

Thursday May 28, 2009

Closing prices of May 27, 2009

Wednesday's follow through of Tuesday's rally ended with a sharp reversal as stocks sold off in response to bond yields vaulting to their highest levels since November. We said on May 14th that the terrific rally off the March lows had ended, and we expected to see a pullback or period of consolidation. That is where we are now, and the question remains how deep a pullback or how long this period will be. We said Monday we expected further weakness in equities, but that sellers were not that aggressive. We said we would be watching for any catalyst that might make sellers more motivated, and hopefully this jump in rates will be taken in stride. However, investors need to be on their toes and prepared to react should support levels be broken.

This is a bifurcated, opportunistic trader's market, with adept traders able to enter long or short. The short-term is down, the intermediate-term trend is up, while the long-term trend remains down. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

The S&P 1500 (203.30) was down 1.90% Wednesday. Average price per share was down 1.93%. Volume was 97% of its 10-day average and 86% of its 30-day average. 15.4% of the S&P 1500 stocks were up, with up volume at 18.04% and up points at 7.49%. Up Dollars was 1.12% of total dollars, and was 2.5% of its 10-day moving average. Down Dollars was 197% of its 10-day moving average.

All ten S&P sectors were down on the day, led by Financials -3.85% and Materials -3.08%.

The S&P 1500 is up 2.04% in May, up 12.33% quarter-to-date, down 0.80% year-to-date, and down 42.95% from the peak of 356.38 on 10/11/07. Average price per share is \$24.95, down 42.29% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 53.0%. 13-Week Closing Highs: 54. 13-Week Closing Lows: 14.

Put/Call Ratio: 0.86. Kaufman Options Indicator: 1.02.

P/E Ratios: 67.45 (before charges), 14.59 (continuing operations), 15.95 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -60% (earnings bef. charges), 85% (earnings continuing ops), and 70% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$3.01, a drop of 84.91%. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and are now \$13.93, down 30.18%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$12.72, a drop of 42.06%.

486 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.8% had positive surprises, 7.2% were in line, and 24.9% have been negative. The year-over-year change has been -33.5% on a share-weighted basis, -23.2% market cap-weighted and -34.7% non-weighted. Ex-financial stocks these numbers are -33.0%, -22.6%, and -31.1%, respectively.

Federal Funds futures are pricing in a probability of 84.0% that the Fed will leave rates unchanged, and a probability of 16.0% of cutting 25 basis points to 0.0% when they meet on June 24th. They are pricing in a probability of 75.6% that the Fed will leave rates unchanged on August 12th, a probability of 14.0% of cutting 25 basis points to 0.0%, and a probability of 7.6% of raising 25 basis points.

IMPORTANT DISCLOSURES

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S&P 500 Cash (909.95, 913.84, 891.87, 893.06, -17.27)

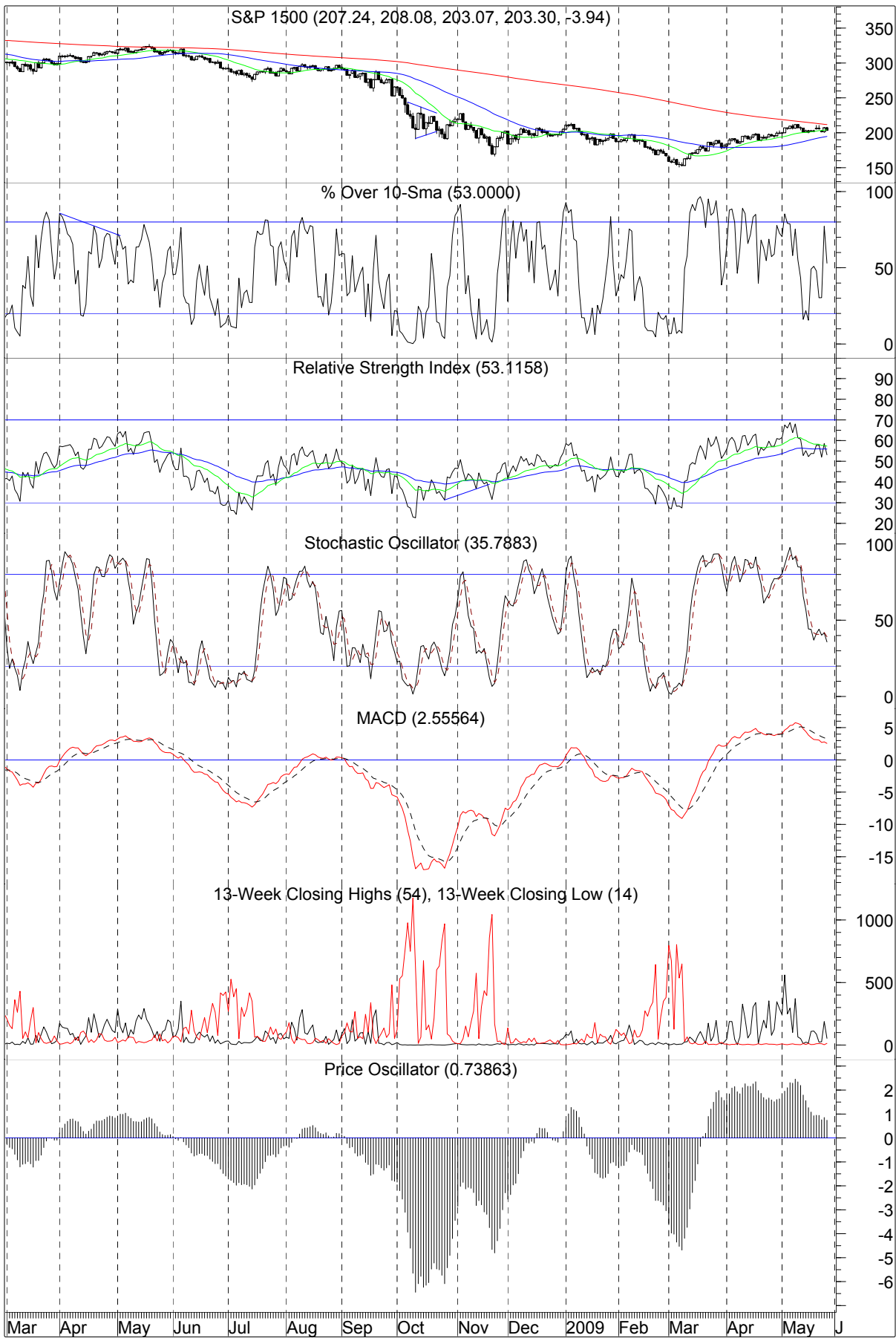


Wednesday's sell off brought the S&P 500 back below its 20-sma. It is still above the support zone at 878 - 875. The 200-sma and 50-sma are pinching the index, a situation that won't last much longer.

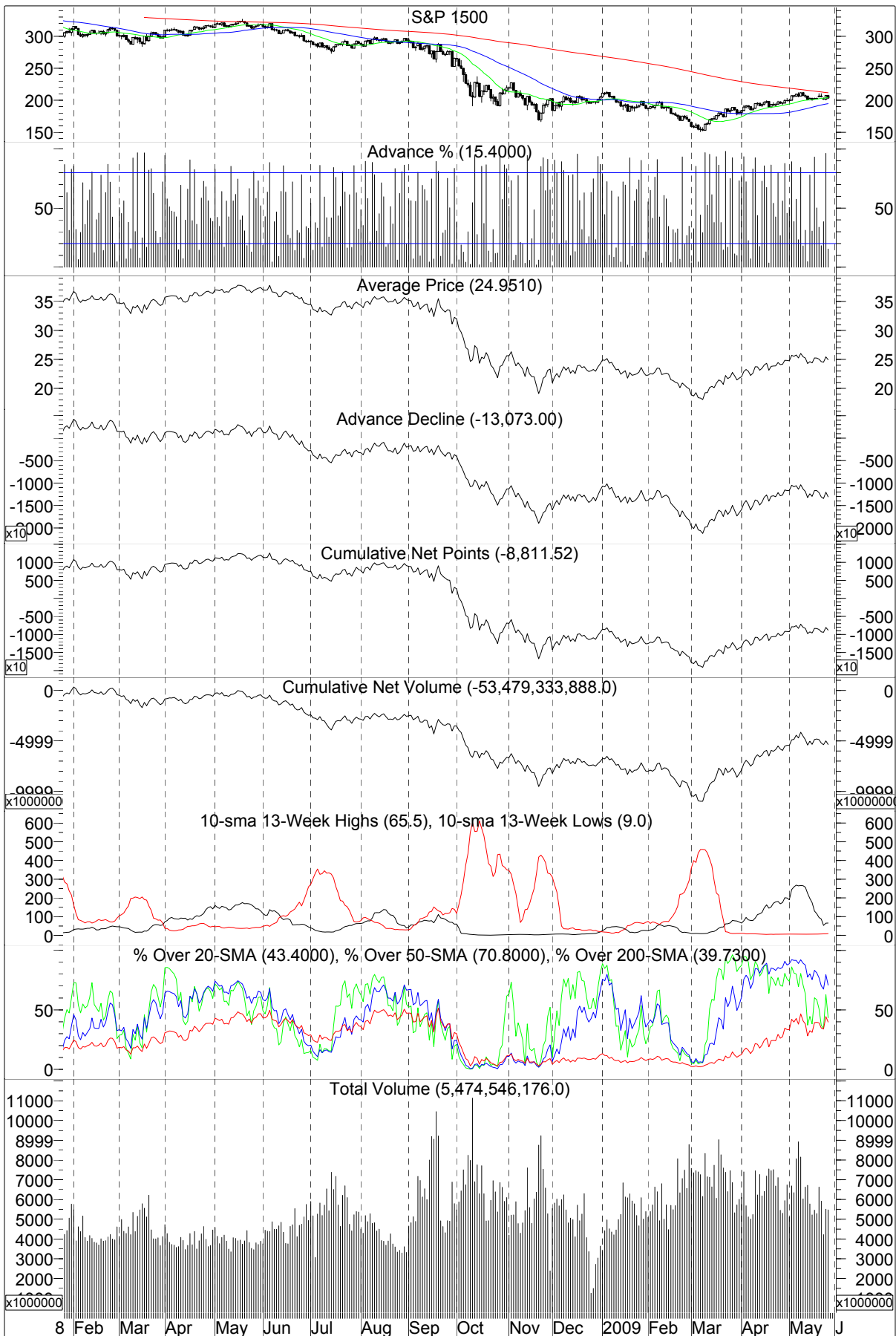
NASDAQ 100 (1,408.59, 1,428.81, 1,398.42, 1,401.88, -10.73)



The Nasdaq 100 printed its second shooting star candle in five sessions, reinforcing resistance in the 1429 - 1436 area. It is still above its 20-sma. The 50-sma is nearing the 200-sma, and the intersection will be at an important support zone.



Our momentum indicators are at neutral levels.



15.4% of stocks traded higher Wednesday.