

Tuesday March 24, 2009

Closing prices of March 23, 2009

Everybody into the pool! The liquidity pool, that is. Investors dove into equities Monday after hearing the Treasury Department's plan to take toxic assets off bank balance sheets. Stocks rallied broadly again recording their fourth panic-buying 90% up day since March 10th, and their best two-week gain since 1938. The S&P 1500 was up 7.13%, the best one-day increase since October 28th. Stocks are on pace to record their best month since 1991. Major indexes closed above their 50-day moving averages and market breadth statistics have improved dramatically. Monday saw the most 13 and 26-week closing highs since September 19th, and 93% of stocks are above their own 20-day moving averages, the highest number in many years. In October we warned that a market that doesn't respond to oversold conditions is dangerous, and we said last week the reverse may be true, that an extremely overbought market that doesn't pull back may be the initiation phase of a strong rally. Buyers have been buying the dips, and sellers are nowhere to be found. Hopefully this is not "like deja vu all over again" as Yogi Berra might say, since the market also showed dramatic improvement in early January. Back then we cautioned that with earnings season about to begin we would see if the optimism on the part of investors was justified. It was not. This has certainly been a stronger rally, but unless investors are completely discounting bad first quarter numbers that same caveat applies once again. Of course, we never argue with a rally and we will continue to play this one until the market tells us otherwise.

The short-term and intermediate-term trends are now up, while the long-term trend remains down. This continues to be an opportunistic trader's market, with adept traders able to take advantage long or short. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders. Stocks are extremely overbought, so investors should be careful with entry points.

The S&P 1500 (186.44) was up 7.13% Monday. Average price per share was up 7.35%. Volume was 98% of its 10-day average and 107% of its 30-day average. 98.06% of the S&P 1500 stocks were up, with up volume at 98.19% and up points at 99.23%. Up Dollars was 99.99% of total dollars, and was 290% of its 10-day moving average. Down Dollars was 17/100 of 1% of its 10-day moving average. The index is up 11.81% in March, down 9.02% quarter-to-date and year-to-date, and down 47.69% from the peak of 356.38 on 10/11/07. Average price per share is \$22.22, down 48.6% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 95.13. 13-Week Closing Highs: 175. 13-Week Closing Lows: 4.

Put/Call Ratio: 0.700. Kaufman Options Indicator: 1.08.

The spread between the reported earnings yield and 10-year bond yield is 17%, and 171% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$5.82, a drop of 69.66%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.46, a drop of 38.68%. The spread between reported and projected earnings is 131%, near the widest level in years. If investors believed the estimates stocks would be much higher. 493 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 60.1 % had positive surprises, 8.1% were line, and 31.8% have been negative, a high number. The year-over-year change has been -61.4% on a share-weighted basis, -22.0% market cap-weighted and -30.8% non-weighted. Ex-financial stocks these numbers are -18.7%, -6.1%, and -12.1 %, respectively.

Federal Funds futures are pricing in a probability of 92.0% that the Fed will leave rates unchanged, and a probability of 8.0% of cutting 25 basis points to 0.0% when they meet on April 29th. They are pricing in a probability of 78.6% that the Fed will leave rates unchanged on June 24th and a probability of 14.7% 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.

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S&P 500 Cash (823.33, 823.37, 822.91, 822.92, +0.33)



In spite of an overbought condition the S&P 500 has broken through multiple resistance levels.

Momentum indicators are very overbought.

S&P 500 Cash (772.31, 823.37, 772.31, 822.92, +54.38)

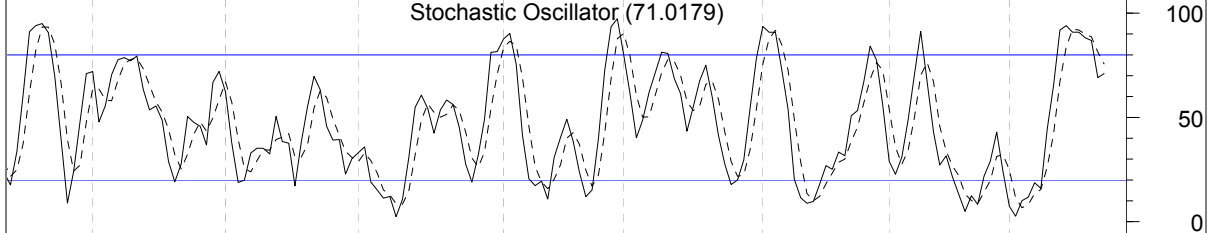


The daily chart shows the break over the 50-day moving average (blue).

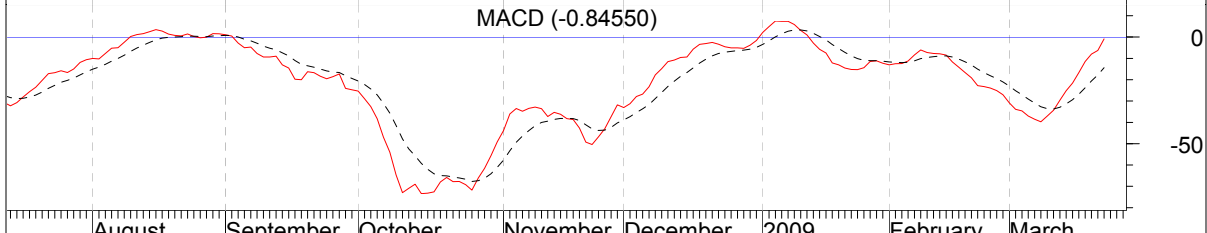
Relative Strength Index (61.4221)



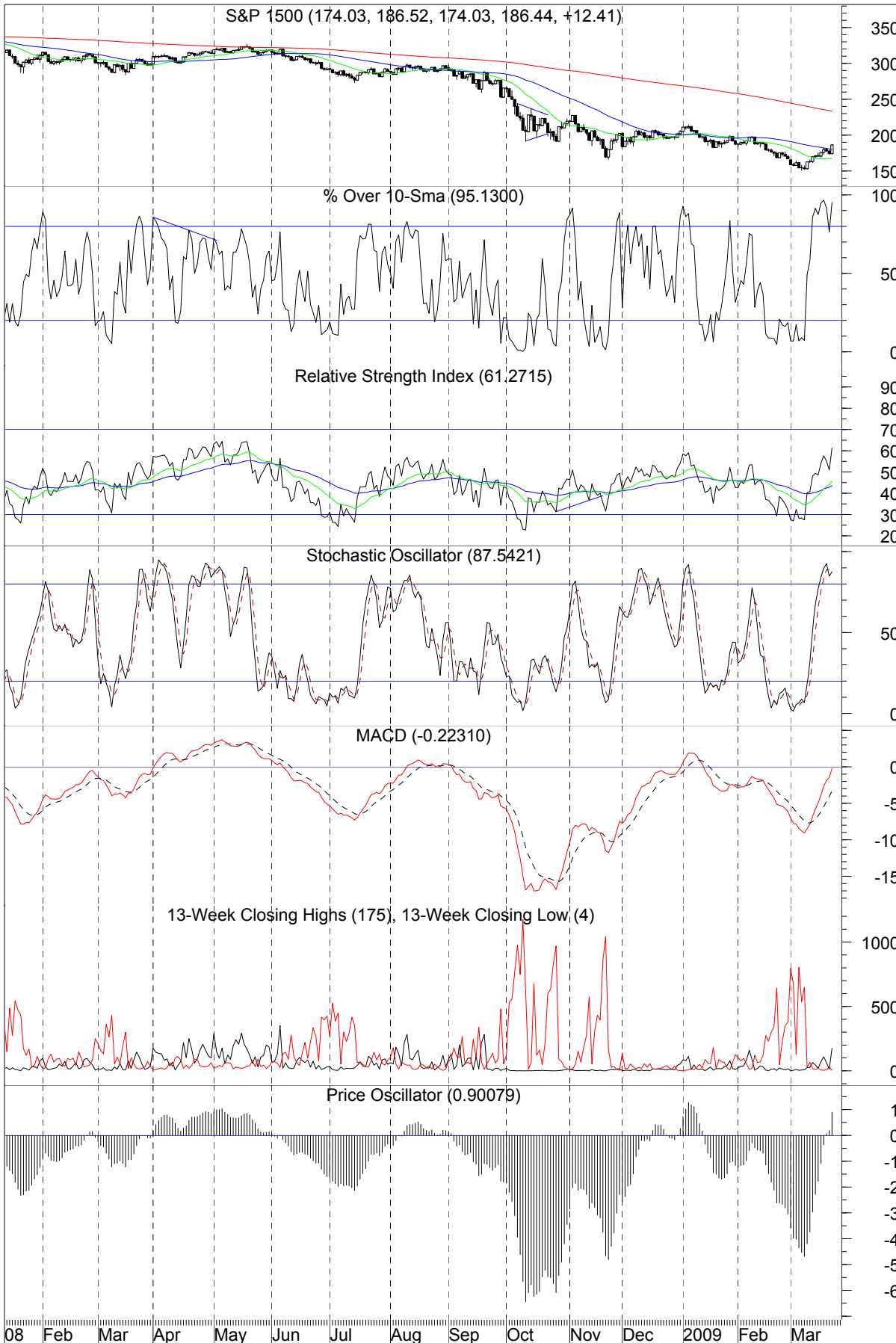
Stochastic Oscillator (71.0179)



MACD (-0.84550)



August September October November December 2009 February March



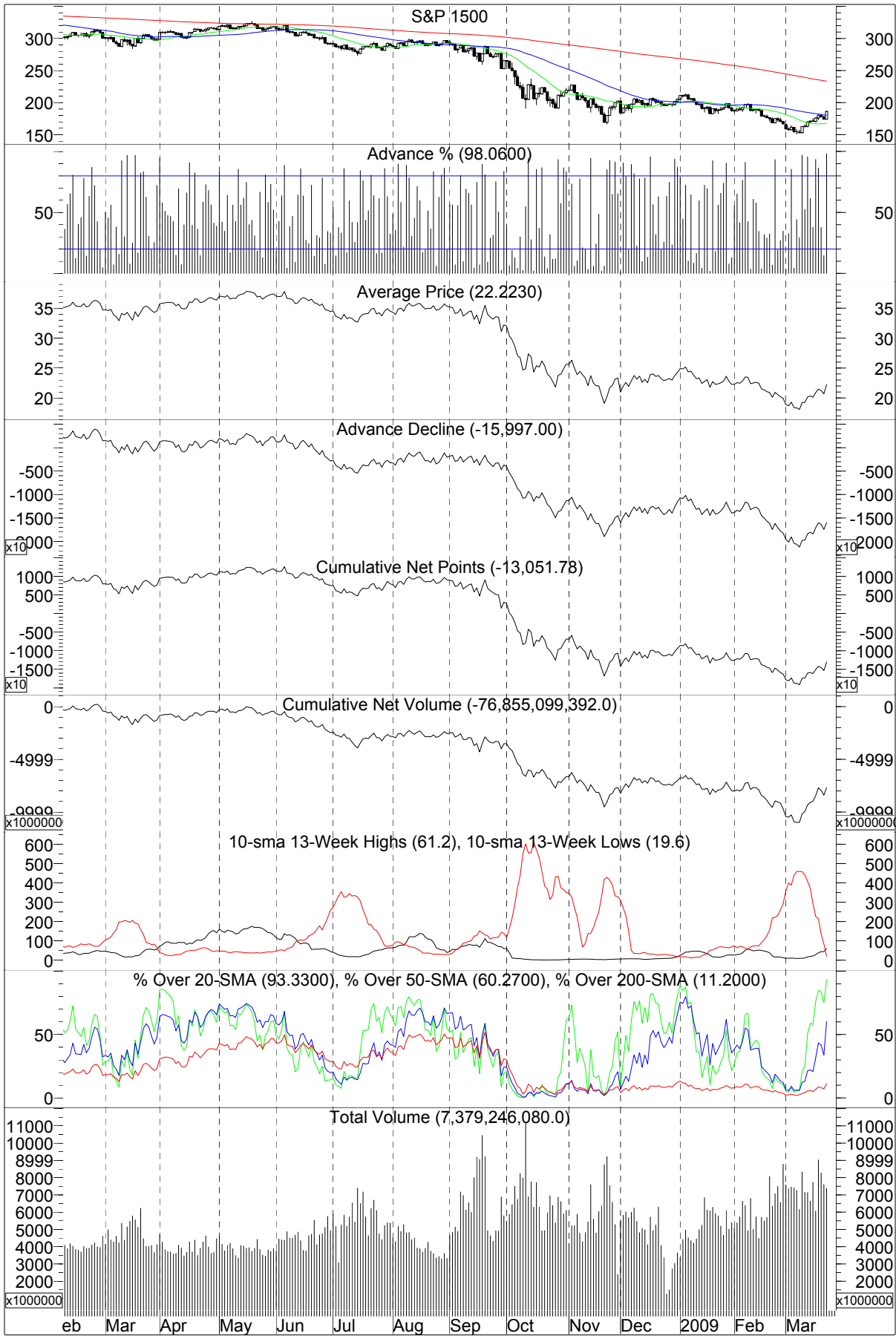
Overbought .

RSI is breaking out.

Also overbought .

Most 13-week closing
highs since 9/19.

08 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009 Feb Mar

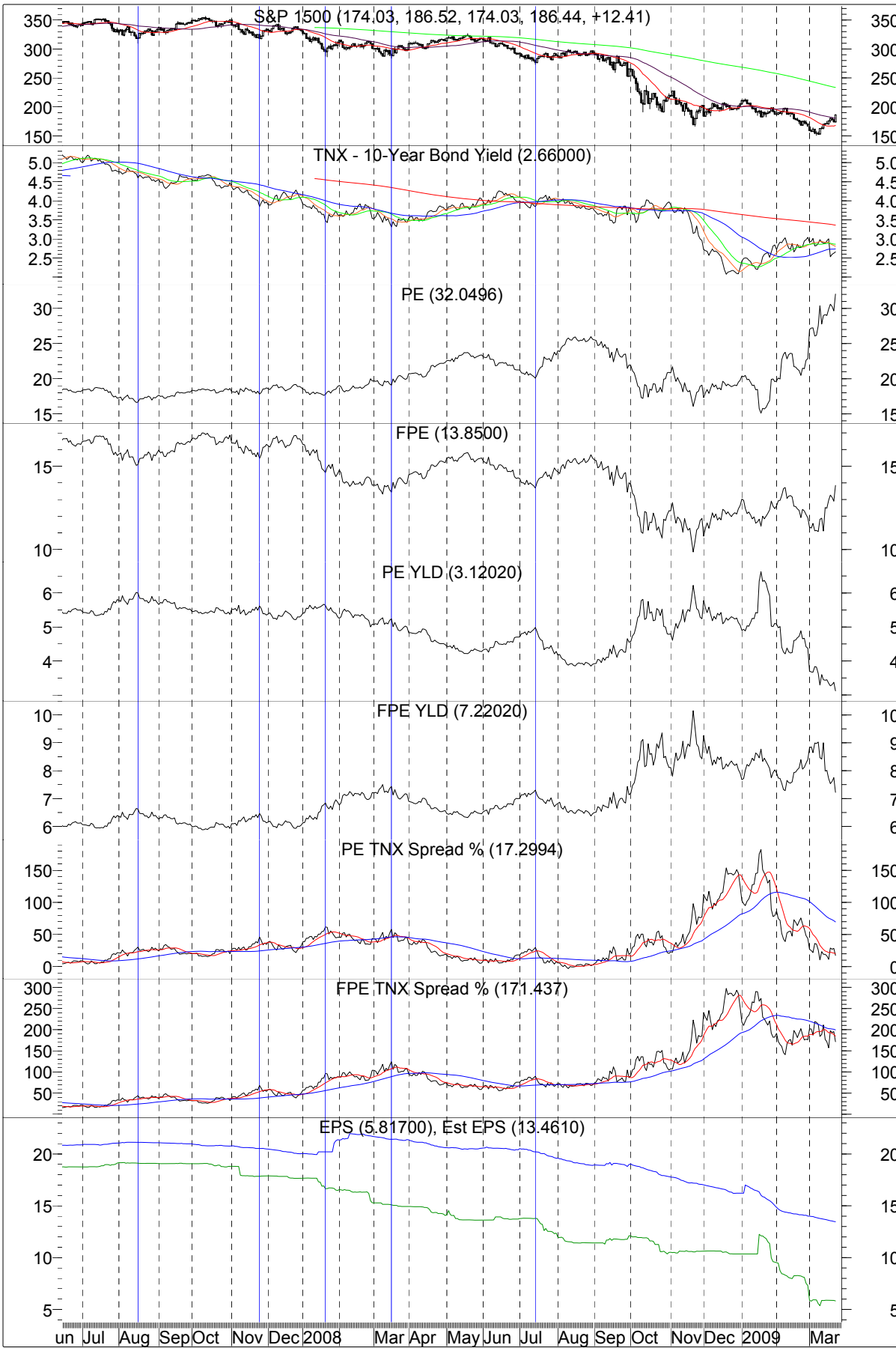


Another plus 90% day.

Positive crossover here.

% over 20-sma at the highest in years.

Volume decreased Monday.



P/E and forward P/E seem to be getting into the danger area.