

Thursday November 13, 2008

Closing prices of November 12, 2008

The S&P 1500 (192.44) was down 5.23% Wednesday. Average price per share was down 5.41%. Volume was 105% of its 10-day average and 86% of its 30-day average. 3.35% of the S&P 1500 stocks were up on the day, with up volume at 4.3% and up points at 1%. Up Dollars was 0.0% of total dollars, and was 1/10 of 1% of its 10-day moving average while Down Dollars was 251% of its 10-day moving average. The index is down 12.34% month-to-date, down 41.93% year-to-date, and down 46.0% from the peak of 356.38 on 10/11/07. Average price per share is down 48.97% from the peak of \$43.23 on 6/4/2007.

The Put/Call Ratio was 1.159. The Kaufman Options Indicator was 0.98.

The spread between the reported earnings yield and 10-year bond yield is 50.41% and 147.15% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$10.61, a drop of 44.68%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$17.43, a drop of only 20.6%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.*

462 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 57.4 % have had positive surprises, 9.8% have been in line, and 32.8% have been negative. The year-over-year change has been -19.0% on a share-weighted basis, +5.4% market cap-weighted, and -1.4% non-weighted. *Ex-financial stocks these numbers are 11.5%, 24.8%, and 18.5%, respectively.*

Federal Funds futures are pricing in an 94.0% probability that the Fed will *cut rates 50 basis points to 0.50%*, and a 6.0% probability of *cutting 25 basis points to 0.75%* when they meet on December 16<sup>th</sup>. They are pricing in a 67.7% probability that the Fed will *cut rates 50 basis points to 0.50%* on January 28<sup>th</sup>, and a 30.6% probability of *cutting 25 basis points to 0.75%*.

Wednesday was another 90% panic-selling down day. We have said for a while the odds favored a retest of the October lows, and the S&P 1500 is now about 1/2% from its closing low and 6/10% from the 52-week low. The Nasdaq Composite did make a new closing low. The AD line, Cumulative Net Volume, and Cumulative Net Dollars made new lows, with Cumulative Net Points just missing. These point to lower prices in the future. There are some positive divergences developing, and spreads between equity and bond yields are at extremely wide levels where stocks have bottomed in the past, so a short-covering rally can occur at any time. However, as we said have been saying, *the final stages of waterfall declines can be very painful.*

*The short, intermediate and long-term trends are down. We reiterate that this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short, but the primary downtrend must be respected.*

Options expire November 21<sup>st</sup>. December options expire the 19<sup>th</sup>.

## IMPORTANT DISCLOSURES

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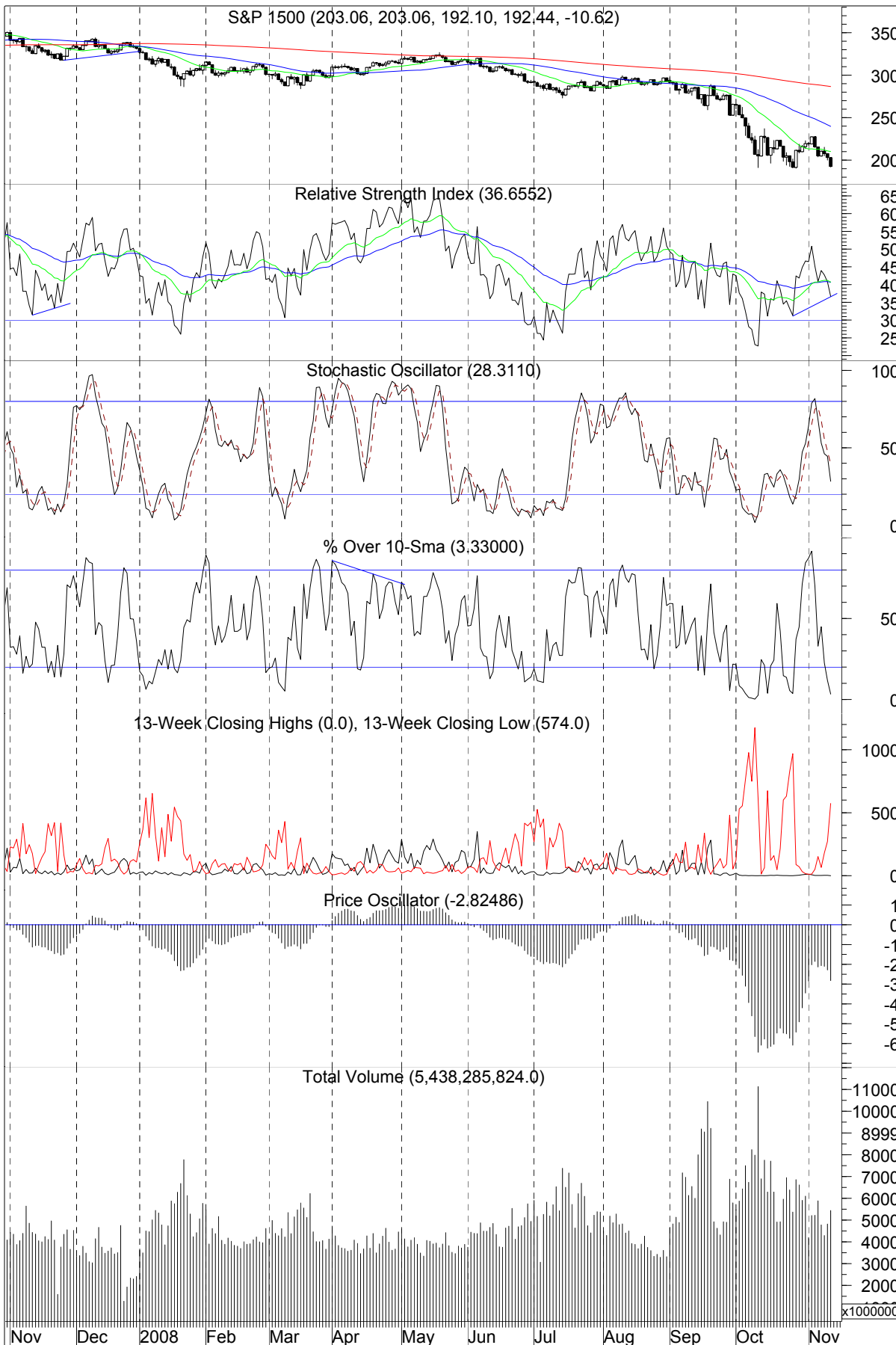
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 1500 (203.06, 203.06, 192.10, 192.44, -10.62)



We have been saying for a while that the odds favored a retest of the October lows, and that's where we are now.

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



There is a positive divergence on the RSI.

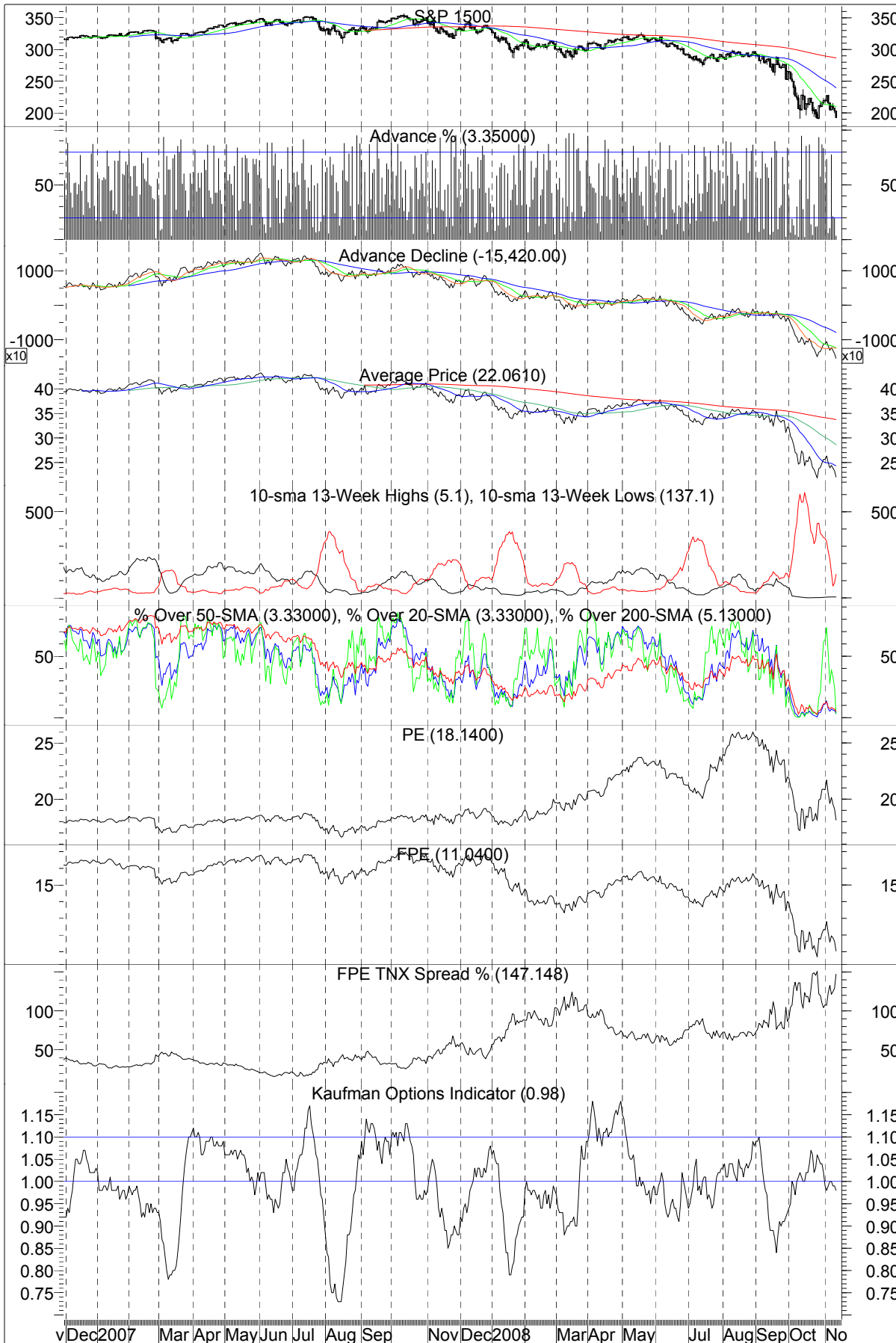
The stochastic is not yet oversold, but the percent over 10-sma is extremely low.

There is a positive divergence developing in the number of new lows.

The price oscillator is moving deeper into negative territory.

Volume expanded during Wednesday's plunge.

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



3.35% of stocks traded higher Wednesday.

The AD line made a new low.

These numbers are ridiculous again.

Spreads between equity and bond yields are near levels where stocks bottomed in October.

Our proprietary options indicator is not at the negative levels where stocks have made important bottoms in the past.