

Monday March 30, 2009

Closing prices of March 27, 2009

Stocks sold off Friday on lighter volume, which is good for the bulls and certainly isn't a negative for this strong rally. The S&P 500 had its third straight positive week, and is on pace for its best month since 1991. Last week all ten S&P sectors were up, and they are all up for the month. In October we warned that a market that doesn't respond to oversold conditions is dangerous, and it was. We have said for two weeks that 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. **However, we do think there is a good chance negative expectations for earnings are already built in.** After all, who doesn't know at this point how bad things are? At the same time, some recent data points have given investors cause for optimism. Our short-term road map would like to see some final end of the quarter window dressing to push stocks higher before pulling back as investors move to the sidelines ahead of first quarter earnings. Therefore, investors should be careful with entry points and not let profits from the recent rally slip away. As the early first quarter reports come in investors will need to be on their toes for what promises to be an exciting period.

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.

The S&P 1500 (185.00) was down 2.111% Friday. Average price per share was down 2.59%. Volume was 74% of its 10-day average and 76% of its 30-day average. 11.25% of the S&P 1500 stocks were up, with up volume at 11.81% and up points at 5.75%. Up Dollars was ¾ of 1% of total dollars, and was 1% of its 10-day moving average. Down Dollars was 265% of its 10-day moving average. The index is up 10.95% in March, down 9.73% quarter-to-date and year-to-date, and down 48.01% from the peak of 356.38 on 10/11/07. Average price per share is \$22.17, down 48.72% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 76.6%. 13-Week Closing Highs: 25. 13-Week Closing Lows: 11.

Put/Call Ratio: 0.917. Kaufman Options Indicator: 1.02.

The spread between the reported earnings yield and 10-year bond yield is 13%, 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 \$5.78, a drop of 69.86%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.36, a drop of 39.13%. 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.

496 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 60.1 % had positive surprises, 8.3% were line, and 31.6% have been negative, a high number. The year-over-year change has been -61.3% on a share-weighted basis, -22.0% market cap-weighted and -30.6% 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

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Economic News

3/27/09 – Personal Income in February was -0.2% versus the -0.1% estimate. Personal Spending was +0.2% matching estimates, but lower than January's +0.6%. The PCE Deflator YoY was +1% versus the +0.8% estimate. PCE Core MoM was +0.2%, matching estimates. PCE Core YoY was +1.8% versus the +1.6% estimate. University of Michigan Confidence for March was 57.3 versus the 56.8 estimate.

3/26/09 – Fourth quarter GDP was -6.3% annualized versus the -6.6% estimate. 4Q Personal Consumption was -4.3% versus the -4.4% estimate. The GDP Price Index was +0.5%, matching estimates, and Core PCE QoQ was +0.9% versus the +0.8% estimate. Initial Jobless Claims were reported at 652K versus the 650K estimate. Continuing Claims were 5,560K versus the 5,475K estimate.

3/25/09 – Durable Goods Orders for February were +3.4% versus the -2.5% estimate, the biggest gain in over a year and the first in seven months. Ex-transport it was +3.9% versus the -2.0% estimate. Durable Goods inventories fell 0.9% after dropping 1.1% in January, the biggest two-month drop since 2003. Mortgage Applications for w/e 3/20 were +32.2% over the prior week, the third straight increase. Refinances were up 42%. New Home Sales in February were +4.7% from January to 337K annualized versus the -2.9% estimate. The median sale price fell 18% YoY, the biggest drop since records began in 1964.

3/24/09 – The House Price Index for January was up 1.7% month-over-month versus the estimate of down 0.9%. The Richmond Fed manufacturing Index for March was -20 versus the -50 estimate. The ABC News U.S. Weekly Consumer Confidence Index for March 22nd was -49 versus -47 the week before.

3/23/09 – Existing Home Sales in February were a better than expected 4.72 million annualized versus the estimate of 4.45 million. They were also up 5.1% versus January much better than the estimate of down 0.9%.

3/19/09 – Initial Jobless Claims for w/e 3/14 were 646,000, better than the estimate of 655,000. Continuing Claims for w/e 3/7 came in at 5,473,000 versus the 5,323,000 estimate. The Conference Board's Index of Leading Indicators for February was down 0.4% versus the estimate of a decrease of 0.6%. January's number was revised down from +0.4% to +0.1%. The Philadelphia Fed Index of manufacturing shrank for the 15th time in 16 months, coming in at -35.0 versus the estimate of -39.0.

3/18/09 – The FOMC left rates unchanged as expected, but announced they will buy as much as \$300 billion of Treasuries and increase purchases of agency mortgage backed securities by up to \$750 billion. This caused the biggest decline in 10-year bond yields since records started in 1962. The Consumer Price Index for February was +0.4% versus the +0.3% estimate and up from +0.3% in January. Excluding food and fuel costs the core rate was +0.2%, pushing the annual core rate to +1.8% versus the +1.7% estimate. The U.S. Account Deficit for Q4 narrowed more than forecast to \$132.8 billion, the smallest since 2003. Mortgage applications for w/e 3/13 were +21.2%. This includes purchases and refinances.

3/17/09 – U.S. Producer Prices for February rose 0.1% versus the 0.4% estimate. Excluding food and fuel core prices rose 0.2% versus the 0.1% estimate. U.S. Housing Starts in February unexpectedly surged from a record low of 583,000 annualized versus the 450,000 estimate. This was the biggest jump since 1990. Building permits were reported at 547,000 annualized versus the 500,000 estimate.

3/16/09 – The Empire Manufacturing Index (New York) for March came in at -38.23 versus the estimate of -30.80. New orders and shipments dropped to record lows and the inventories index hit the lowest level since 2001. U.S. Industrial Production for February dropped for the fourth month in a row coming in at -1.4% versus the -1.3% estimate, reflecting automobile cutbacks and plunging exports. Factory Capacity Utilization fell to 70.9%, matching the lowest level ever. Net Long-Term TIC Flows for January were -\$43.0 billion versus the estimate of +\$45.0 billion as international demand for U.S. financial assets fell.

3/13/2009 – The Trade Balance for January came in at -\$36 billion versus the estimate of -\$38 billion. The trade deficit narrowed in January to the lowest level in 6 years as imports fell faster than exports. The narrower gap was mainly due to the drop in petroleum prices. The Import Price Index for February fell -0.2% MoM versus the estimate of -0.7%. YoY it was -12.8% versus the -13.5% estimate. A concern for the U.S. economy is the slump in foreign demand for American made goods. Exports decreased 5.7% to \$124.9 billion, the lowest since September 2006. The World Bank said the global economy is likely to shrink for the first time since WWII, and trade will decline by the most in 80 years.

Economic News

3/12/09 – Initial Jobless Claims for w/e 3/7 were 654K versus the 644K estimate, up 9K from the prior week. The 4-week average rose to 650K, the most in over 26-years. Continuing Claims for w/e 2/28 were 5,317K versus the 5,140K estimate. Retail Sales fell 0.1%, less than the forecast -0.5%. Sales less autos climbed 0.7% versus the -0.1% estimate. Business Inventories in January fell faster than sales and were at a 1.43 month supply, the same as December. This shows progress matching inventory to sales, and combined with the increase in retail sales could indicate a stabilizing in the largest part of the economy.

3/11/09 – Mortgage Applications for w/e 3/6 were up 11.3% led by refinancing +13.1%. U.S. foreclosures hit a record 121,756 in February which was up 67% versus January.

3/10/09 – Wholesale Inventories for January were down 0.7% versus the -1.0% estimate. This was the 5th straight monthly decrease, the longest in almost 7 years. Sales dropped 2.9% and there was a 1.3 month supply of inventory, the most since January 2002. China's exports for February plunged 25.7% Y-o-Y, while car sales were up 24%. China's consumer prices in February fell 1.6% Y-o-Y, the first decline in over 6-years. British Industrial Output, which equals 18% of their economy, fell 2.6% in January and 11.4% Y-o-Y, the worst drop since 1981 and the lowest total since April 1993.

3/9/09 – Brazil's Industrial Production plunged a record 17.2% in January Y-o-Y. Japan posted a current account deficit for January of \$1.76 billion. Exports to the U.S. were down 53%.

3/6/09 – The Unemployment Rate in February was 8.1%, the highest since 1983. The estimate was 7.9%. The change in Non-Farm Payrolls showed a loss of 651,000 jobs versus the estimate of 650,000. The January number of 598,000 was revised to a loss of 655,000 jobs. Consumer Credit in January rose by \$1.76 billion versus the estimate of a decrease of \$5 billion. This was the first rise in four months.

2/18/09 – Housing Starts for January were the lowest on record at 466,000 annualized, missing the forecast of 529,000 and falling 17% from December. Building permits dropped 4.8% to 521,000 annualized.

2/17/2009 – Empire Manufacturing Index, which shows NY manufacturing, was -34.65 in February versus the -23.75 estimate. It dropped from -22.2 in January for the fastest drop ever. Net long-term TIC inflows, which shows international demand for U.S. financial assets, was \$34.8 billion in December, up from -\$21.7 billion in November and above the \$20 billion estimate.

2/16/09 – Japanese GDP dropped 3.3% from the prior quarter, or 12.7% annualized, the biggest drop since 1974. Exports dropped at an 45% annualized rate as the synchronized global contraction hurts countries where global trade is extremely important.

2/12/09 – Jobless claims for w/e 2/7 were 623k versus 610k estimated. The 4-week moving average of 607,500 is the most since November 1982. Continuing claims w/e 1/30 were 4,810k versus estimated 4,800k, and rose the 4th week in a row to another record. Business Inventories for December -1.3% versus -0.09% estimate, biggest drop since 2001. Sales -3.2% after -5.7% in November. 1.4 months of inventory highest since April 2001. January Retail Sales +1% versus -0.8% estimate rose for the first time since July. Gasoline sales +2.6%, sales at auto dealers and parts stores up 1.6% for the first gain since August.

2/11/09 – China exports fell 17.5% year-over-year in January, the most in 13 years. Imports plunged by a record 43.1%. The \$39.1 billion trade surplus was China's 2nd biggest ever. Numbers may be skewed by the Chinese New Year.

2/6/09 – The Unemployment Rate in January hit 7.6%, slightly above the 7.5% estimate. This was up from 7.2% in December and the highest since 1992. Payrolls fell by 598,000 (estimate 540,000), the biggest decline since December 1974. This is the first time since the beginning of payroll records in 1939 that job losses exceeded 500,000 for three consecutive months. Average Hourly Earnings increased 3.9% year-over-year.

2/5/09 – Initial Jobless Claims increased by 35,000 for the week ending 1/31 to 626,000, the highest number since October 1982. Continuing Claims hit a record 4.788 million for the week ending 1/24. Silver lining: Productivity rose 3.2% in the fourth quarter versus a 1.6% forecast. U.S. December Factory Orders dropped 3.9% versus a -3.1% estimate. Excluding transportation equipment (cars and aircraft) orders fell 4.4%.



The S&P 500 intra-day chart shows the index not far from oversold levels based on our momentum indicators.

S&P 500 Cash (828.68, 828.68, 813.43, 815.94, -16.92)



The S&P 500 is in a short and intermediate-term up trend as it nears major resistance levels. With short-term indicators overbought the odds favor a period of consolidation. Should the index break through resistance in spite of this overbought condition it will show tremendous demand for equities.

S&P 500 Cash (772.31, 832.98, 772.31, 815.94, +47.40)



The S&P 500 has followed through to the upside after printing a bullish engulfing candle on the weekly chart the week ending 3/13. It is up three weeks in a row but is not yet overbought on the weekly chart, although it ran into resistance in the form of the 20-week moving average.

NASDAQ 100 (1,251.47, 1,251.47, 1,251.47, 1,251.47, +0.65)

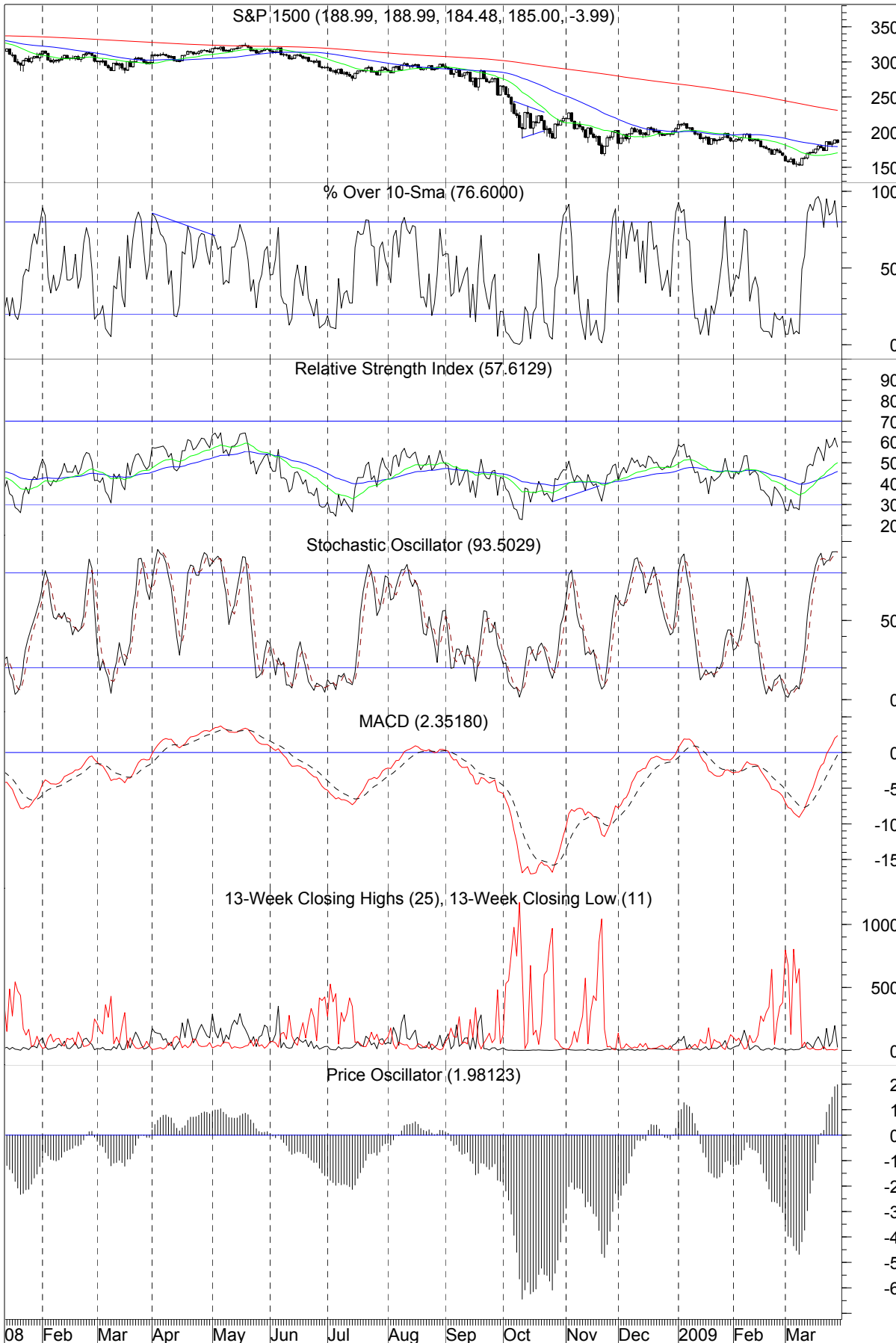


The Nasdaq 100 is at a support zone with momentum indicators at low levels. The stochastic is oversold.

NASDAQ 100 (1,263.62, 1,267.27, 1,248.87, 1,251.47, -29.83)



The Nasdaq 100 remains in its sideways channel. A break above resistance at the 1287 area would be very bullish.

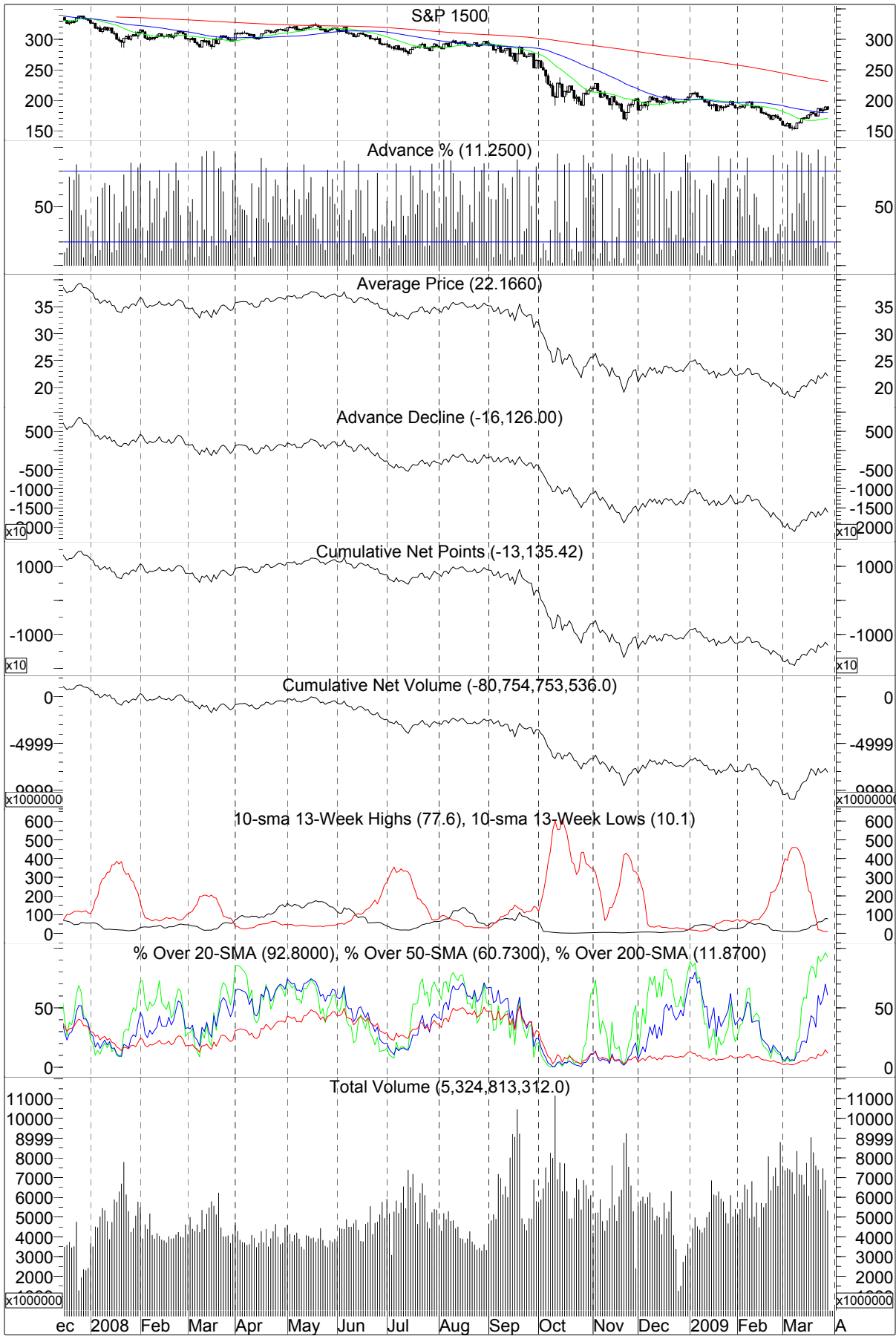


The percent over 10-sma is coming down from the overbought zone. The amount of time it has spent in that zone is indicative of the strength of the current rally.

The stochastic remains high in the overbought zone.

Our price oscillator, a good indicator of trends, is in positive territory, very high above the neutral line.

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



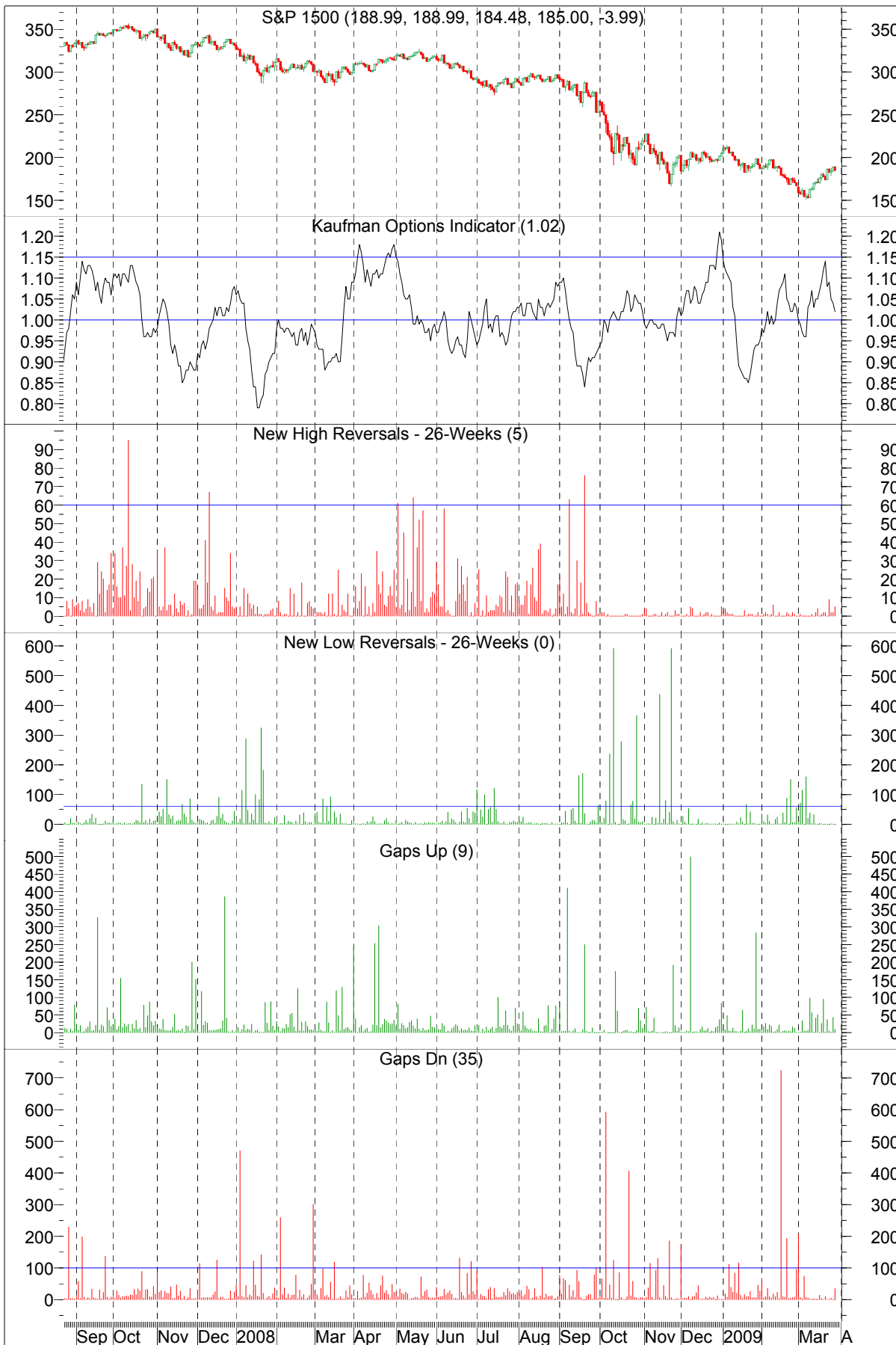
11.25% of stocks traded higher Friday.

The 10-sma of 13-week highs is above the 10-sma of 13-week lows. The same positive crossover exists for the 26-week highs and lows.

92.8% over the 20-sma is a huge number.

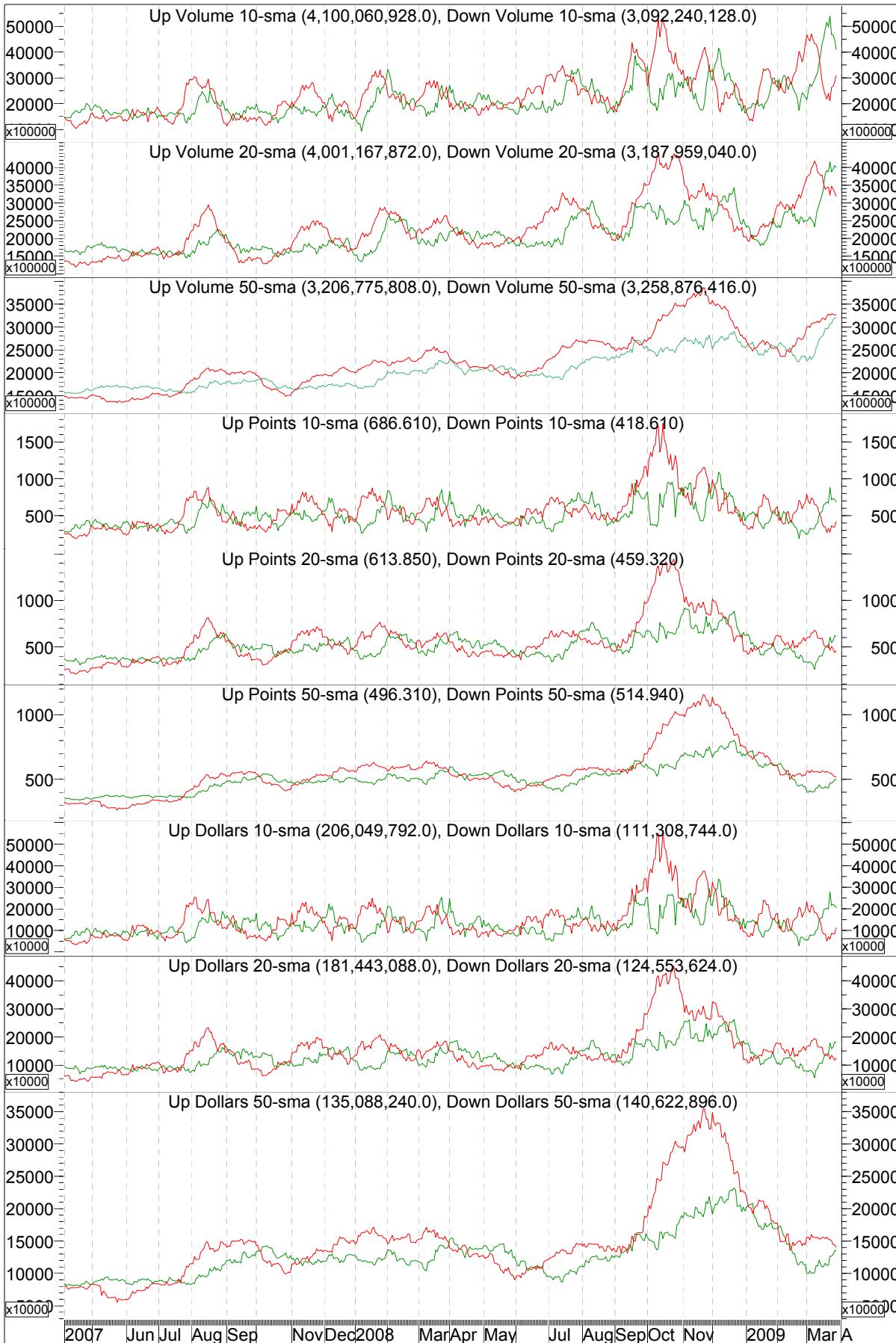
Volume decreased dramatically during Friday's sell off.

The Kaufman Report - Wayne S. Kaufman, CMT

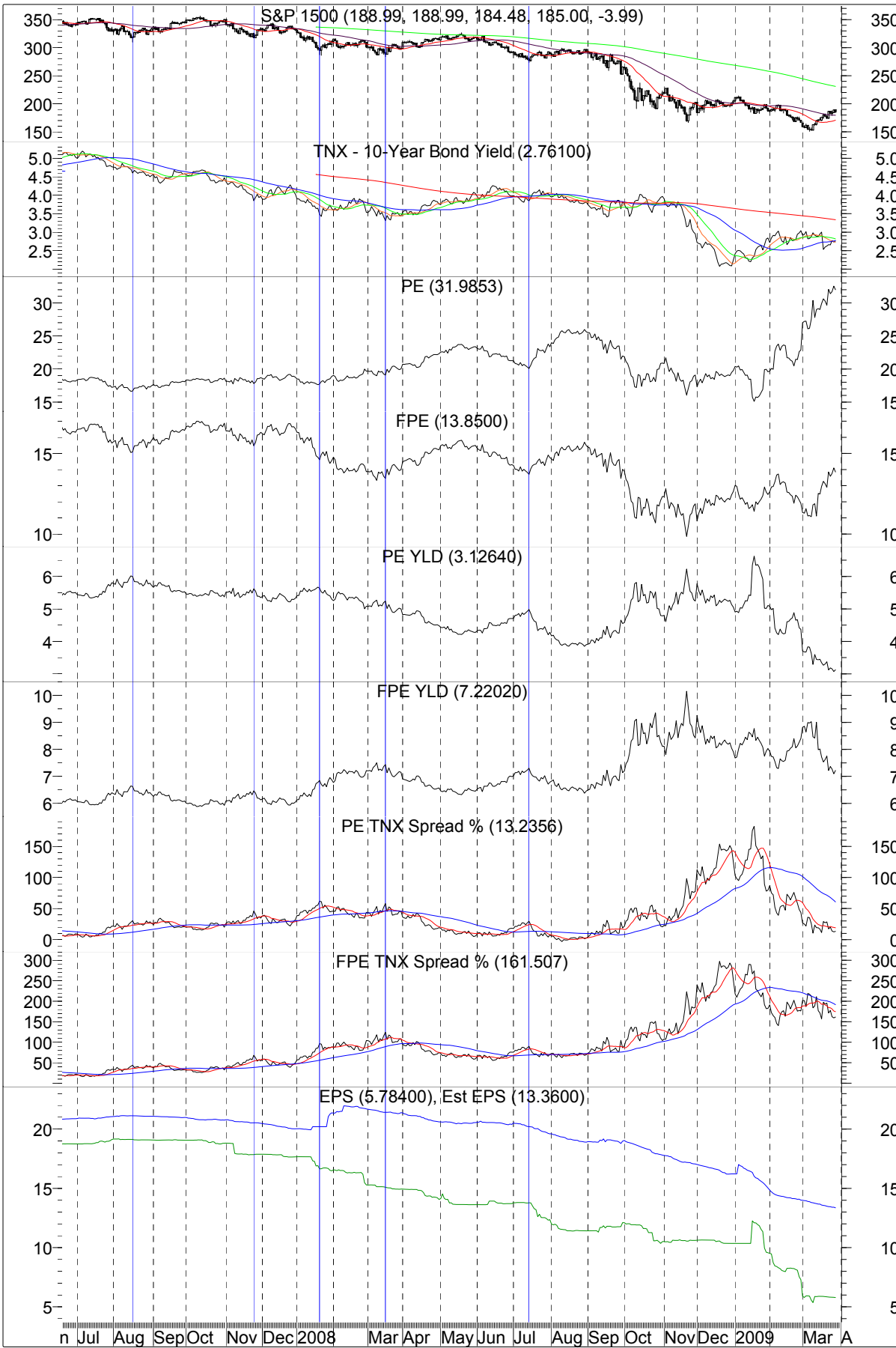


Our proprietary options indicator has moved lower and is just above neutral.

The Kaufman Report - Wayne S. Kaufman, CMT



Our statistics of supply (red lines) versus demand (green) show positive crossovers for the 10 and 20-sma. The volume numbers are skewed by low priced stocks trading a lot of volume. The statistics of points and dollars show a more accurate picture. They are positive, but the buying statistics are not as strong as back in December. Still, it has been a strong rally, and our strategies are based more on reacting to the market than predicting it.

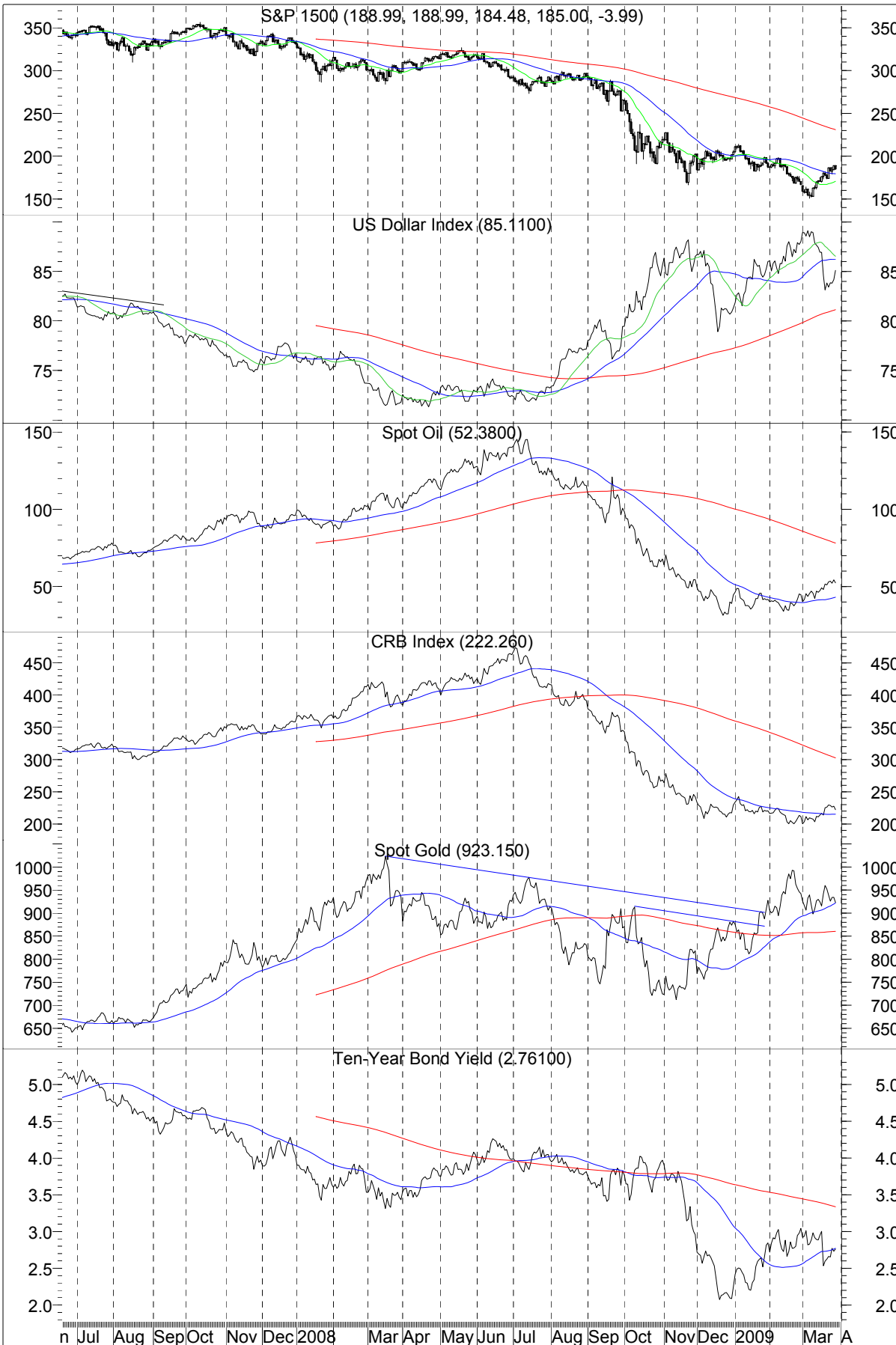


The P/E ratio is extremely high unless the worst is behind us.

The forward P/E has broken out of its recent range, showing optimism by investors.

The spread between the earnings yield and the 10-year bond yield is the lowest since 9/26, which is not reassuring. The spread based on the forward P/E is at a level where stocks should be very attractive. Do you trust the analyst projections?

Reported earnings (green) are flat lining because 4Q earnings season is over, while projections (blue) move inexorably lower.



The U.S. Dollar Index bounced sharply Friday from short-term oversold. It is still in a long-term up trend but has resistance just above.

Crude oil remains in an intermediate-term up trend. It is above the 50-sma (blue) but probably needs to consolidate a little before pushing higher.

The commodities index is still above its 50-sma but hasn't been able to break through some resistance.

Gold has pulled back to its 50-sma. The next support is the 900 level, and after that the 200-sma, currently at 861.