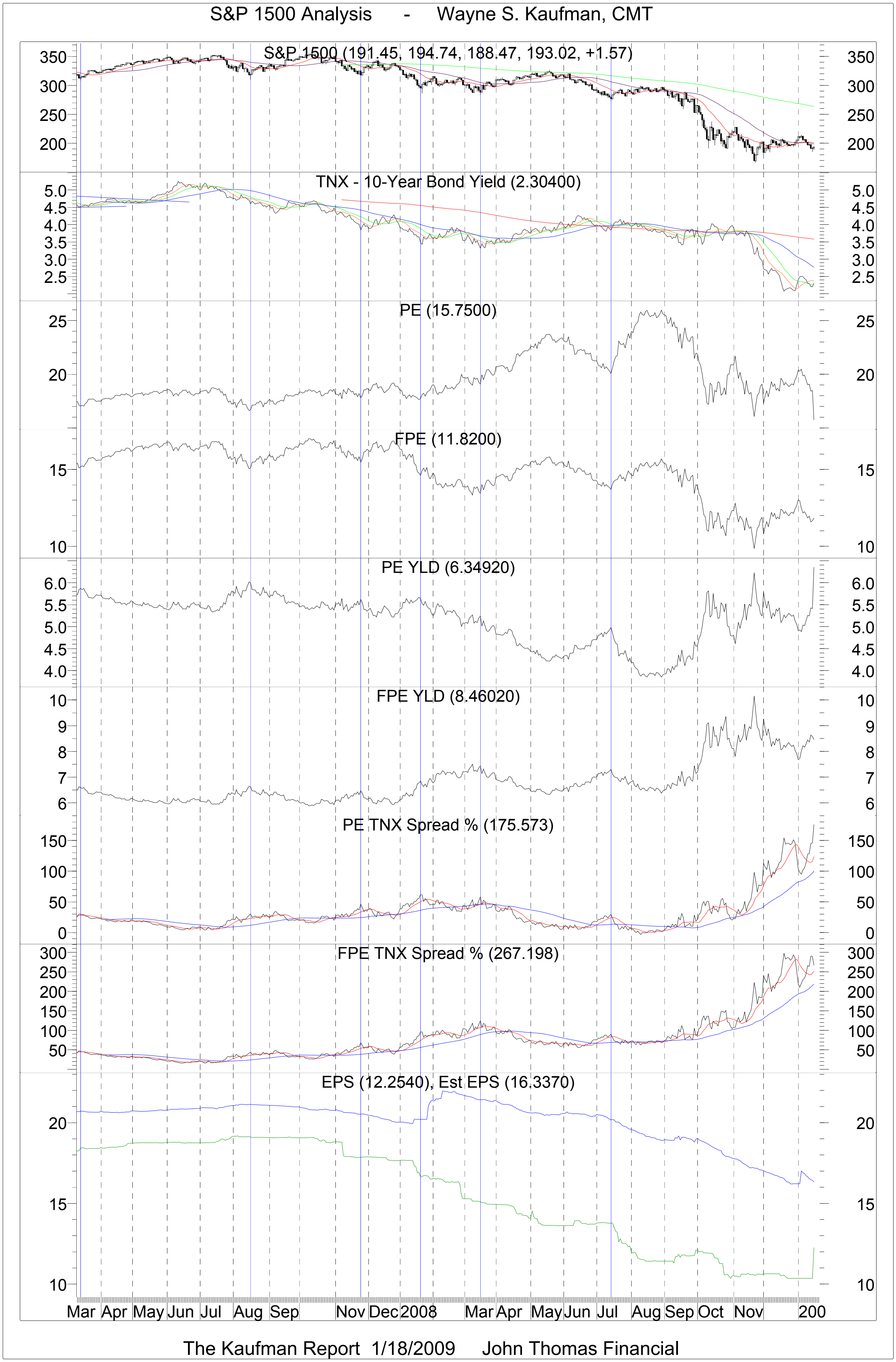
Volume decreased Friday.



Our proprietary options indicator has plunged from extreme optimism to pessimism. It is not yet at levels where important bottoms have been made, but stocks should have limited downside in the short-term and rallies can begin from this level.



Our statistics of supply (red lines) versus demand (green) tell a simple story. Simply put, supply continues to overpower demand as we have negative crossovers for all statistics for all time frames.

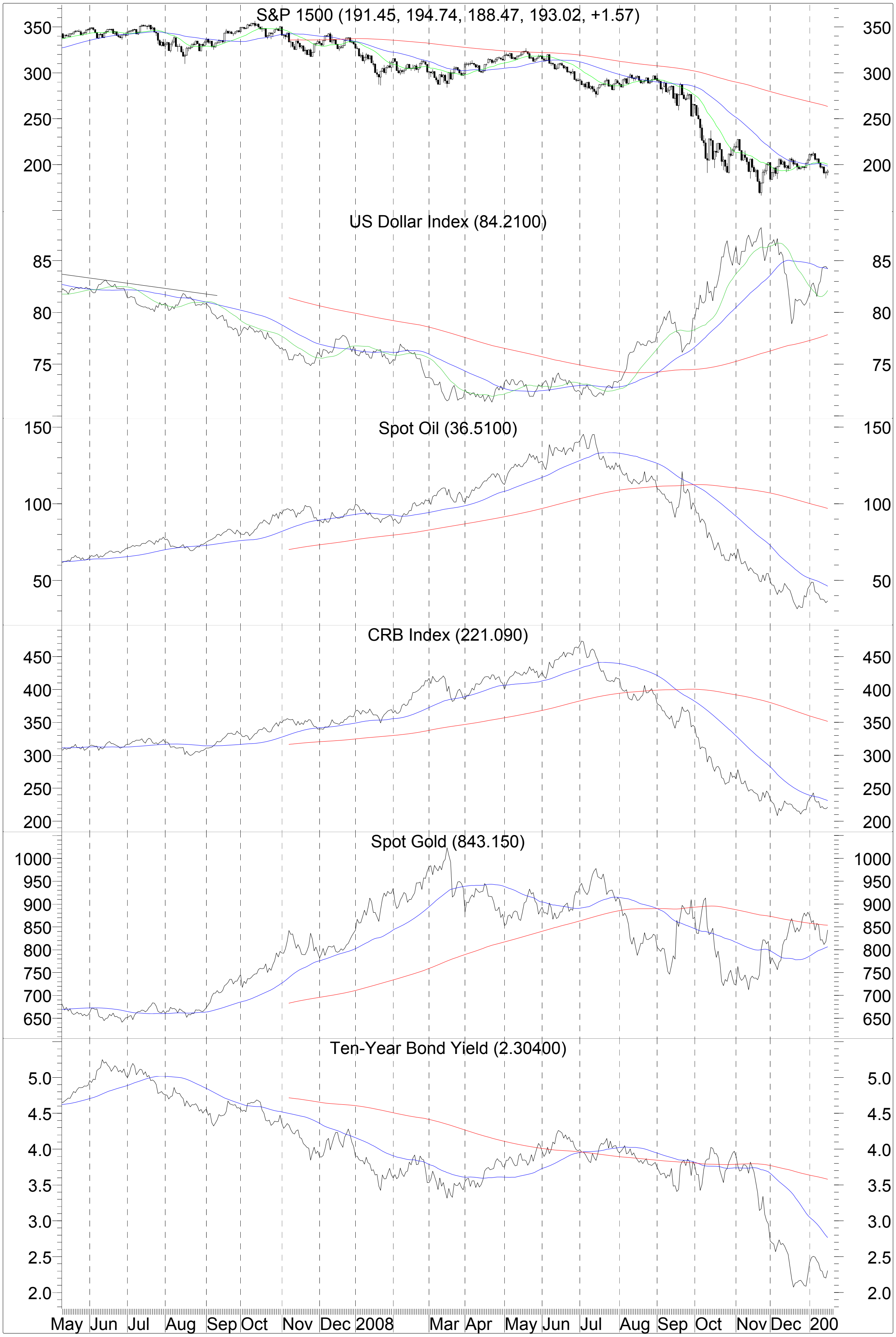


The P/E ratio has plummeted as earnings are reported.

The spread between 10-year bond yields and earnings yields is breaking out to even more incredible levels.

Earnings have jumped up, but the straight up move is partly due to an error by our data provider.

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



The U.S. Dollar Index continues to show strength as it approaches prior resistance levels.

Crude oil bounced up to the 50-sma before dropping again. Support is in the low 30s.

Gold is pinched between the 50-sma (blue) and 200-sma (red).