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The Kaufman Report

Trade what you see, not what you think.

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Thursday March 26, 2009 **Closing prices of March 25, 2009**

Stocks bounced back Wednesday from Tuesday's selloff to close higher in a roller coaster session. Eight of the ten S&P sectors closed higher led once again by Financials +4.57%. In October we warned that a market that doesn't respond to oversold conditions is dangerous, and we said last week the reverse may apply now, 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 haven't been aggressive. 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. Still, stocks remain short-term overbought, and we are getting concerned about valuations based on spreads between earnings yields and bond yields. Therefore, investors should be careful with entry points.

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 (184.34) was up 0.953% Wednesday. Average price per share was up 1.28%. Volume was 101% of its 10-day average and 108% of its 30-day average. 75.03% of the S&P 1500 stocks were up, with up volume at 61.23% and up points at 80.38%. Up Dollars was 88.95% of total dollars, and was 58% of its 10-day moving average. Down Dollars was 19% of its 10-day moving average. The index is up 10.55% in March, down 10.05% quarter-to-date and year-to-date, and down 48.27% from the peak of 356.38 on 10/11/07. Average price per share is $21.96, down 49.2% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 86.2%. 13-Week Closing Highs: 71. 13-Week Closing Lows: 7.
Put/Call Ratio: 0.859. Kaufman Options Indicator: 1.05.
The spread between the reported earnings yield and 10-year bond yield is 14%, and 162% 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 $13.41, a drop of 38.91%. 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 96.0% that the Fed will *leave rates unchanged*, and a probability of 4.0% of cutting *25 basis points to 0.0%* when they meet on April 29th. They are pricing in a probability of 79.4% that the Fed will *leave rates unchanged* on June 24th and a probability of 17.3% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

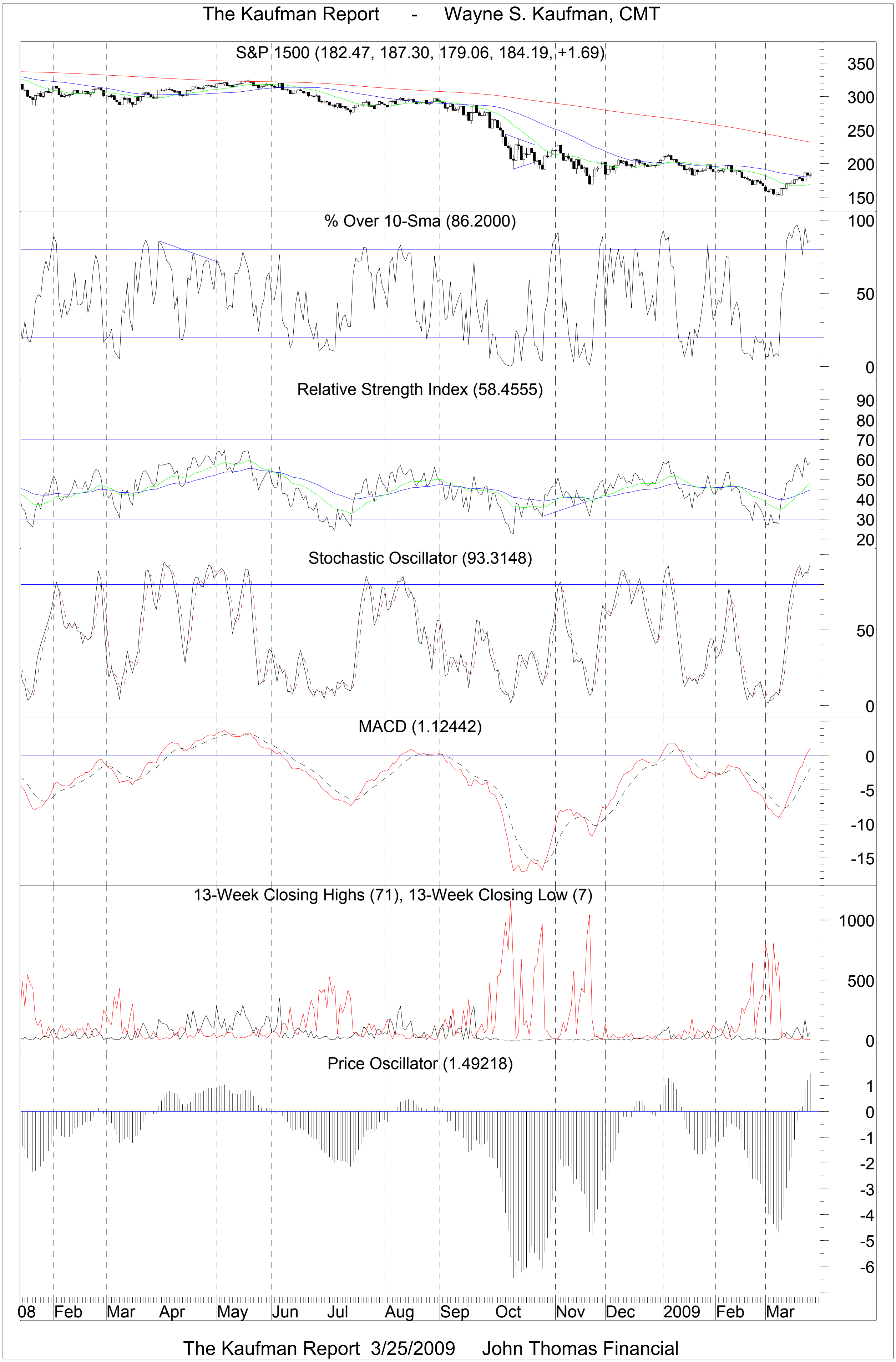
I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The S&P 500 is in an area of multiple resistance levels on the intra-day chart. Momentum indicators are neutral.

The S&P 500 printed a high wave spinning top candle on the daily chart Wednesday. That is a candle of indecision highlighting the tug-of-war between the bulls and bears. The index found support at the 50-sma.

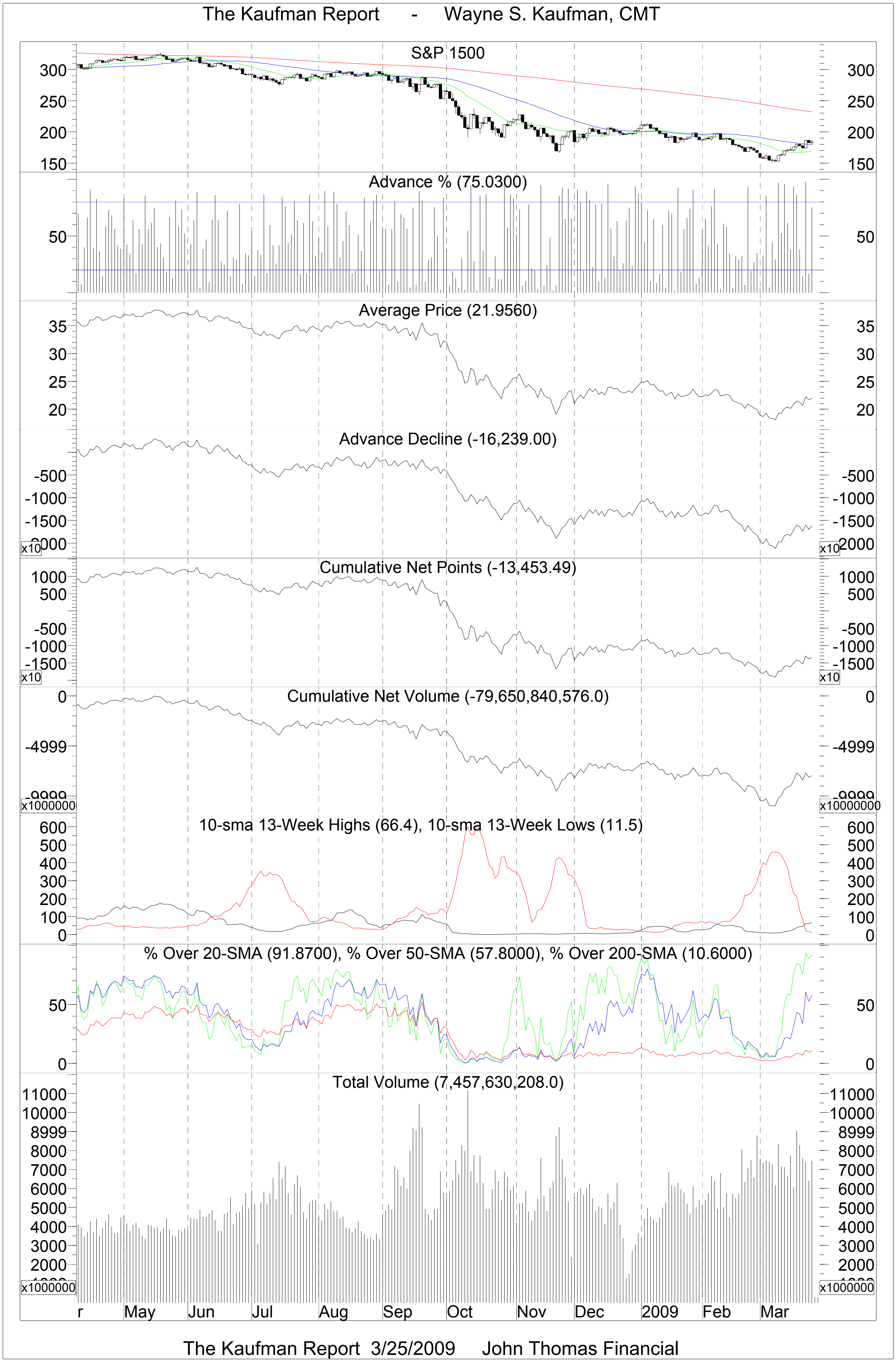
Momentum indicators are at high levels.

The Nasdaq 100 also printed a high wave spinning top on its daily chart as it continues to trade in a sideways channel.



Our momentum indicators remain at overbought or high levels.

Our price oscillator is solidly positive, and has reached levels where stocks have pulled back in the past.



The 10-sma of 13-week closing highs is above that of 13-week closing lows. The 10-sma of 26-week closes (not shown)is also showing a positive crossover for the first time since 9/19.

Volume was lower during Tuesday's down day and increased during Wednesday's rally.

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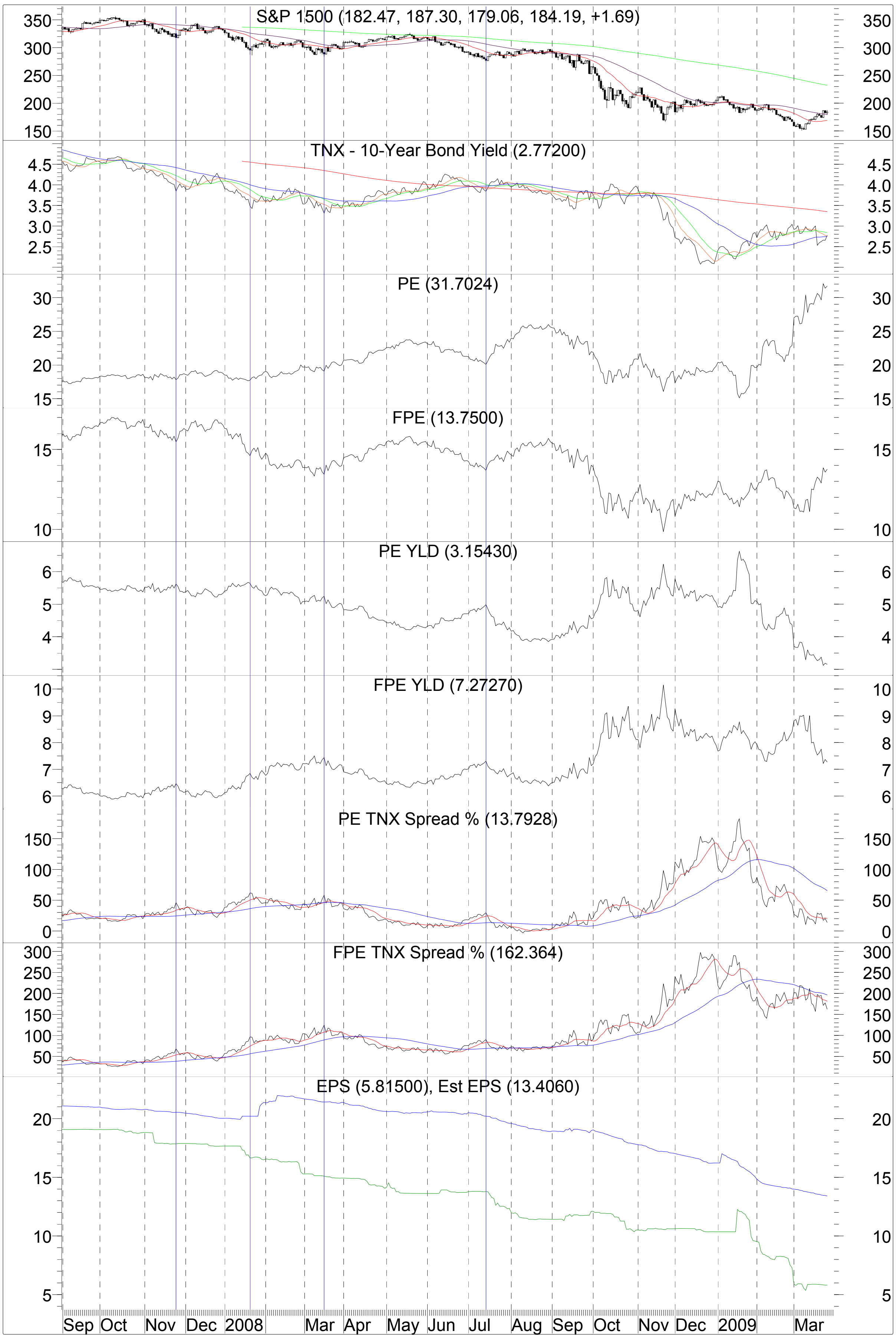

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P/E and forward P/E ratios are getting worrisome.

Equity versus bond yield spreads are also a cause for concern.