

Thursday March 12, 2009

Closing prices of March 11, 2009

Tuesday's explosive 90% up day was followed by a mixed day Wednesday as the bulls and bears fought to a near draw. We are hopeful that Tuesday's action was the start of a decent tradable rally. We continue to think that any rally will be of the bear market variety. With the 20-day moving average just above the S&P 500 and options buyers becoming overly optimistic, a pullback is likely to start at any time. Whether or not buyers come in on a pullback will tell us if the rally will continue or if stocks will make another leg down. This remains a market for aggressive traders only, and conservative investors should not worry about missing the ultimate bottom. Avoiding devastating losses is more important for some investors than participating in the first bounce of a new bull market. We think the market will pull back at any time The recent lack of any type of oversold bounce causes us to reiterate our frequent warning from last October that a market that doesn't respond to oversold conditions is dangerous. The short-term, intermediate-term, and the long-term trends remain down. This continues to be an opportunistic trader's market, with adept traders able to take advantage long or short.

*"Every government interference in the economy consists of giving an unearned benefit, extorted by force, to some men at the expense of others". - Ayn Rand*

The S&P 1500 (163.21) was up 0.246% Wednesday. Average price per share was up 0.16%. Volume was 97% of its 10-day average and 111% of its 30-day average. 52.54% of the S&P 1500 stocks were up, with up volume at 65.23% and up points at 53.49%. Up Dollars was 60.21% of total dollars, and was 68% of its 10-day moving average. Down Dollars was 28% of its 10-day moving average. The index is down 2.12% in March, down 20.36% quarter-to-date and year-to-date, and down 54.2% from the peak of 356.38 on 10/11/07. Average price per share is \$19.27, down 55.42% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 57.93. 13-Week Closing Highs: 27. 13-Week Closing Lows: 65.

Put/Call Ratio: 0.751. Kaufman Options Indicator: 1.07 which is showing too much optimism.

The spread between the reported earnings yield and 10-year bond yield is 23%, and 189% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$5.87, a drop of 69.40%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.74, a drop of 37.40%. The spread between reported and projected earnings is 134%, near the widest the level in years. If investors believed the estimates stocks would be much higher.

491 of the S&P 500 have reported 4<sup>th</sup> quarter earnings. According to Bloomberg, 60.3% had positive surprises, 8.2% were line, and 31.5% have been negative, a high number. The year-over-year change has been -61.5% on a share-weighted basis, -22.0% market cap-weighted and -30.9% non-weighted. Ex-financial stocks these numbers are -18.6%, -6.1%, and -12.0%, respectively.

Federal Funds futures are pricing in a probability of 98.0% that the Fed will leave rates unchanged, and a probability of 2.0% of raising 25 basis points to 0.50% when they meet on March 18<sup>th</sup>. They are pricing in a probability of 88.4% that the Fed will leave rates unchanged on April 29<sup>th</sup> and a probability of 9.8% of raising 25 basis points.

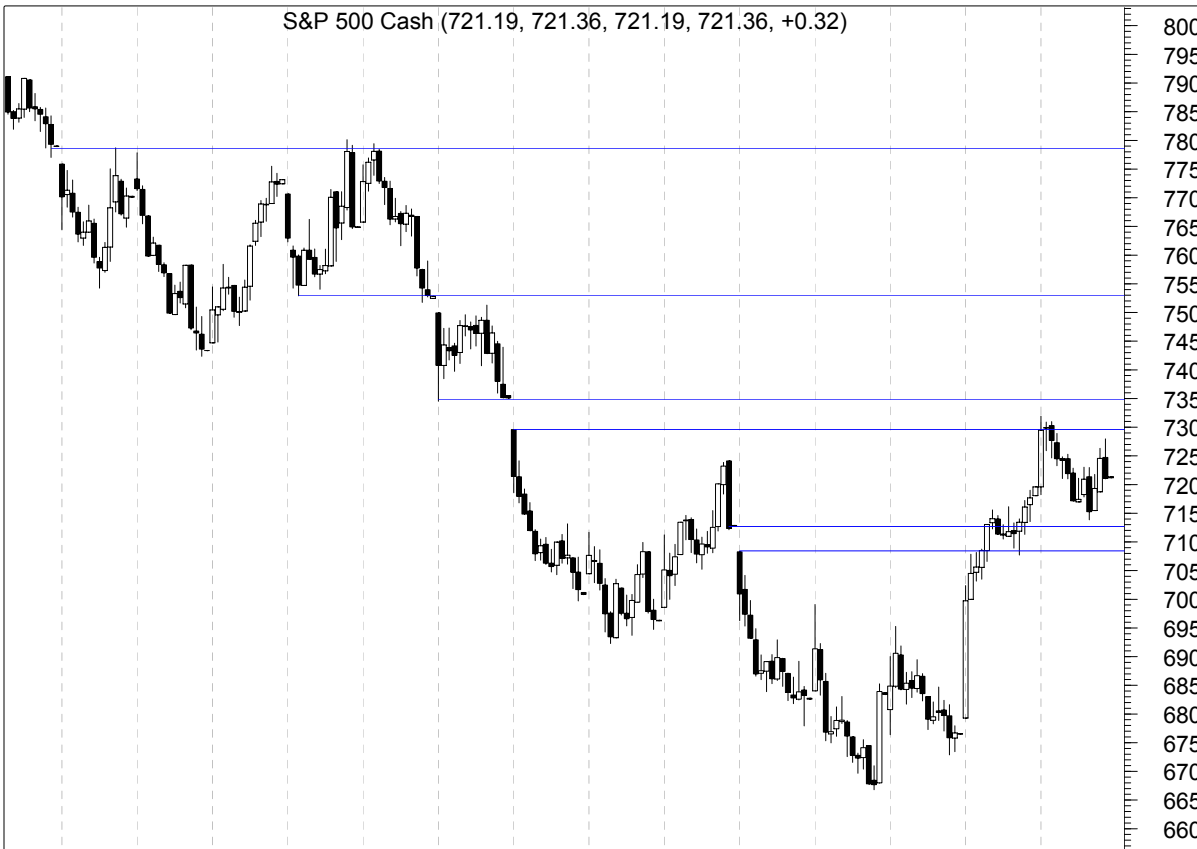
## IMPORTANT DISCLOSURES

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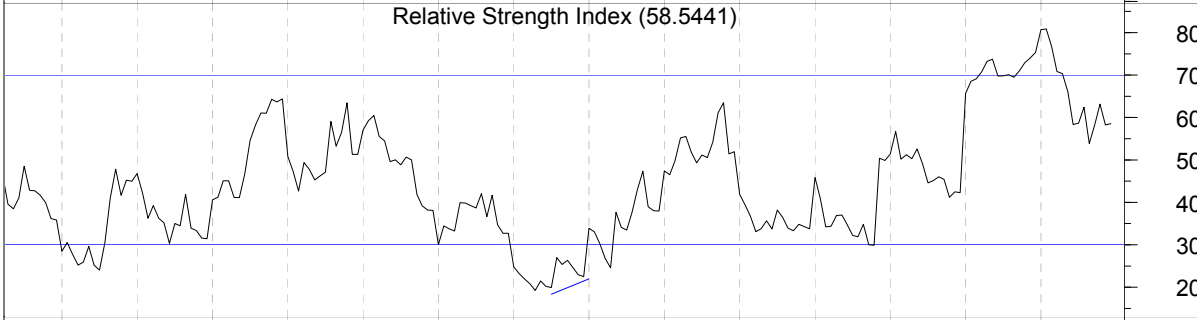
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 500 Cash (721.19, 721.36, 721.19, 721.36, +0.32)

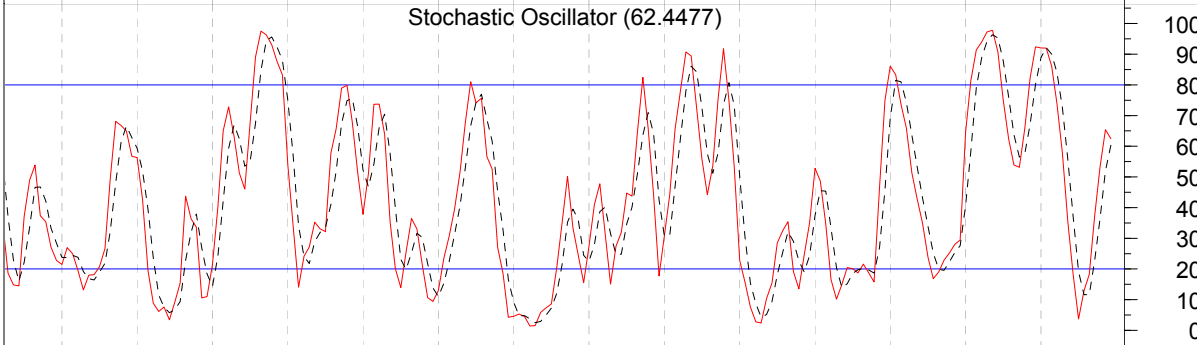


The S&P 500 ran into resistance in the gap at the 730 - 735 area. It broke through the 708 - 712 gap zone on Tuesday and that area should become support.

Relative Strength Index (58.5441)

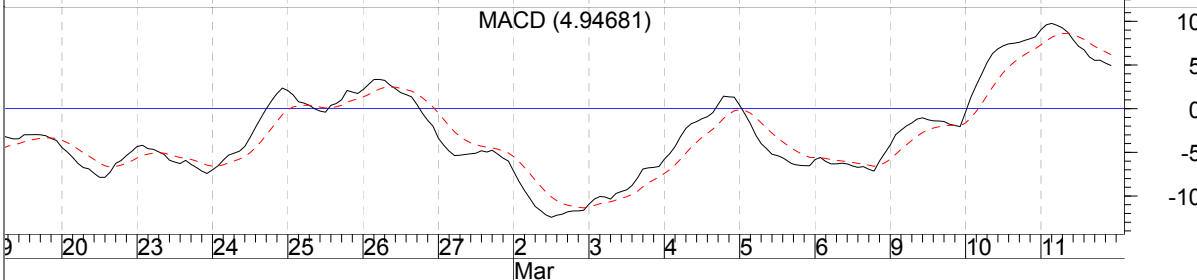


Stochastic Oscillator (62.4477)



The stochastic is near a negative crossover.

MACD (4.94681)



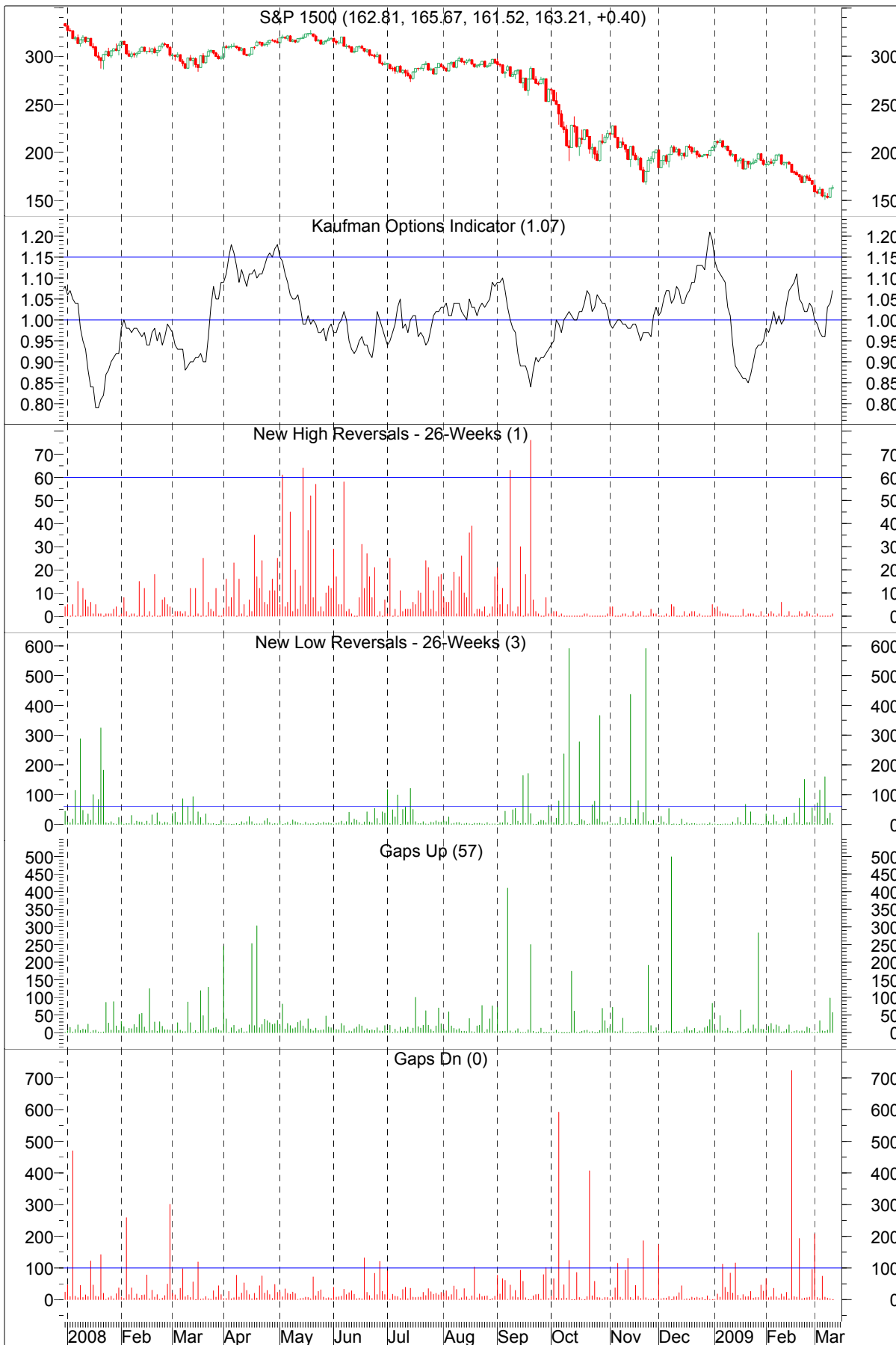
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 500 Cash (719.59, 731.92, 713.85, 721.36, +1.76)



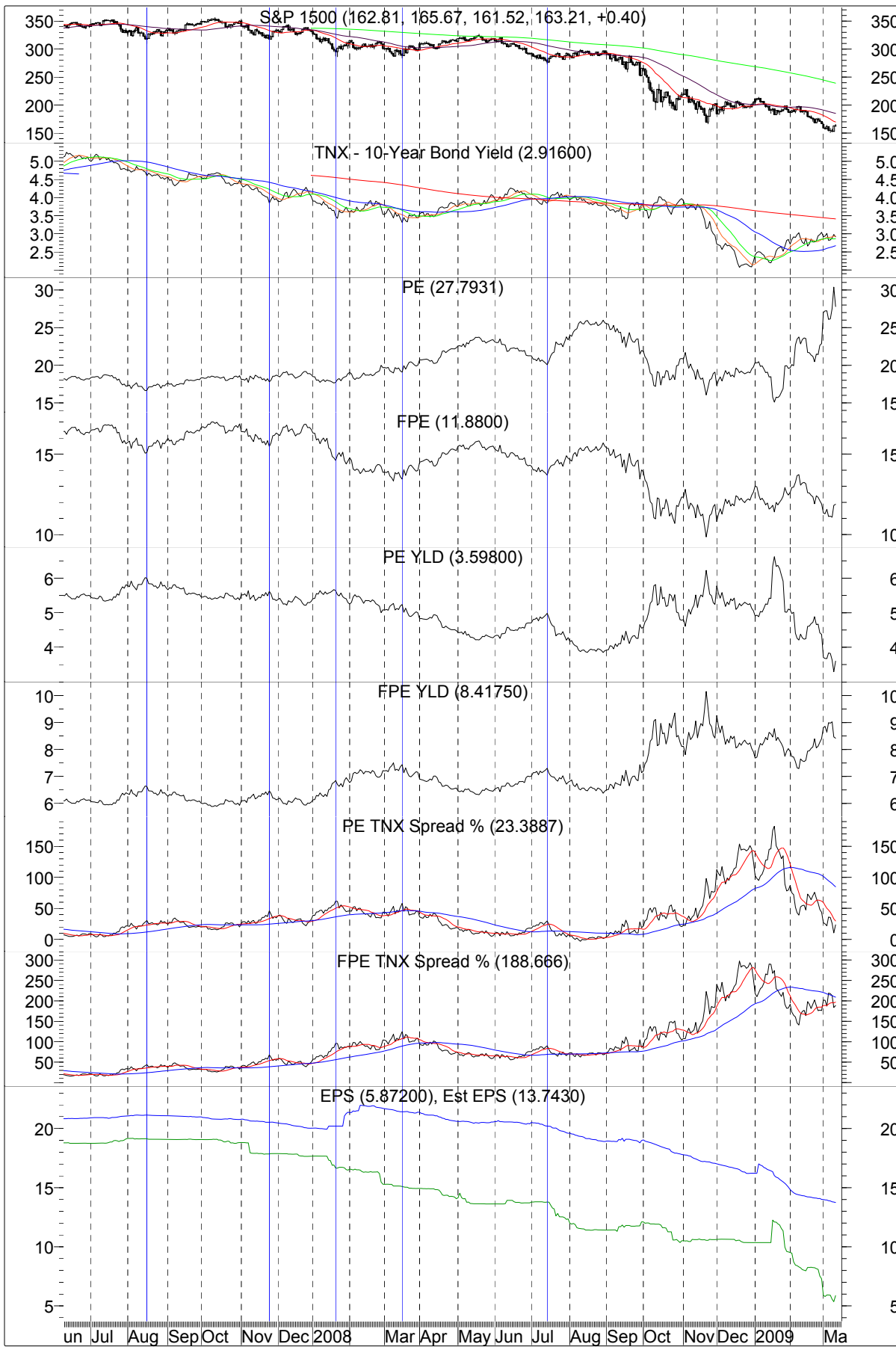
The S&P 500 printed a doji-like candle on the daily chart Wednesday showing the tug-of-war between the bulls and the bears. With the 20-sma (green) not far above and options buyers becoming too optimistic there should be a pull back coming at any time within the next few days.

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Our proprietary options indicator is showing optimism, although not yet the extreme levels we have seen at times.

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The P/E ratio is at high levels, but the forward P/E is reasonable. Do you believe the estimates?

The spread between the current earnings yield and the 10-year bond yield is at worrisome levels. The spread based on the estimates makes stocks look attractive. Again, can we rely on the analyst estimates?