

Monday March 9, 2009

Closing prices of March 6, 2009

We warned last week that another strong leg down was possible, and for the week the S&P 500 tumbled 7.035%. With stocks extremely oversold and options buyers turning pessimistic, we are expecting a pause in the selling at anytime, and hopefully a tradable bounce. We think that any rally will be of the bear market variety. This remains a market for aggressive traders only, and conservative investors should not worry about missing the bottom when it comes. Avoiding devastating losses is more important for some investors than participating in the first bounce of a new bull market. **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 (154.58) was up 0.052% Friday. Average price per share was **down 0.30%**. Volume was 99% of its 10-day average and 117% of its 30-day average. 44.15% of the S&P 1500 stocks were up, with up volume at 46.46% and up points at 42.49%. Up Dollars was 40.85% of total dollars, and was 50% of its 10-day moving average. Down Dollars was 27% of its 10-day moving average. The index is down 7.30% in March, down 24.57% quarter-to-date and year-to-date, and down 56.62% from the peak of 356.38 on 10/11/07. Average price per share is \$18.32, down 57.62% from the peak of \$43.23 on 6/4/07.

Put/Call Ratio: 0.875. Kaufman Options Indicator: 0.96 as pessimism starts to take hold. This is needed for a rally to begin.

The spread between the reported earnings yield and 10-year bond yield is 35%, and 217% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and **are now at \$5.91, a drop of 69.18%**. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.87, a drop of 36.81%. **The spread between reported and projected earnings is 135%, the widest the level in years.** If investors believed the estimates stocks would be much higher.

489 of the S&P 500 have reported 4th quarter earnings. According to Bloomberg, 60.2% had positive surprises, 8.2% were line, and 31.6% have been negative, a high number. The year-over-year change has been -61.6% on a share-weighted basis, -22.1% market cap-weighted and -31.0% non-weighted. Ex-financial stocks these numbers are -18.6%, -6.1%, and -12.1 %, 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 18th. They are pricing in a probability of 88.4% that the Fed will leave rates unchanged on April 29th and a probability of 9.8% 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 INFORMATION PROVIDED IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. THIS INFORMATIONAL REPORT IS NOT AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL. THIS REPORT HAS BEEN PREPARED AS A MATTER OF GENERAL INFORMATION. IT IS NOT INTENDED TO BE A COMPLETE DESCRIPTION OF ANY SECURITY OR COMPANY MENTIONED, AND IS NOT AN OFFER TO BUY OR SELL ANY SECURITY. ALL FACTS AND STATISTICS ARE FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY. ADDITIONAL INFORMATION ON THESE SECURITIES AND COMPANIES IS AVAILABLE UPON REQUEST. SECURITIES, FINANCIAL INSTRUMENTS OR STRATEGIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. THIS MATERIAL DOES NOT TAKE INTO ACCOUNT YOUR PARTICULAR INVESTMENT OBJECTIVES, FINANCIAL SITUATIONS OR STRATEGIES. BEFORE ACTING ON THE MATERIALS HEREIN, YOU SHOULD CONSIDER WHETHER IT IS SUITABLE FOR YOUR PARTICULAR CIRCUMSTANCES AND, IF NECESSARY SEEK PROFESSIONAL ADVICE. INVESTMENTS INVOLVE RISK AND AN INVESTOR MAY INCUR EITHER PROFITS OR LOSSES. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE. TRADING AND INVESTMENT DECISIONS ARE THE SOLE RESPONSIBILITY OF THE READER.

Economic News

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.

3/5/09 – Initial Jobless Claims for w/e 2/28 were 639,000 versus the 650,000 estimate. Continuing Claims for w/e 2/21 were 5,106,000 versus the 5,155,000 estimate. Non-Farm Productivity for Q4 was -0.4% versus the estimate of +1.0%. Unit Labor Costs were +5.7% versus the +3.8% estimate. Factory Orders for January were -1.9% versus the -3.5% estimate. Mortgage Delinquencies for Q4 were 7.88% versus the prior quarter at 6.99%. Productivity, defined as employee output per hour, fell as the economy shrank faster than companies cut jobs and hours.

3/4/09 – ADP Employer Services Report for February showed a loss of 697,000 jobs versus the estimate of -630,000. January's number was revised down to -614,000 from -522,000. This tracks private employment, not government. The ISM Non-Manufacturing Index came in at 41.6 versus the estimate of 41.

3/3/09 – Pending Home Sales (existing homes) for January fell 7.7% from December, versus the estimate of -3.5%. In December Pending Home Sales were +4.8%.

3/2/09 – The ISM Manufacturing Index for February showed U.S. manufacturing contracted at a slower pace as it rose from 35.6 to 35.8 breaking a string of six straight declines. Personal Income in January was up 0.4% versus an estimated drop of 0.2%. Income was higher due to pay increases to government employees and cost of living adjustments to Federal transfer payments. Salaries and Wages fell 0.2%, the third consecutive decrease. Disposable income was up 1.5%. Personal Spending for January was up 0.6% versus the 0.4% estimate. This was the first time in seven months consumer spending increased.

2/27/09 – GDP for the fourth quarter shrank at a 6.2% annualized pace, the most since 1982 and worse than the estimate of -5.4%.

2/26/09 – Initial Jobless Claims for w/e 2/21 rose to 667,000, the highest since 1982. Durable Goods orders for January fell for a record 6th straight month, down 5.2% versus the estimate of -2.5%. Silver lining: inventories were down 0.8% from December. Singapore's economy shrank the most in 33 years last quarter, as GDP declined at an annualized 16.4% from the prior three months.

2/25/09 – Existing Home Sales for January fell 5.3% to 4.49 million annualized from 4.74 million in December. This was the lowest rate since 1997. Median price dropped 15% Y-o-Y. Distressed properties were 45% of sales.

2/24/09 – The Conference Board's reading of U.S. Consumer Confidence for February dropped to 25, the lowest ever and well below the estimate of 25. The S&P/Case-Shiller index of home prices in 20 U.S. cities plunged 18.5% in December Y-o-Y, the fastest drop on record. The MSCI World index is off to its worst ever yearly start. German business confidence was reported at a 26-year low. Eurozone Industrial Orders fell 5.2% in December versus November and -23.3% year-over-year.

2/23/09 – Dallas Fed Manufacturing Activity came in at -57.3% versus the estimate of -50.0%.

2/20/09 – The Consumer Price Index for January rose for the first time in six months by +0.3%, hitting the estimate. It was unchanged on an annual basis for the first time since 1955. Energy expense rose 1.7%, led by a 6% increase in gasoline prices.

2/19/09 – Initial Jobless Claims for the week ending 2/14 hit 627,000 versus the 620,000 estimate. The prior week was also 627,000. Continuing Claims were 4.99 million and set another record. The Producer Price Index for January was +0.8% versus a +0.3% estimate. Leading Indicators rose 0.4% versus the estimate of 0.1%. Some economists said this was a temporary jump.

Monday February 9, 2009

Closing prices of February 6, 2009

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%.

2/4/09 – ADP Employer Services report showed a loss of 522,000 jobs in January, less than the 535,000 forecast and much lower than the December loss of 659,000. The Institute of Supply Management index of non-manufacturing businesses rose to 42.9 in January from 40.6 in December, and was above the estimate of 39.0.

2/3/09 – U.S Pending Home Sales rose for the first time in four months. The December increase of 6.3% beat the estimate of 0.0%. November showed a drop of 4%. According to the U.S. Census Bureau, a record 19 million U.S. houses were vacant at the end of 2008 for a 2.9% vacancy rate, the highest ever. Purchases of New Homes in December, reported last week, dropped 14.7% versus November.

2/2/09 – Personal Income fell 0.2% in December, better than the -4% estimate, the third straight decline. The last three-month decline was January 1954. Personal spending in December fell 1% versus the .9% estimate, for a record sixth consecutive month. Consumer spending rose 3.6% for 2008, the smallest gain since 1961. Consumer Spending dropped at a 3.5% annual pace in Q4 versus 3.8% in Q3, the first ever declines above 3% in consecutive quarters. Silver lining: the decrease in spending pushed the savings rate up to 3.6% in December from 2.8% in November.

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

S&P 500 Cash (683.73, 683.73, 683.38, 683.38, -0.54)



End of the day buying caused the S&P 500 to finish slightly up on the day. There is some resistance at 699 before the index gets to the bottom of the gap at the 708 area. After that resistance is at 724, then the gap at the 730 - 735 zone.

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

S&P 500 Cash (684.04, 699.09, 666.79, 683.38, +0.83)



On Friday the S&P 500 printed a long-legged doji, also called a Rickshaw Man. It is a sign of indecision which is frequently seen at market turns. With the RSI and stochastic each at oversold levels this could indicate the start of an oversold bounce.

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

S&P 500 Cash (729.57, 729.57, 666.79, 683.38, -51.71)



The weekly chart of the S&P 500 shows the RSI and stochastic in the oversold zones. The index has been down 8 of 9 weeks in 2009 in the worst start to a year in history.

May Jun Jul Aug Sep Oct Nov Dec 2008 Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009 Mar

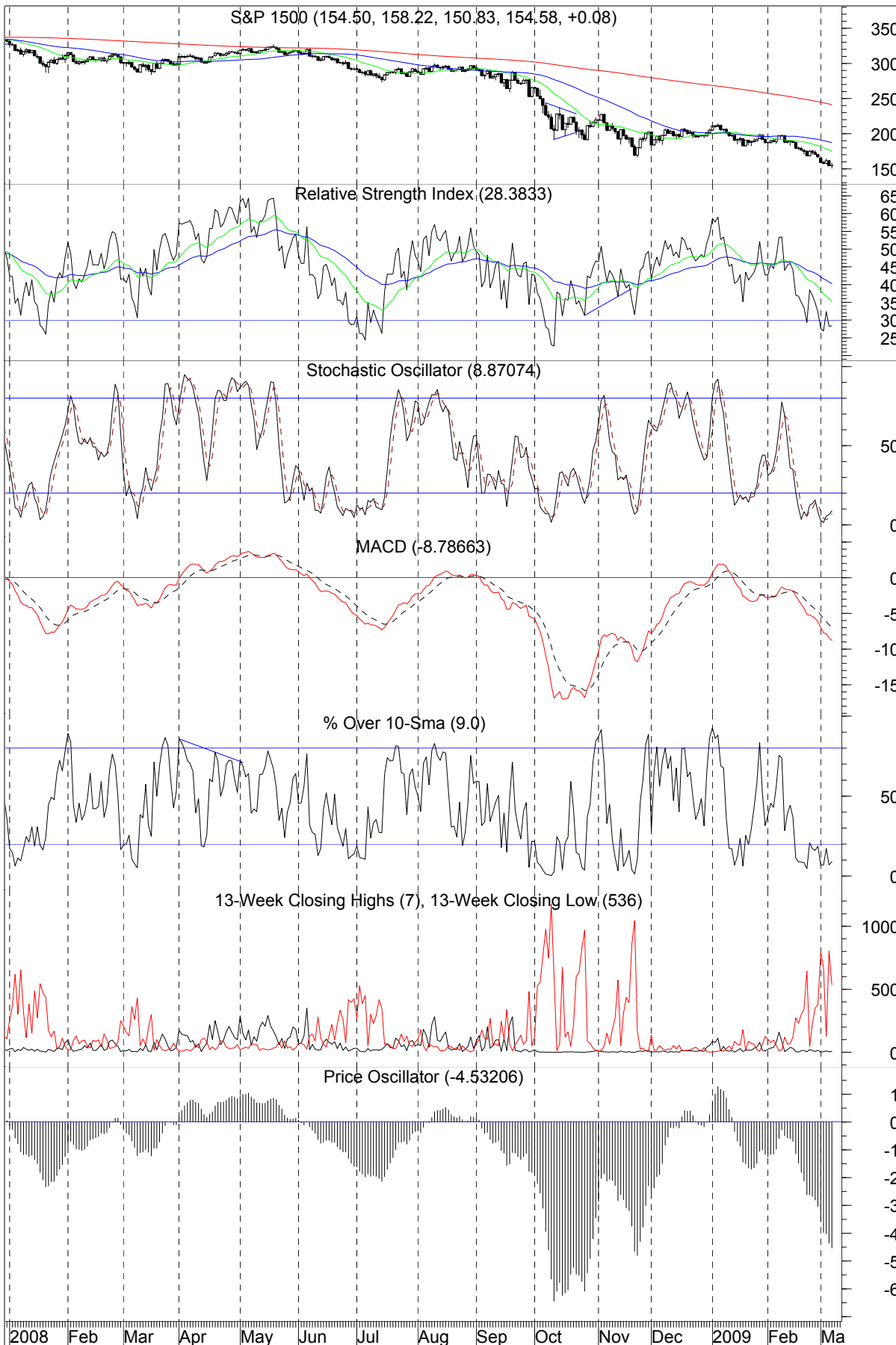
S&P 1500 Analysis - Wayne S. Kaufman, CMT

NASDAQ 100 (1,082.53, 1,088.04, 1,043.60, 1,064.70, -9.82)



The Nasdaq 100 has remained above its November lows and on Friday printed a hammer candle. Hammers are bottoming candles.

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

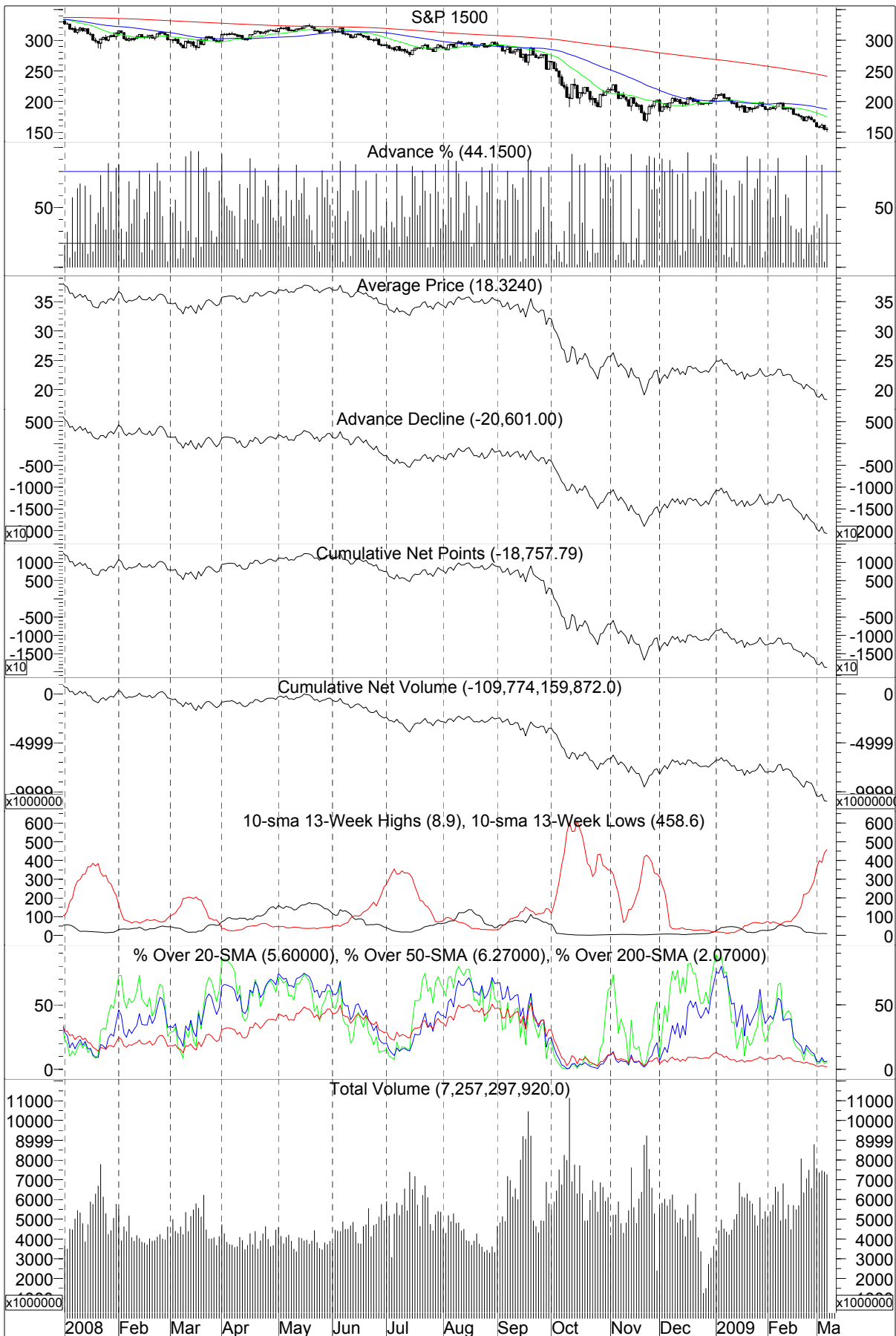


Our short-term momentum indicators remain at oversold levels where traders would normally be licking their chops to go long. In this historic bear market that has not been the case.

New lows have been spiking but not to the levels seen in October - November.

Our price oscillator is in extreme negative territory and should be regressing to the mean sometime soon.

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



Even though the index was higher Friday only 44.15% of stocks traded up.

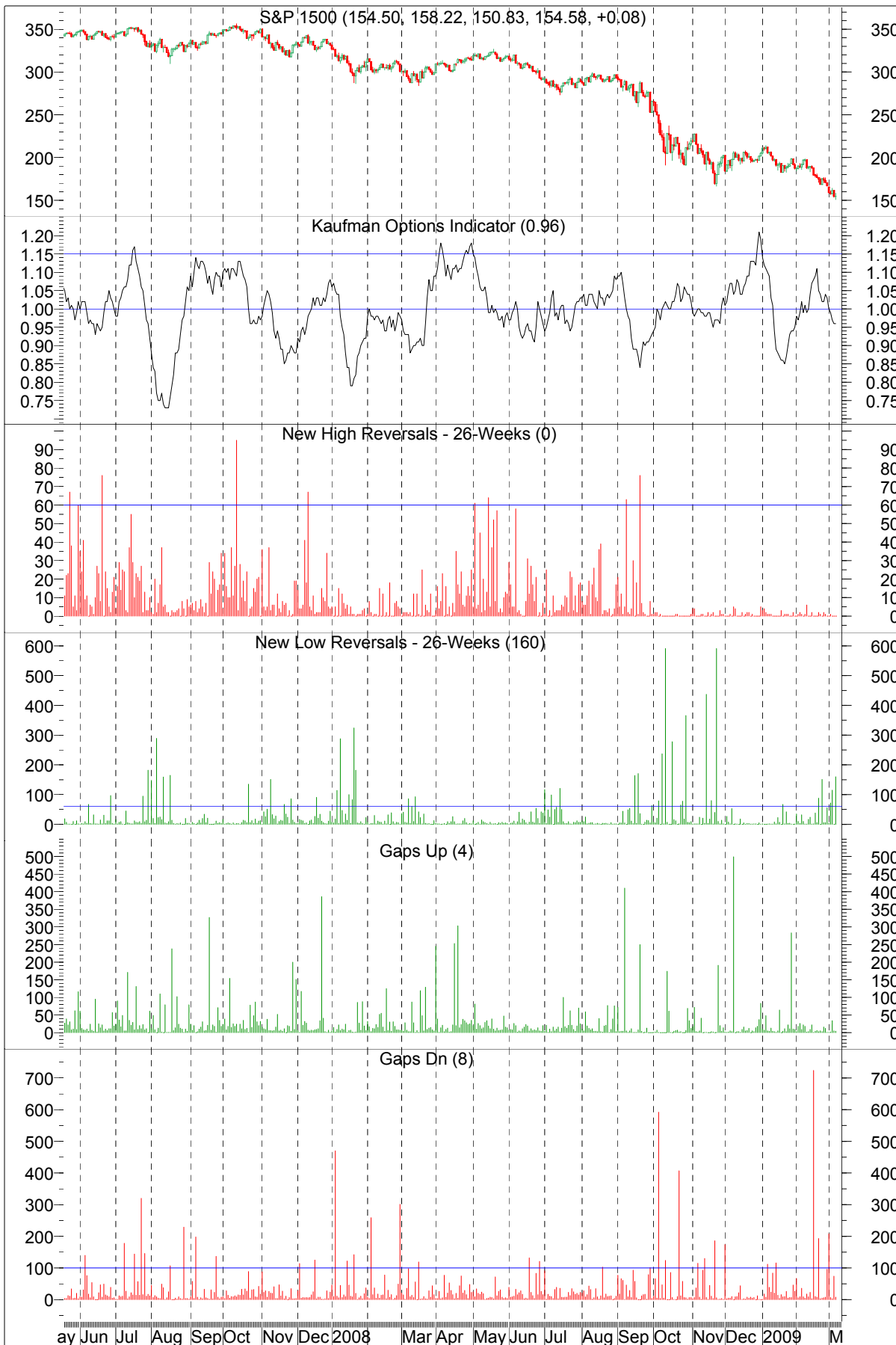
Our statistics of market breadth are all making new lows, confirming the lows on the index.

The 10-sma of 13-week closing lows continues to move higher.

These percentages are ridiculous.

Volume was down slightly Friday.

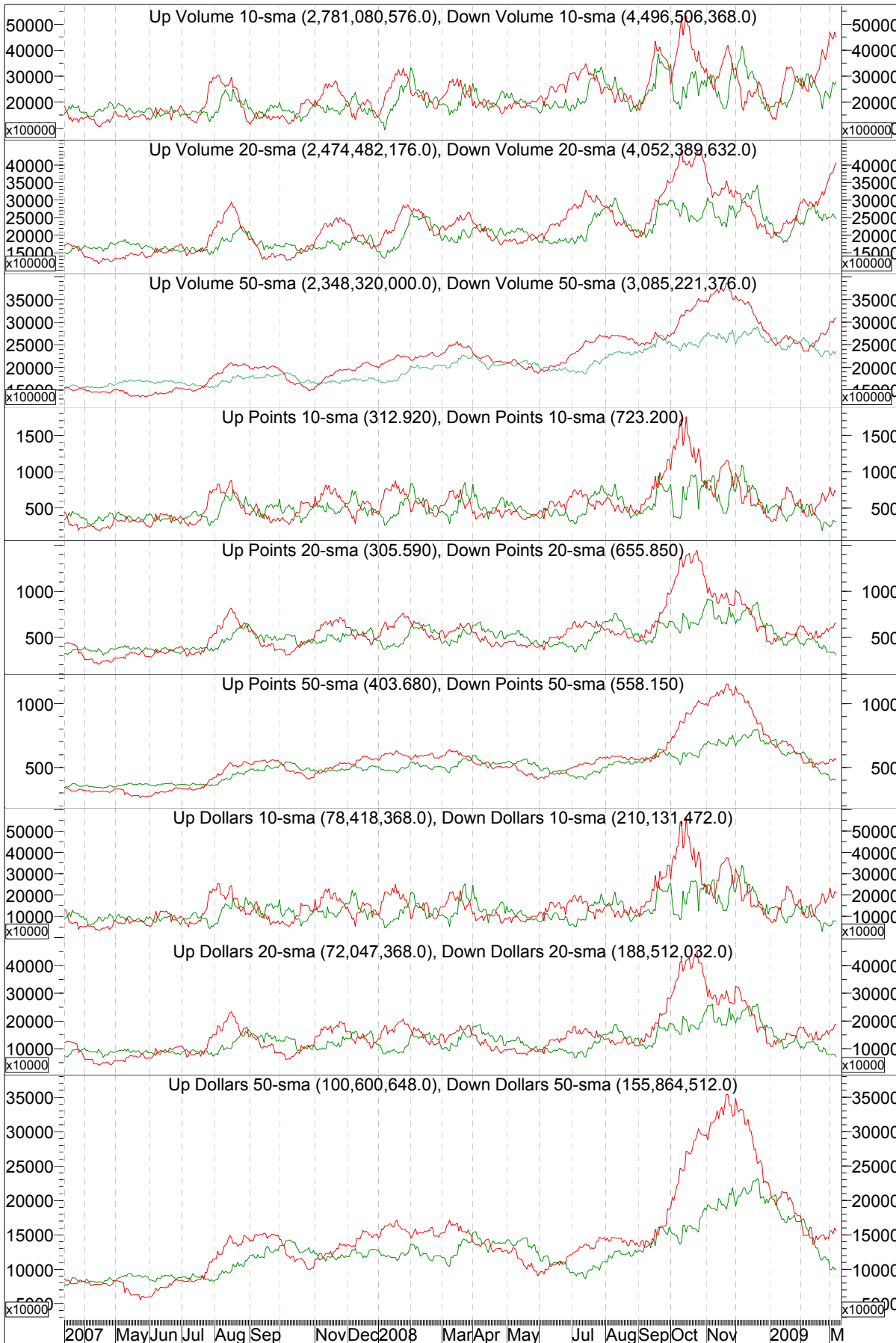
S&P 1500 Analysis - Wayne S. Kaufman, CMT



Our proprietary options indicator is back in negative territory, showing pessimism. It is not at the levels where important bottoms have been made in the past, but rallies can begin from this level, as happened in November and July.

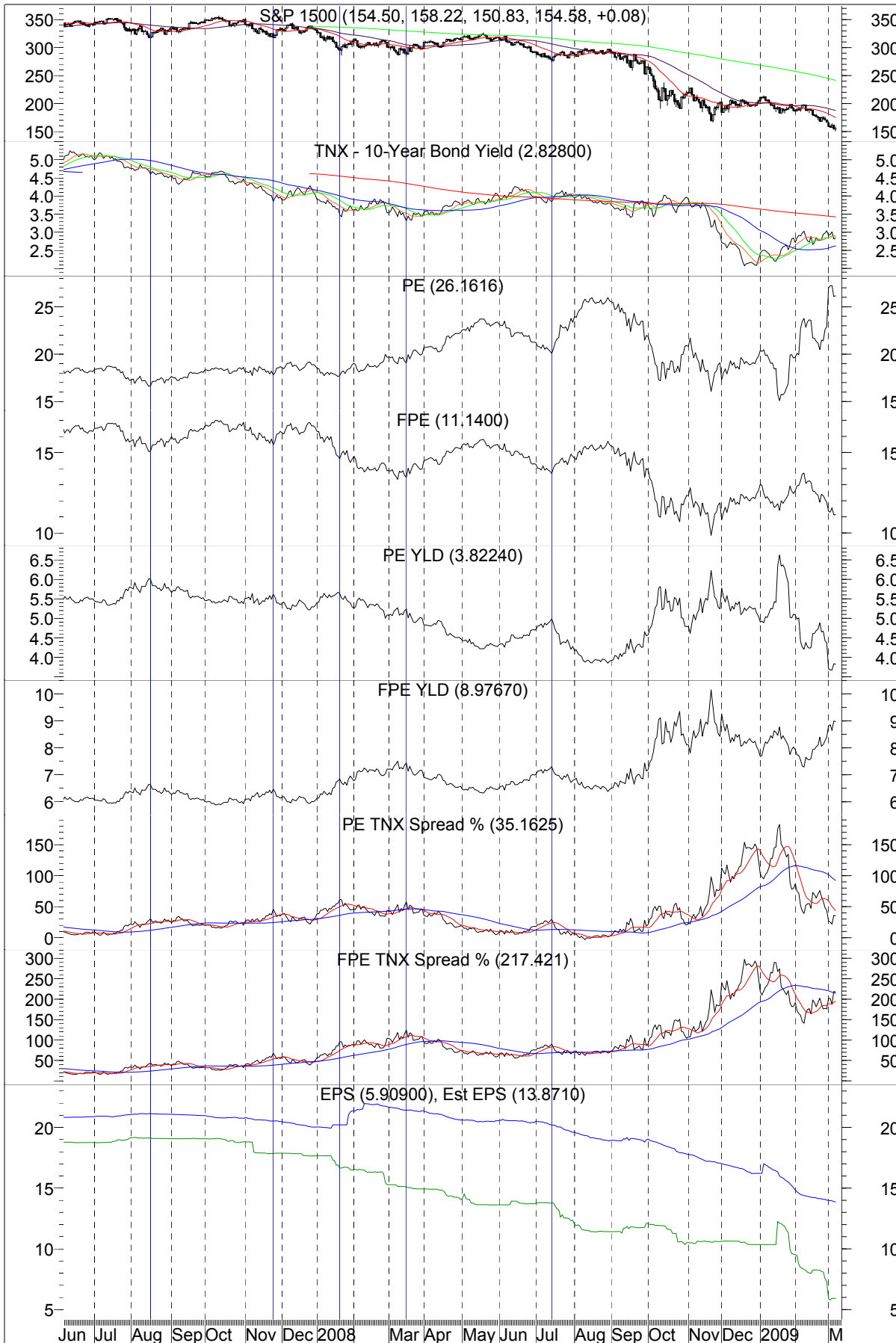
The recent pickup in new low reversals shows bottom fishers becoming more active.

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



Our statistics of supply (red lines) versus demand (green) show that supply continues to swamp demand. It is easily seen that the recent selling is not as intense as it was in October - November, but with a lack of buyers it continues to push prices lower. What will be the catalyst to bring buyers back?

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



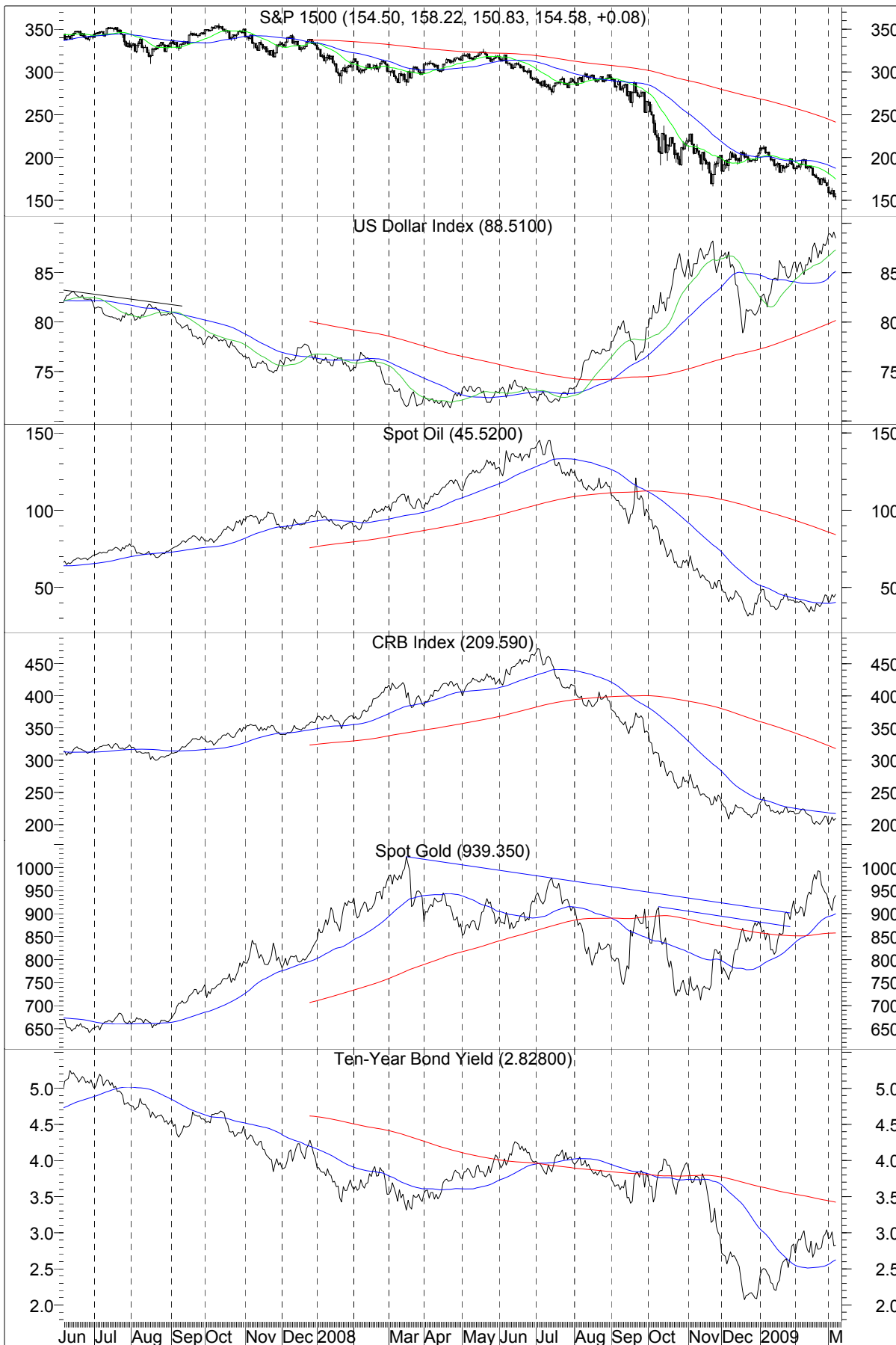
The P/E ratio remains at high levels.

The forward P/E is at the low end of its recent range. It is higher than it was at the S&P 1500s lows in November even though stocks are lower.

The spread between the 10-year bond yield and the current earnings yield is at a low level compared to its recent range. The spread based on earnings projections is at levels where stocks would normally be very attractive. Do you have faith in analyst estimates?

Reported and forecast earnings continue to march inexorably lower. The spread between the two is at the highest level in years.

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



The U.S. Dollar Index has hit the highest level in years but is looking topy.

Crude oil continues trying to put in a bottom as it stays above its 50-sma.

Gold is rallying after finding support at its 50-sma (blue).