

Friday May 1, 2009

Closing prices of April 30, 2009

Stocks had a mixed session Thursday after Wednesday's rally that broke through important resistance on the S&P 500. There has been a lack of sellers recently, and so far there is no evidence that the buy the dips mentality is no longer present. We are now two-thirds through earnings season and investors have been giving stocks the benefit of the doubt as they ignore bad news and focus on data points and forecasts that give hope that things are turning for the better. This has created a situation where valuations based on reported earnings (before charges) are terrible, while valuations based on earnings from continuing operations (after charges) and analyst forecasts make stocks very attractive.

This disconnect can't last much longer. The P/E based on reported earnings for the S&P 1500 is 51.83, creating an earnings yield of 1.93%. Ten year bond yields are currently 3.124%, making bonds look far more attractive than stocks. Corporate bond yields look even more attractive. The P/Es based on earnings from continuing operations and projected earnings are 13.95 and 15.54, respectively. Their earnings yields of 7.17% and 6.44% are attractive versus bond yields. The problem is the trend of all three of these earnings metrics is inexorably lower. Investors may be giving stocks the benefit of the doubt at this time, but if reported earnings don't start to move towards the continuing operations numbers and the analyst estimates, stocks will look very overvalued and investors may lose their new found optimism.

We have been saying that investors should continue to play the long side while becoming more defensive by using tight stops and being careful with entry points. **We repeat that advice at this time.** In the short-term stocks remain vulnerable to a pullback as negative divergences remain on the daily charts and Financials, which have been the leaders in this rally, have started to lag. We questioned in the weekend report if the rally could continue when Financials are no longer leading.

**The short-term and intermediate-term trends are up, while the long-term trend remains down. This is a bifurcated, 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.**

**Kaufman Report Opinion (does not represent the views of John Thomas Financial):** We are shocked and dismayed at the way the GM and Chrysler stories are playing out. The way the administration is attempting to abrogate bankruptcy laws while demonizing bond holders for the sake of the UAW is beyond belief. In 2006 Barack Obama was quoted as follows: *"I owe unions. When their leaders call I do my best to call them back right away. I don't consider this corrupting in any way; I don't mind feeling obligated toward (them)... I got into politics to fight for these folks."* The actions of this administration and the statements made by President Obama should be terrifying to anyone who believes in traditional American values. We went through the internet bubble, the real estate bubble, and now we are in the government bubble. President Obama's transparent payback to the UAW for its political support will have one of two possible results. With the UAW essentially taking over GM, it will either become a lean and mean manufacturing machine, or it will become even more inefficient and unable to compete. We are betting on the latter. If we are right, the next question will be if the administration, trying to protect its investment and voting base, creates barriers to foreign manufactures and gives consumers financial incentives to buy domestic autos even if they are inferior or more costly. If so, they might as well change the name not to Obama Motors, as some have joked, but to Fannie Mae Motors. We all know how government involvement in that turned out.

## IMPORTANT DISCLOSURES

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## Economic News

4/30/09 – **Initial Jobless Claims for w/e 4/25 were 631K versus the 640K estimate and the prior week's 645K.** Continuing Claims for w/e 4/18 were 6,271K, the 13<sup>th</sup> consecutive record, versus the 6,200K estimate and the prior 6,138K. Personal Income for March was -0.3% versus the -0.2% estimate. Personal Spending for March was -0.2% versus the -0.1% estimate. The PCE Deflator for March YoY was +0.6% versus the +0.7% estimate and the prior +0.9%. Core PCE for March MoM was +0.2% versus the +0.1% estimate and prior +0.2%, and YoY +1.8% versus the 1.8% estimate and 1.8% prior. The Employment Cost Index for 1Q was +0.3% versus the +0.5% estimate and the prior +0.6%. The Chicago Purchasing Manager's Index for April was 40.1 versus the 35.0 estimate and the prior 31.4. The NAPM-Milwaukee for April was 39.0 versus the prior 30.0.

4/29/09 – MBA Mortgage Applications for w/e April 26 were -18.1% versus the prior week +5.3%, only the second drop in eight weeks. First quarter GDP QoQ (annualized) came in at -6.1% versus the -4.7% estimate and the prior -6.3%. **Personal Consumption for the first quarter was +2.2% versus the 0.9% estimate and the prior -4.3%.** GDP Price Index was +2.9% versus the +1.8% estimate and the prior 0.5%. Core PCE QoQ was +1.5% versus the +1.0% estimate and the 0.9% prior. Inventories dropped at a \$103.7 billion annual pace last quarter, the largest drop since the start of records in 1947.

4/28/09 – S&P/CaseShiller Home Price Index for February was 143.17 versus the 142.80 estimate and the prior 146.35. The S&P/CaseShiller Composite-20 YoY for February was -18.63% versus the -18.70 estimate and the prior -19% which was a record decrease. **The decline in home prices slowed for the first time since 2007. Consumer Confidence for April was 39.2 versus the 29.7 estimate and the prior 26.9. The Richmond Fed Manufacturing Index for April was -9 versus the -17 estimate. ABC Consumer Confidence for April 26 was -45 versus the -47 estimate.**

4/27/09 – **Dallas Fed Manufacturing Activity for April was -31.6% versus the -44.2% estimate.**

4/24/09 – Durable Goods Orders for March came in at -0.8% versus the -1.5% estimate and +2.1% for February. Ex-transportation it was -0.6% versus the -1.2% estimate. New Home Sales for March were 356K versus the 337K estimate and February's 358K, a MoM drop of 0.6% versus the -1.2% estimate. **Most economists are taking the slowdown in the economic contraction as a sign the economy is bottoming.**

4/23/09 – Initial Jobless Claims for w/e 4/18 were 640K matching the 640K estimate. Continuing claims for w/e 4/11 were 6,137K versus the 6,120K estimate, the 12<sup>th</sup> consecutive record. The four-week moving average of initial claims fell from 651K to 646,750. Existing Home Sales for March were 4.57 million annualized versus the 4.65 million estimate. Existing Home Sales MoM for March were -3.0% versus the -1.5% estimate.

4/22/09 – MBA Mortgage Applications for w/e April 17<sup>th</sup> were +5.3% versus -11.0% the prior week. The refi index was +7.7% while the purchase index was -4.2%. The House Price Index MoM for February was +0.7% versus the -0.7% estimate and the prior month's +1.7%.

4/21/09 – ABC Consumer Confidence for w/e April 19<sup>th</sup> was -47 versus the -50 estimate.

4/20/09 – Leading Indicators for March were -0.3% versus the -0.2% estimate. They have not risen in the past nine months. Coincident Indicators were -0.4%, and Lagging Indicators were -0.4%. Of the ten indicators making up the leading index, three were positive. Those were real, in order of contribution, money supply, interest rate spread, and consumer expectations. Negative were building permits, stocks prices, supplier deliveries, average weekly manufacturing hours, average weekly unemployment claims, and new orders for non-defense capital goods.

4/17/09 – The University of Michigan Confidence number came in at 61.9 versus the 58.5 estimate. March was 57.3.

4/16/09 – **Initial Jobless Claims for w/e 4/11 were 610K versus the 660K estimate. This was the lowest number since January.** Continuing Claims were a record 6,022K versus the 5,893K estimate. Housing Starts for March were 510K annualized versus the 540K estimate. **Single family homes were started at a 358K annual rate, the same rate as the prior month.** Building Permits were 513K versus the 549K estimate. The Philadelphia Fed Index for April was -24.4 versus the -32.0 estimate.

## Economic News

4/15/09 – MBA Mortgage Applications for w/e 4/10 were -11%. The prior week was +4.7%. Consumer Price Index for March MoM was -0.1% versus the +0.1% estimate. Ex Food & Energy it was +0.2% versus the +0.1% estimate. **CPI YoY was -0.4% versus the -0.1% estimate, the first annual decline since 1955.** Ex Food & Energy YoY it was +1.8% versus the +1.7% estimate. Empire Manufacturing Index for April was -14.65, better than the -35.00 estimate and the March -38.23, which was the lowest since 2001. Net Long-term TIC Flows for February were \$22.0 billion versus the \$14.0 billion estimate and January's -\$43.0 billion as international investors bought long-term securities, mostly notes and bonds. Total Net TIC Flows were -\$97.0 billion versus January's -\$148.9 billion. Industrial Production for March was -1.5% versus the -0.9% estimate and February's -1.5%. **Capacity Utilization for March was 69.3%, the lowest ever, versus the 69.6% estimate and February's 70.9%.** NAHB Housing Market Index for April came in at 14 versus the estimate of 10 and March's 9.

4/14/09 – Producer Price Index for March MoM was -1.2% versus the 0.0% estimate. Ex Food & Energy it was 0.0% versus the 0.1% estimate. YoY the PPI was -3.5% versus the -2.2% estimate. Ex Food & Energy it was +3.8% versus the +4% estimate. Advance Retail Sales for March were -1.1% versus the +0.3% estimate. Retail Sales Less Autos was -0.9% versus the 0.0% estimate. Business Inventories for February were -1.3% versus the -1.2% estimate, the sixth consecutive monthly decrease. At the current rate of sales there is 1.43 months of inventory, the lowest since November. ABC Consumer Confidence for w/e 4/12 was -51 versus the -50 estimate and the prior -50.

4/11/09 – China's bank loans increased more than six-times versus one year ago and money supply grew 25.5% in a sign that the government's stimulus plan was beginning to have an effect.

4/10/09 – The Monthly Budget Statement for March showed a deficit of \$192.3 billion versus the estimate of -\$165.0 billion as tax payments dropped and the government spent more to reeve the economy. The deficit for the first six months of this fiscal year already exceeds the record set in the entire prior year.

4/9/09 – The Trade Balance for February was -\$26.0 billion versus the -\$36.0 billion estimate and January's -\$36.2 billion. **It was the smallest trade gap since November 1999, the smallest with China in three years, and the smallest with Japan since 1984.** The Import Price Index for March MoM was 0.5%, the first rise in eight months, versus the 0.9% estimate. **YoY it was -14.9%, the biggest drop on record, versus the -14.7% estimate.** Excluding energy prices fell for the third straight month, down 0.7%. Initial Jobless Claims for w/e 4/4 were 654K versus the 660K estimate and down from the prior 674K. Continuing Claims for w/e 3/28 were a record 5,840K versus the 5,810K estimate and the prior 5,745K. U.S. March ICSC Chain Store Sales YoY in March were -2.1% versus the -0.8% estimate.

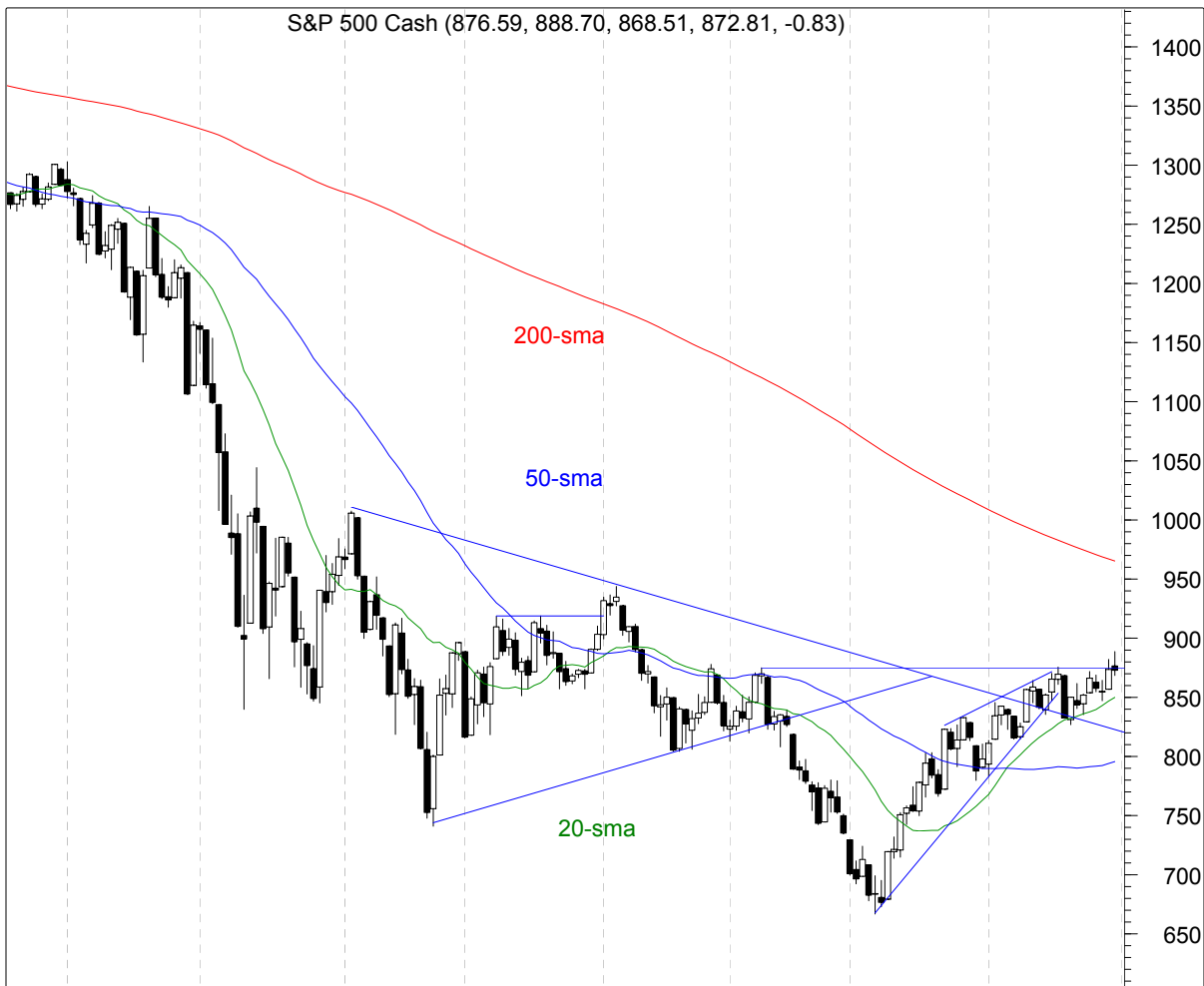
4/8/09 – MBA Mortgage Applications for w/e 4/3 rose 4.7% for the fifth straight gain and above the prior +3.0%. Wholesale Inventories for February dropped 1.5%, more than the -0.7% estimate and the -0.7% in January. Sales at U.S. wholesalers rose for the first time in since June and contributed to the inventory drop. At the current sales pace distributors have 1.31 months of inventory on hand, the lowest since November. **Stockpiles of durable goods fell 1.2%, the biggest decline on record, as durable sales climbed 2%, the most since April 2008.**

4/7/09 – IBD/TIPP Economic Optimism for April was reported at 49.1 versus the estimate of 45.8 and above the prior 45.3. Consumer Credit for February was -\$7.5 billion versus the -\$3.0 billion estimate and down from the \$8.1 billion increase in January. ABC Consumer Confidence for w/e 4/5 was -50 versus the -49 estimate and the prior -49.

4/3/09 – Nonfarm Payrolls for March lost 663K jobs versus the 660K estimate and up from the prior 651K for February. Unemployment for March came in as expected at 8.5%, up from 8.1% in February and the highest level since 1983. Manufacturing Payrolls for March were -161K versus the estimate of -162K, and slightly better than February's -169K. Average Hourly Earnings for March MoM were in line at +0.2%, while YoY they were +3.4% versus the +3.5% estimate. Average Weekly Hours for March were 33.2 versus the 33.3 estimate. The ISM Non-Manufacturing Composite for March was 40.8 versus the 42.0 estimate.

4/2/09 – Initial Jobless Claims for w/e 3/28 were 669K versus the estimate of 650K. Continuing Claims for w/e 3/21 were 5,728K versus 5,590K. Factory Orders for February were up 1.8% versus the estimate of +1.5%, the first increase in seven months. Excluding transportation equipment orders rose 1.6%.

S&P 500 Cash (876.59, 888.70, 868.51, 872.81, -0.83)



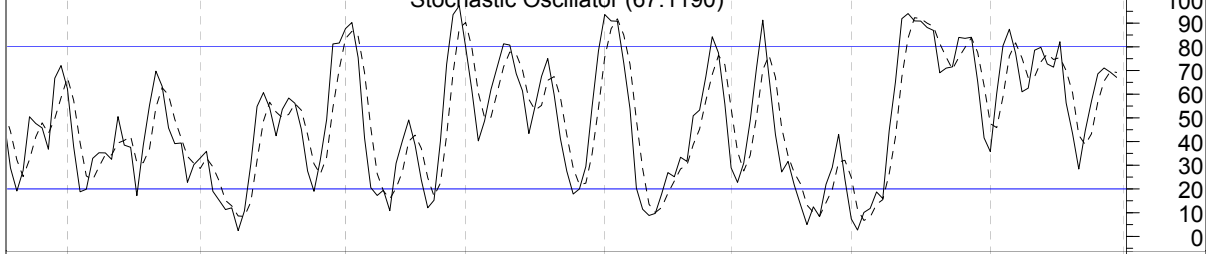
The S&P 500 broke through important resistance Wednesday, then followed through Thursday. However, it printed a spinning top candle on above average volume, a sign of a tug of war between the bulls and bears.

Relative Strength Index (59.9653)

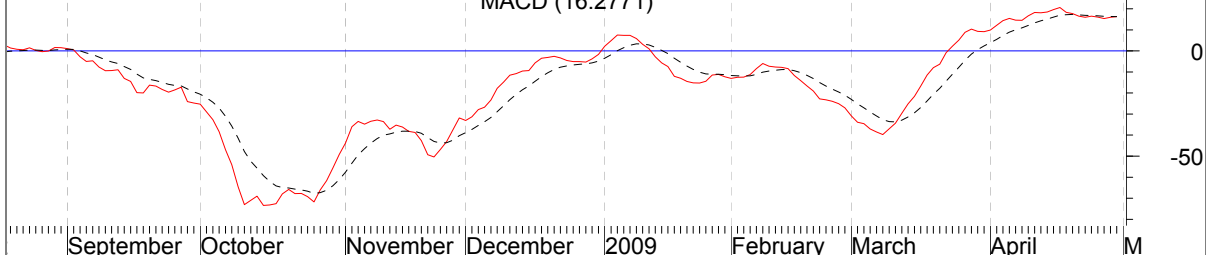


There are negative divergences on our momentum indicators so a pull back can occur at any time.

Stochastic Oscillator (67.1190)



MACD (16.2771)



September October November December 2009 February March April M

S&P 500 Cash (872.70, 872.81, 872.68, 872.81, +0.39)



On the intra-day chart of the S&P 500 our momentum indicators are at neutral levels. It won't take much for them to become oversold.

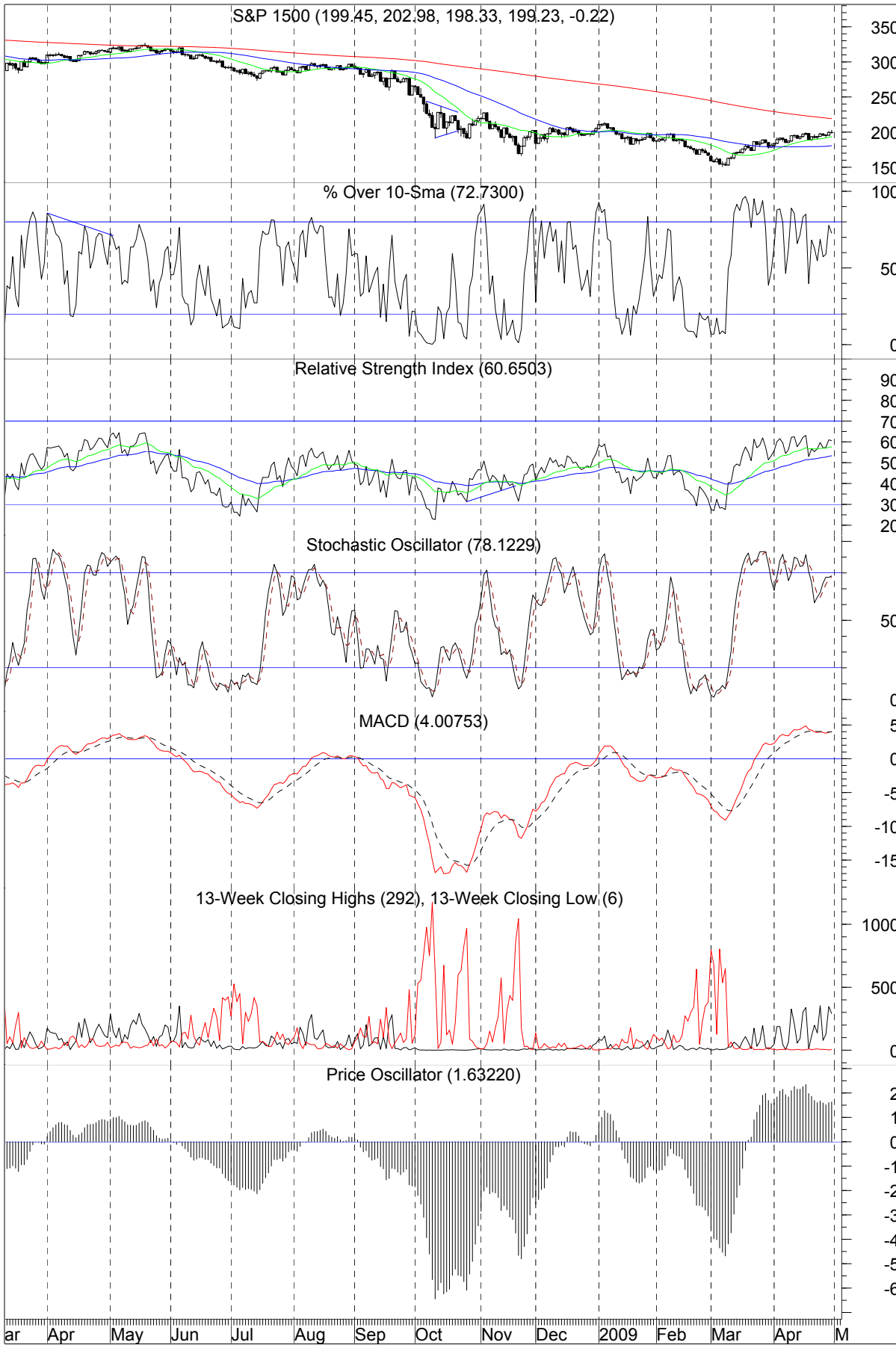
NASDAQ 100 (1,398.44, 1,418.77, 1,384.37, 1,394.33, +11.95)



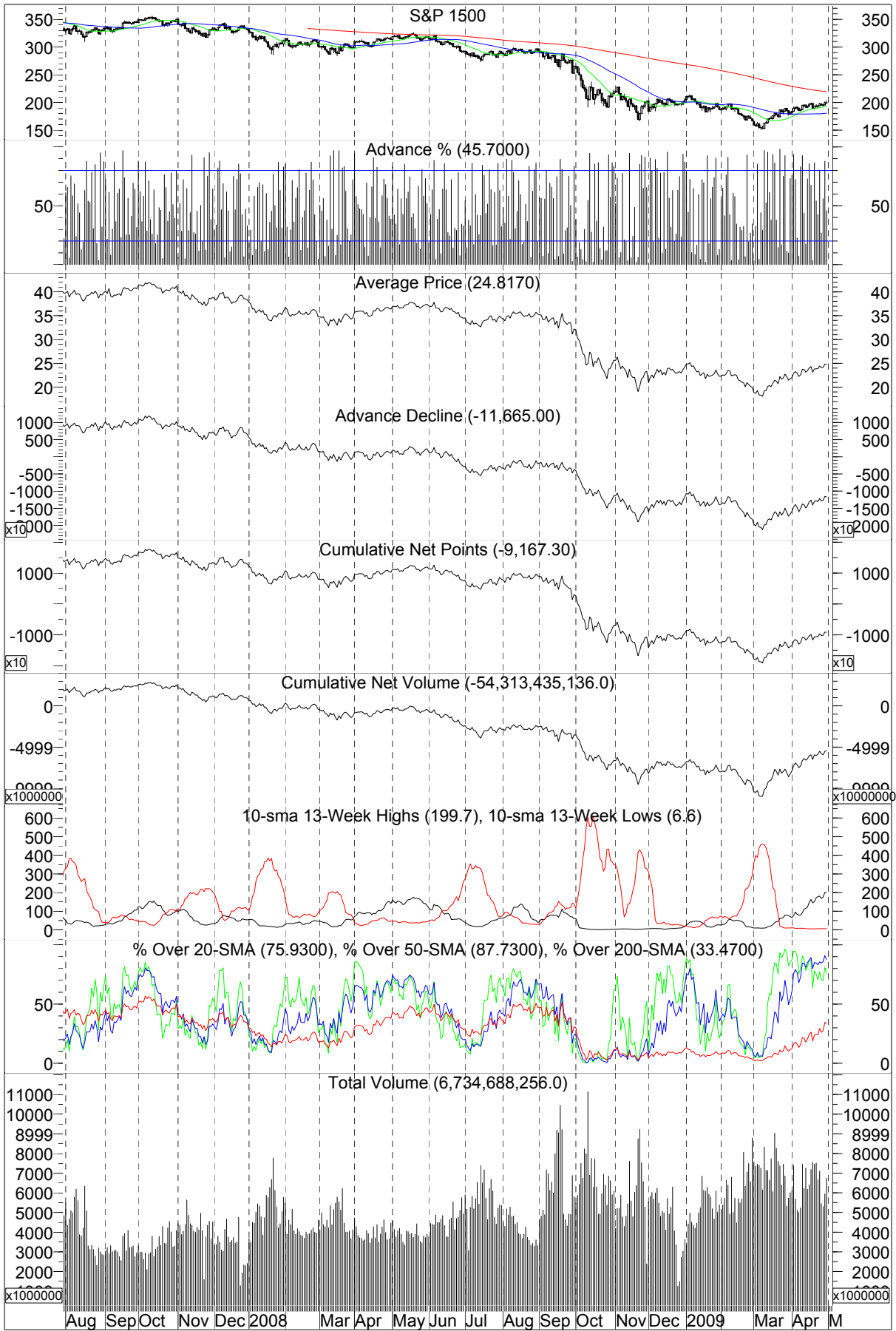
The Nasdaq 100 moved above the 200-sma for the first time since September. It printed a doji candle on the daily chart. Doji show indecision and are frequently seen at the end of moves.

Our momentum indicators are at high levels so a pullback can start at any time.

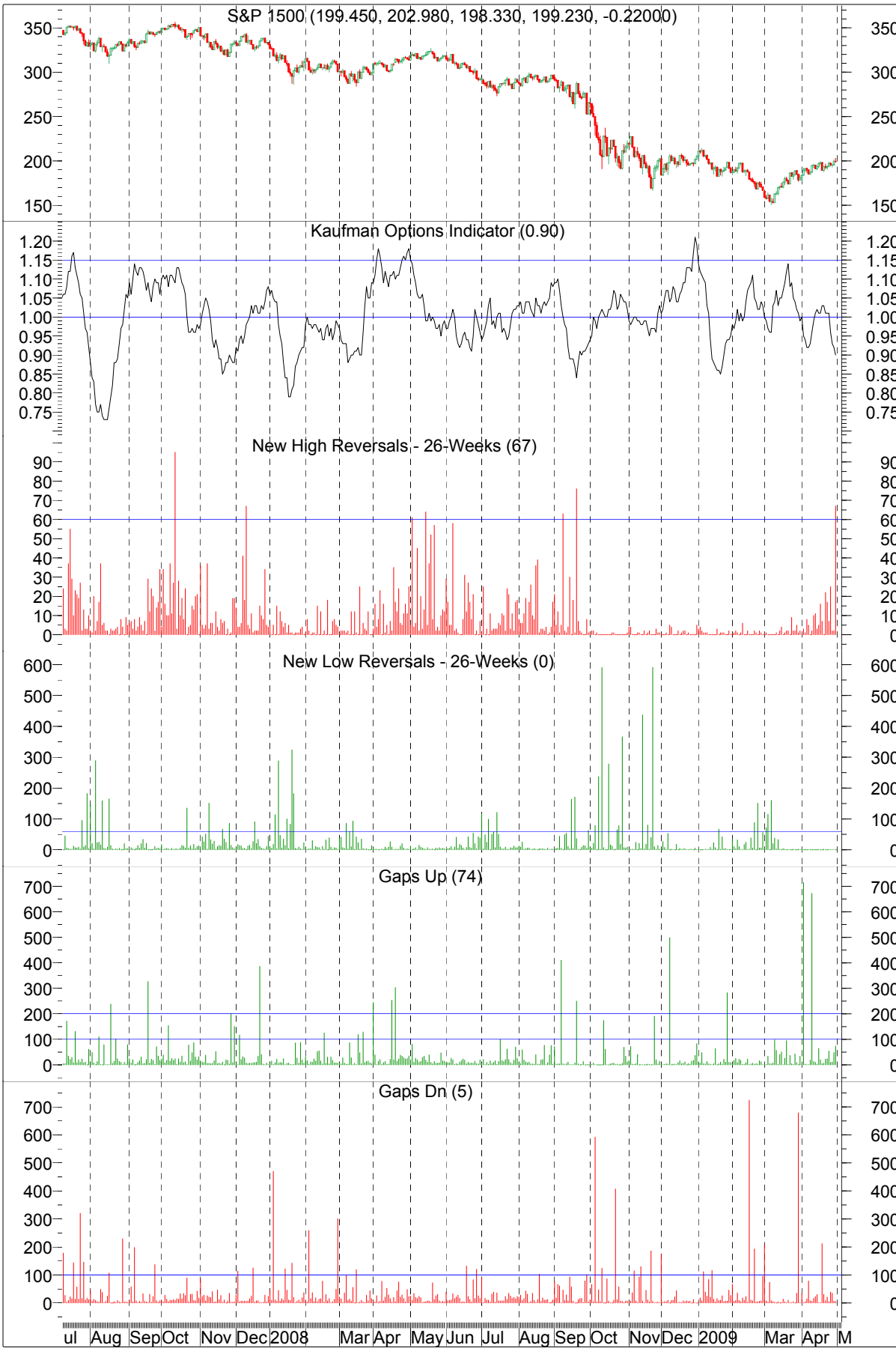




Our momentum indicators are showing negative divergences so a pullback can begin at any time.

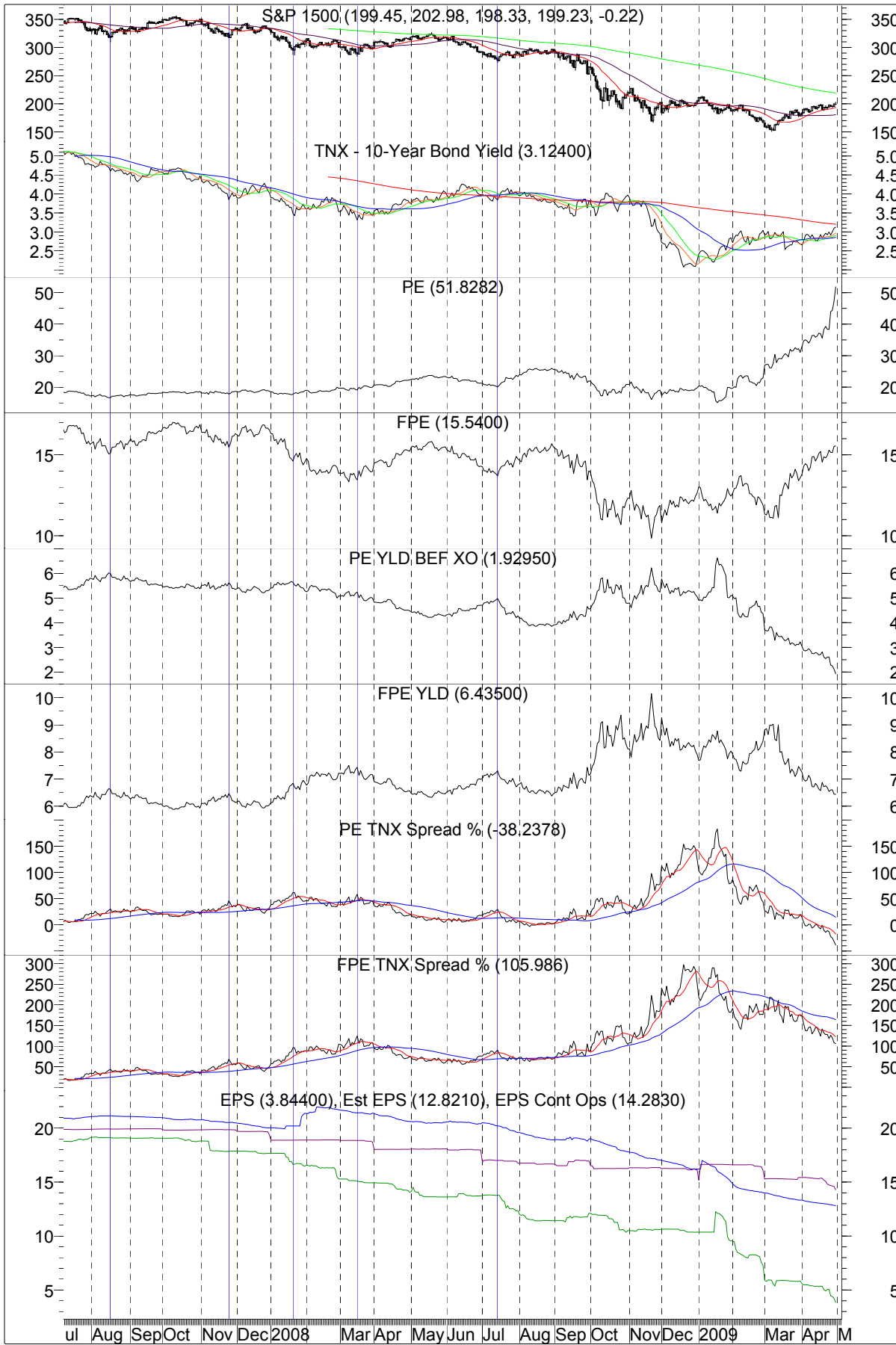






Our proprietary options indicator is well into negative territory, so any pullback should not be too deep.

New high reversals jumped up Thursday, indicating an increased desire to take profits.



10-year bond yields are rising, hurting spreads.

P/E based on reported earnings is skyrocketing.

Spreads have narrowed to low levels.

Reported earnings, earnings from continuing operations, and analyst estimates all continue to move lower.