

Monday April 6, 2009

Closing prices of April 3, 2009

Last Sunday we said a pullback had started. It proved to be a very short one, as Monday's selloff created the pullback low as stocks continued the recent strong rally. We also said that after the pullback we expected stocks to trade higher based on longer-term charts. Those charts still show upside potential for stocks since they are not yet overbought for those time frames. We have been saying since early in this rally that a market that doesn't respond to extreme overbought conditions may be in the early stages of a strong rally. That may be the case now. We are now entering earnings season and it appears investors are discounting any bad news and looking further down the road. If not stocks could be very vulnerable since spreads between equity yields and bond yields have narrowed dramatically, and the spread based on current earnings before one-time charges is now negative. In a normal market this would be a major red flag. Of course, this has been anything but a normal market. We think we are back in a split market, where there will be obvious winners and losers. We recommend that investors continue to play the long side while keeping stops tight, and not hesitate to rotate out of lagging stocks and sectors and into leaders.

The short-term and intermediate-term trends are 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 (191.52) was up 1.055 % Friday. Average price per share was up 1.51%. Volume was 88% of its 10-day average and 81% of its 30-day average. 72.27% of the S&P 1500 stocks were up, with up volume at 79.59% and up points at 81.10%. Up Dollars was 91.01% of total dollars, and was 74% of its 10-day moving average. Down Dollars was 16% of its 10-day moving average. The index is up 5.82% in April, up 5.82% quarter-to-date, down 6.544% year-to-date, and down 46.26% from the peak of 356.38 on 10/11/07. Average price per share is \$23.26, down 46.19% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 88.53%. 13-Week Closing Highs: 188. 13-Week Closing Lows: 6.

Put/Call Ratio: 0.826. Kaufman Options Indicator: 0.94.

The spread between the reported earnings yield and 10-year bond yield is 20%, and 174% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and **are now at \$5.47, a drop of 71.48%**. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.25, a drop of 39.64%. **The spread between reported and projected earnings is 142%, 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 86.0% that the Fed will leave rates unchanged, and a probability of 14.0% of **cutting 25 basis points to 0.0%** when they meet on April 29th. They are pricing in a probability of 71.6% that the Fed will leave rates unchanged on June 24th and a probability of 17.2% of **raising 25 basis points**.

IMPORTANT DISCLOSURES

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Economic News

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%.

4/1/09 – MBA Mortgage Applications for w/e 3/27 were +3% from the prior week, rising for the fourth consecutive week as 30-year fixed mortgage rates fell to a record low 4.61%. Challenger Job Cuts YoY for March was up 180.7%. ADP Employment Change report for March showed a loss of 742K jobs versus the -663K estimate and up from -706K in February. ISM Manufacturing for March came in at 36.3 versus the estimate of 36 for a third consecutive increase, while ISM Prices Paid was 31.0 versus the estimate of 33.0. Construction Spending MoM for February was -0.9% versus the estimate of -1.9%. Pending Home Sales MoM for February was up 2.1% versus an estimate of 0.0%. Pending Home Sales is considered a leading indicator. Total Vehicle Sales for March were 9.9 million versus the estimate of 9.2 million, while Domestic Vehicle Sales for March were 7.1 million versus the 6.5 million estimate.

3/31/09 – S&P/CaseShiller Home Price Index for January was 146.40 versus the 147.20 estimate and down from December's 150.56. The S&P/CaseShiller Composite-20 Index for January showed a YoY decline of 18.97% versus the -18.60 estimate December's -18.60%. This was the fastest drop on record for home prices in 20 U.S. cities. All 20 cities showed decreases led by -35% in Phoenix and -32.5% in Las Vegas. Chicago Purchasing Manager Index for March was 31.4 versus the 34.3 estimate and February's 34.2. Consumer Confidence for March came in at 26.0 versus the 28.0 estimate and February's 25.3. February's number was the lowest since records began in 1967. The Milwaukee Purchasing Manager's Index for March was 30.0, up from February's 29.0.

3/30/09 – Dallas Fed Manufacturing Activity for March was -49% versus the estimate of -52%, and an improvement from February's -57.3%.

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, 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%.

Economic News

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.

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%.

S&P 500 Cash (842.25, 842.50, 842.21, 842.50, +0.31)



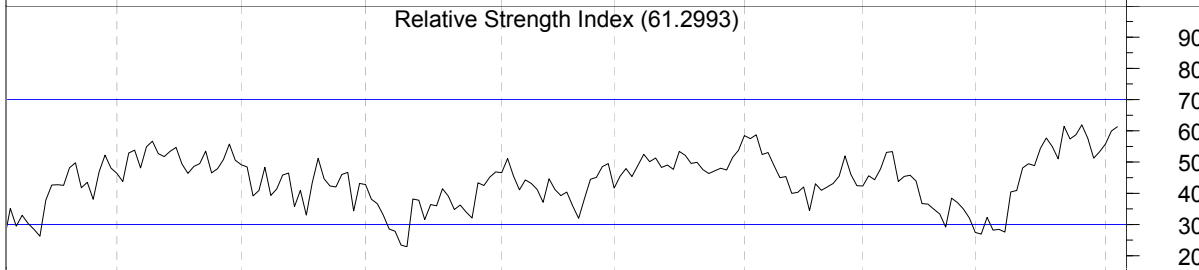
The intra-day chart of the S&P 500 shows many resistance areas being broken, with the last resistance zone becoming a support area.

S&P 500 Cash (835.13, 842.50, 826.70, 842.50, +8.12)

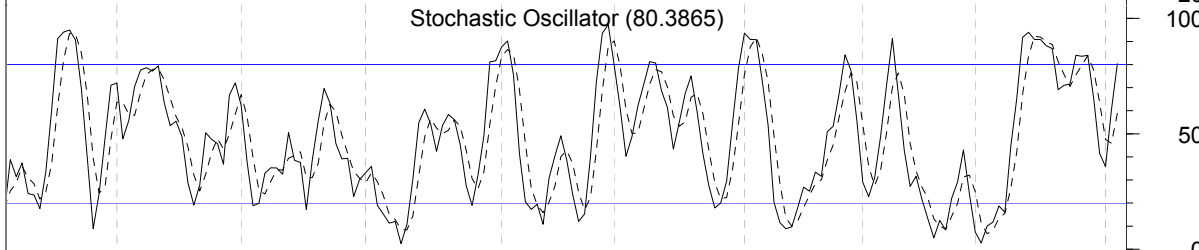


The S&P 500 is just under the down trend line from the symmetrical triangle on the daily chart. A slight negative divergence has developed on our momentum indicators

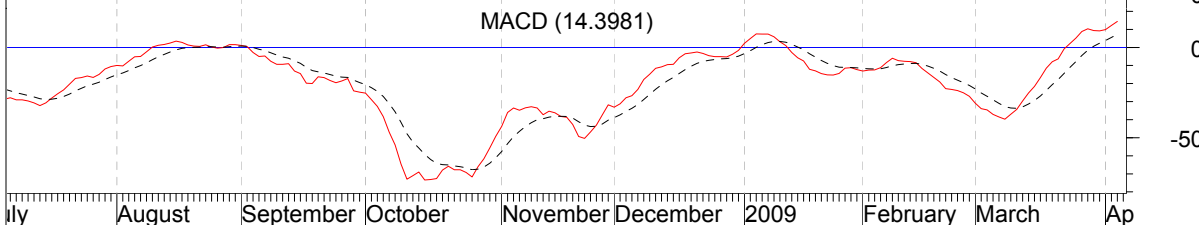
Relative Strength Index (61.2993)



Stochastic Oscillator (80.3865)



MACD (14.3981)



July August September October November December 2009 February March April

S&P 500 Cash (809.07, 845.61, 779.81, 842.50, +26.56)



The S&P 500 weekly chart shows it has advanced four weeks in a row. It is not yet overbought on the weekly chart but it is coming up to resistance.

NASDAQ 100 (1,306.50, 1,316.71, 1,294.16, 1,316.16, +21.86)

200-sma

50-sma

20-sma

The Nasdaq 100 broke out of its sideways channel last week.

Relative Strength Index (65.1934)

Stochastic Oscillator (90.1135)

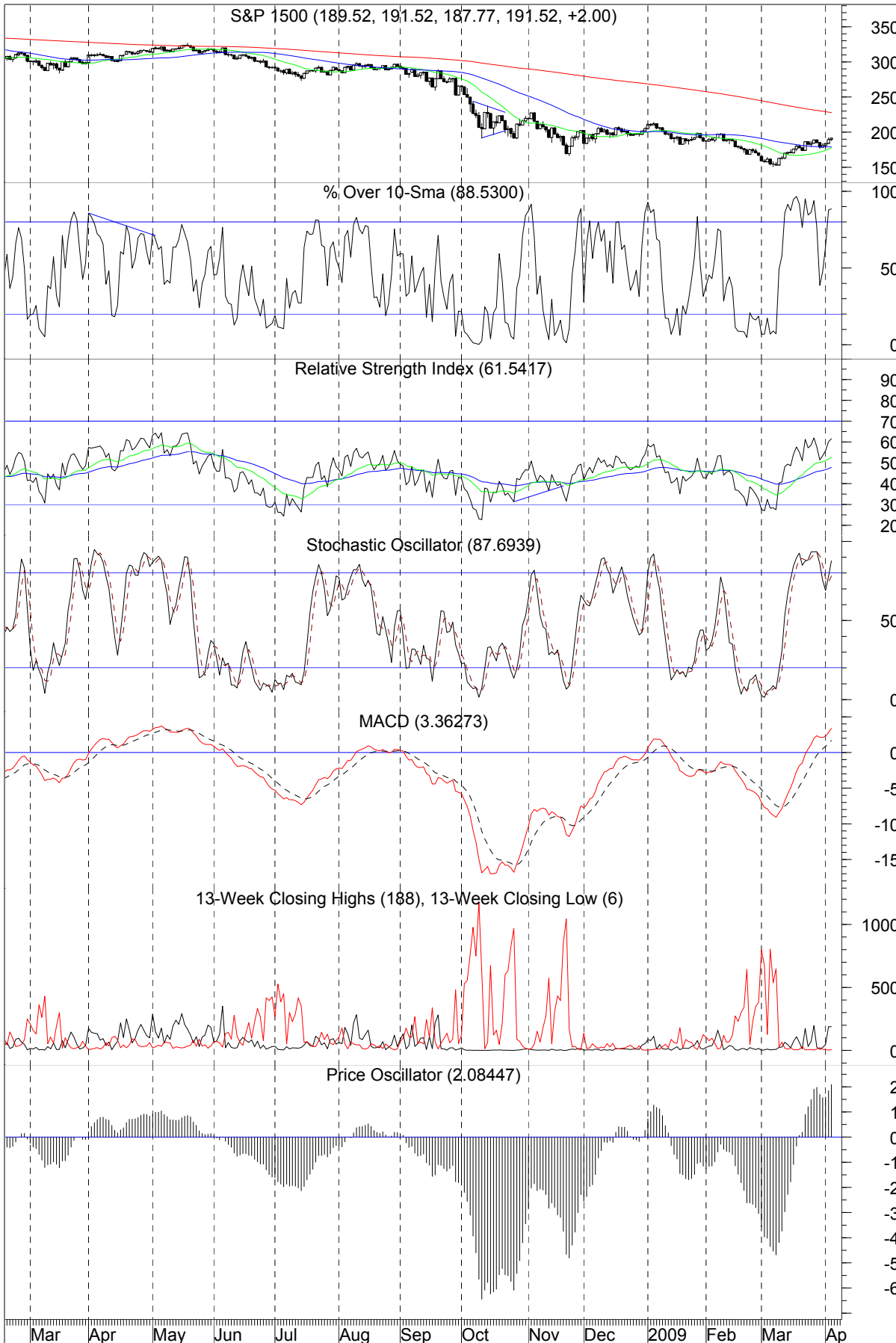
MACD (31.2534)

ber October November December 2009 February March April

NASDAQ 100 (1,230.89, 1,316.71, 1,204.96, 1,316.16, +64.69)

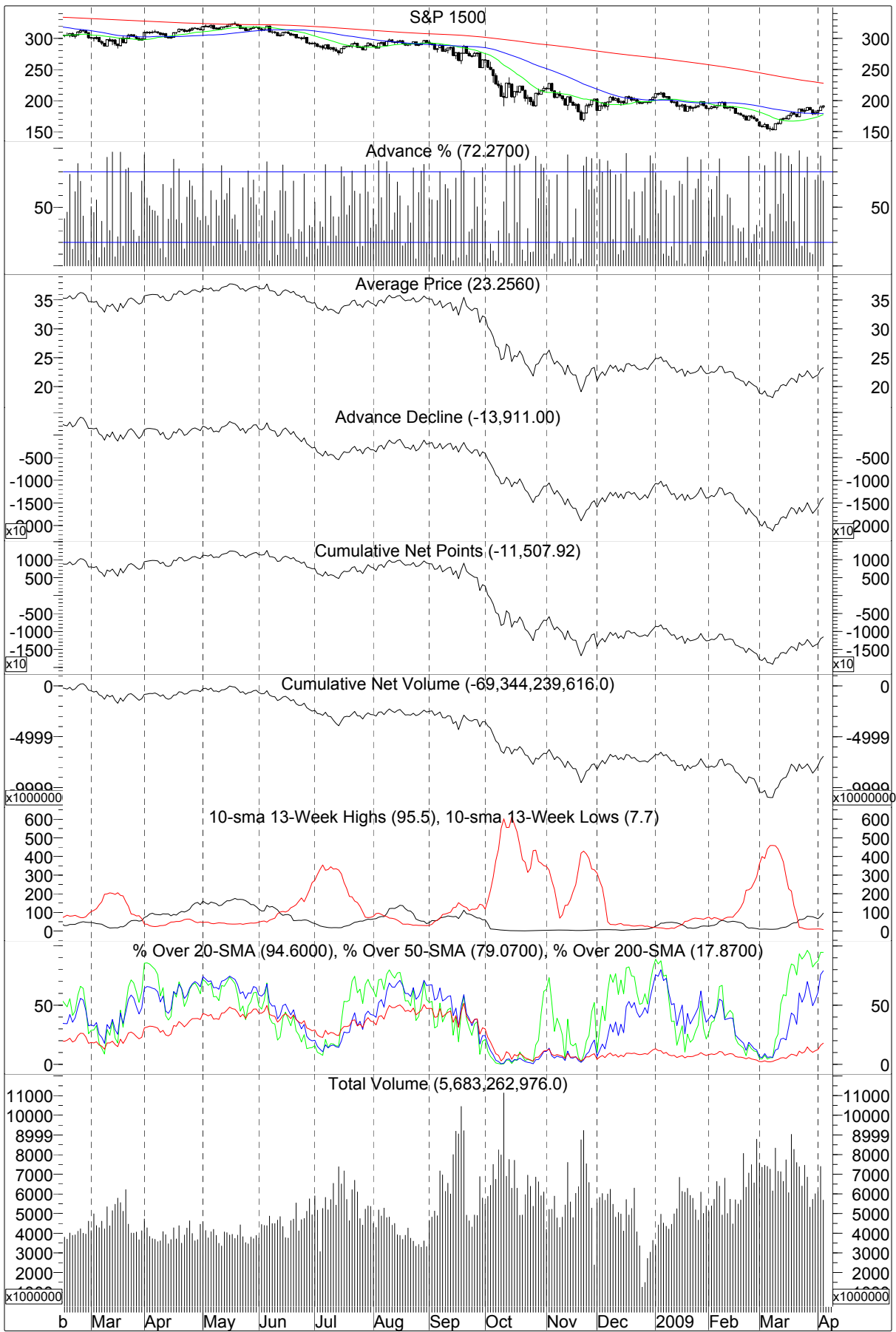


The Nasdaq 100 is up four weeks in a row and is not yet overbought on the weekly chart.



Our daily momentum indicators are at high or overbought levels and are showing slight negative divergences.

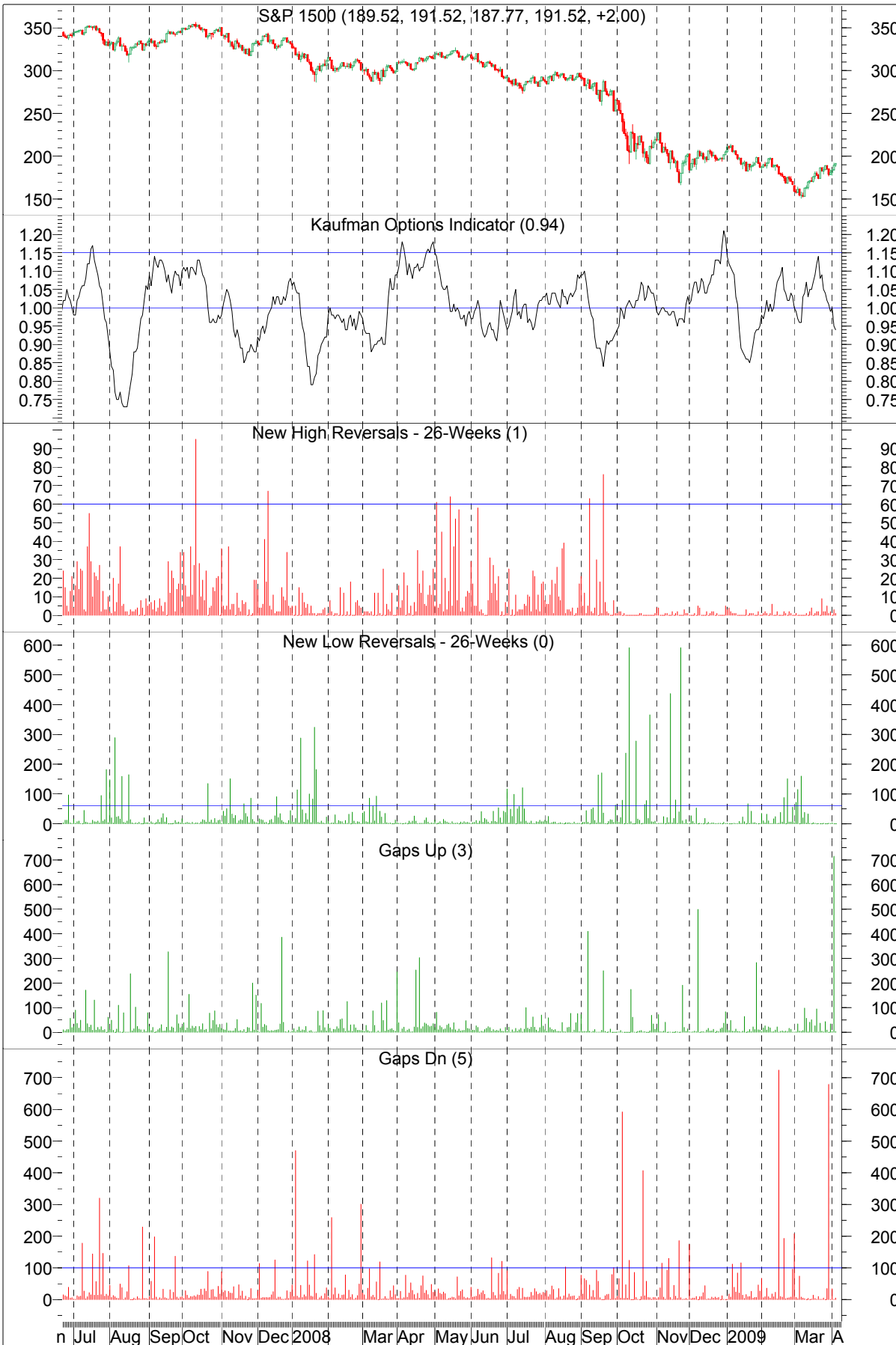
Our price oscillator, a good indicator of trends, is in positive territory although at a very overbought level.



The percent over 20-sma and over 50-sma are very strong but overbought. The percent over 200-sma is the best since 10/3.

Volume decreased Friday.

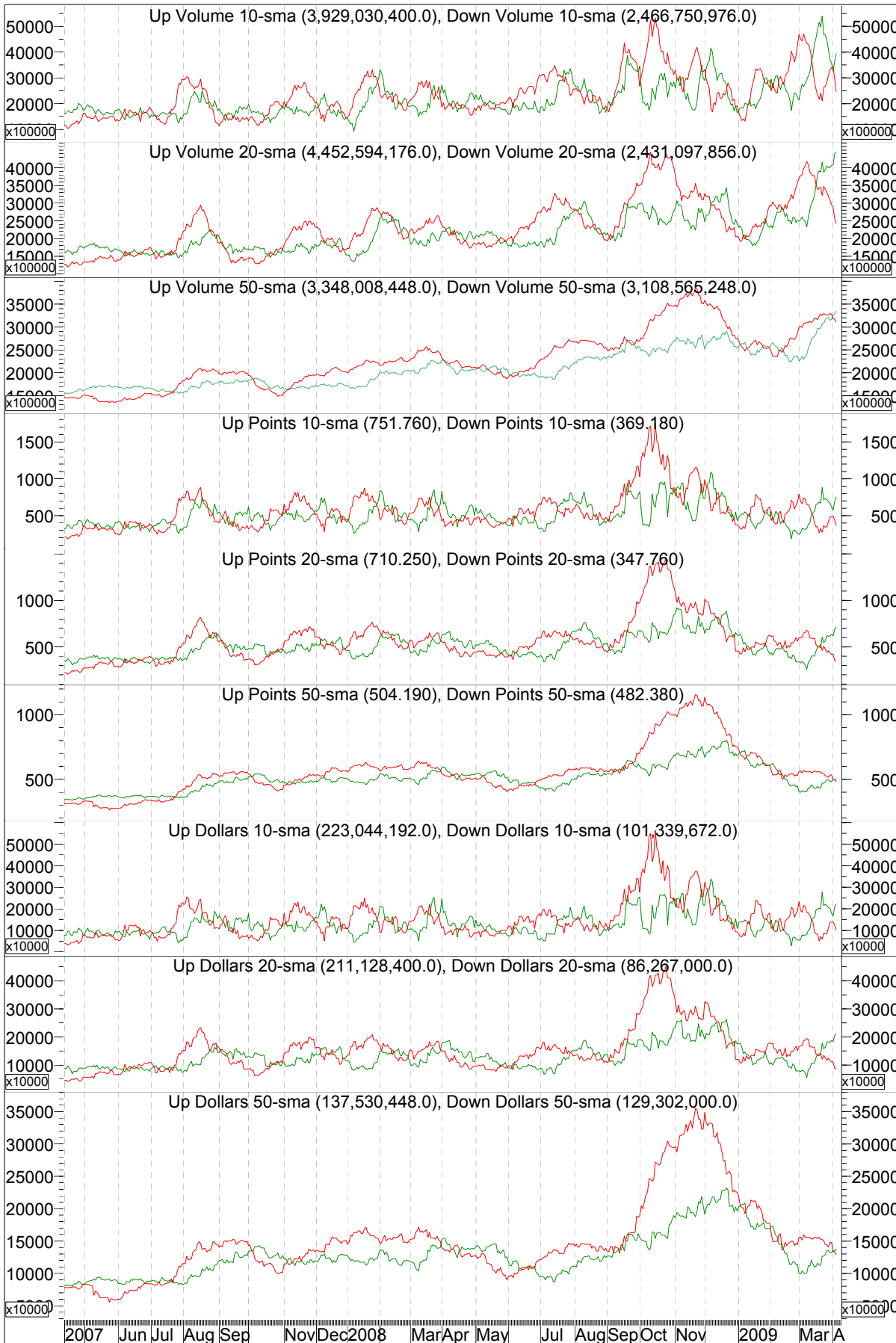
The Kaufman Report - Wayne S. Kaufman, CMT



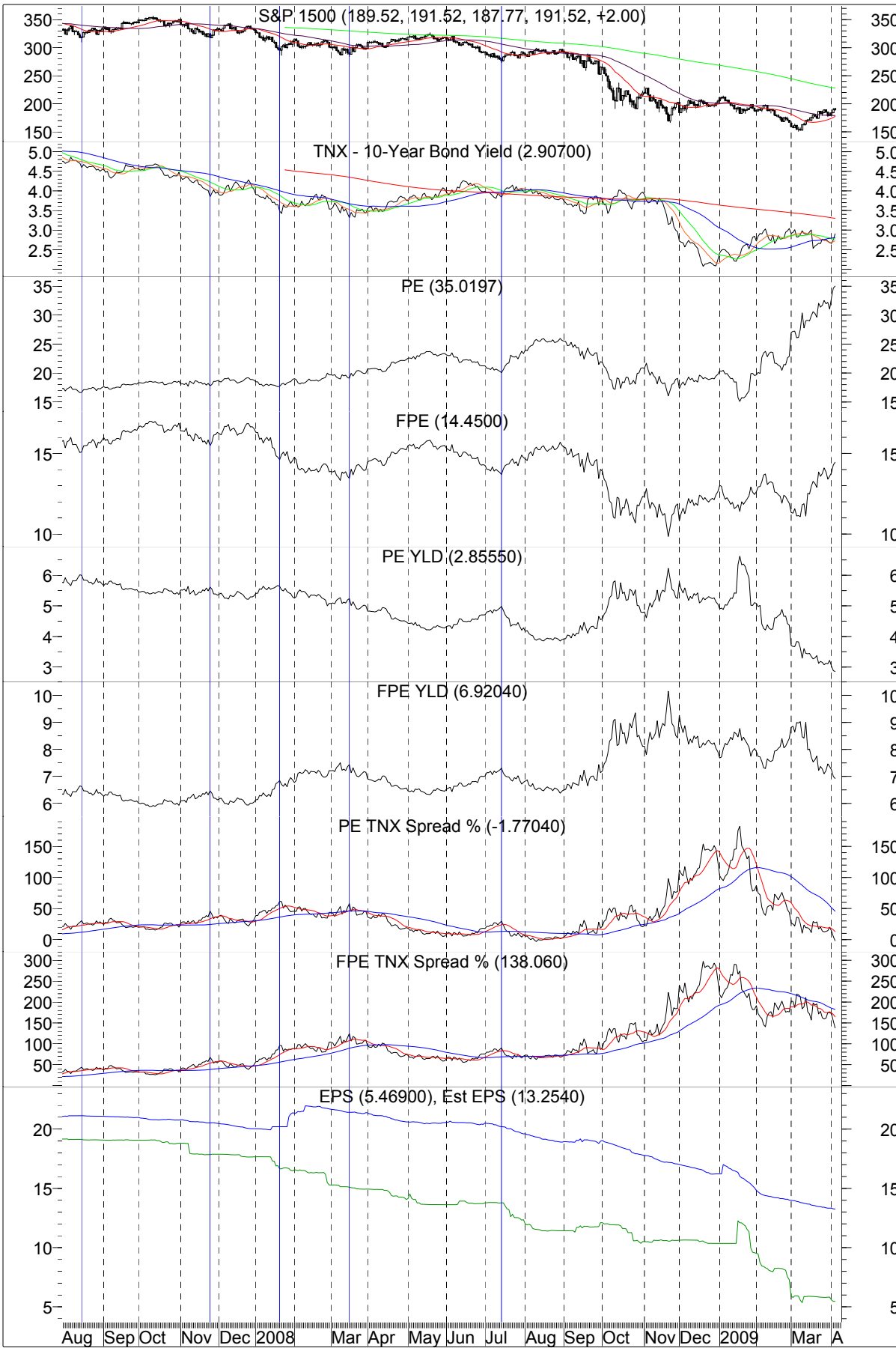
Our proprietary options indicator is well into negative territory, which should be good for the current rally. From this level of pessimism pull backs shouldn't be too deep.

Thursday saw over 700 stocks gapping up, eclipsing the 679 gaps down seen on 3/30.

The Kaufman Report - Wayne S. Kaufman, CMT



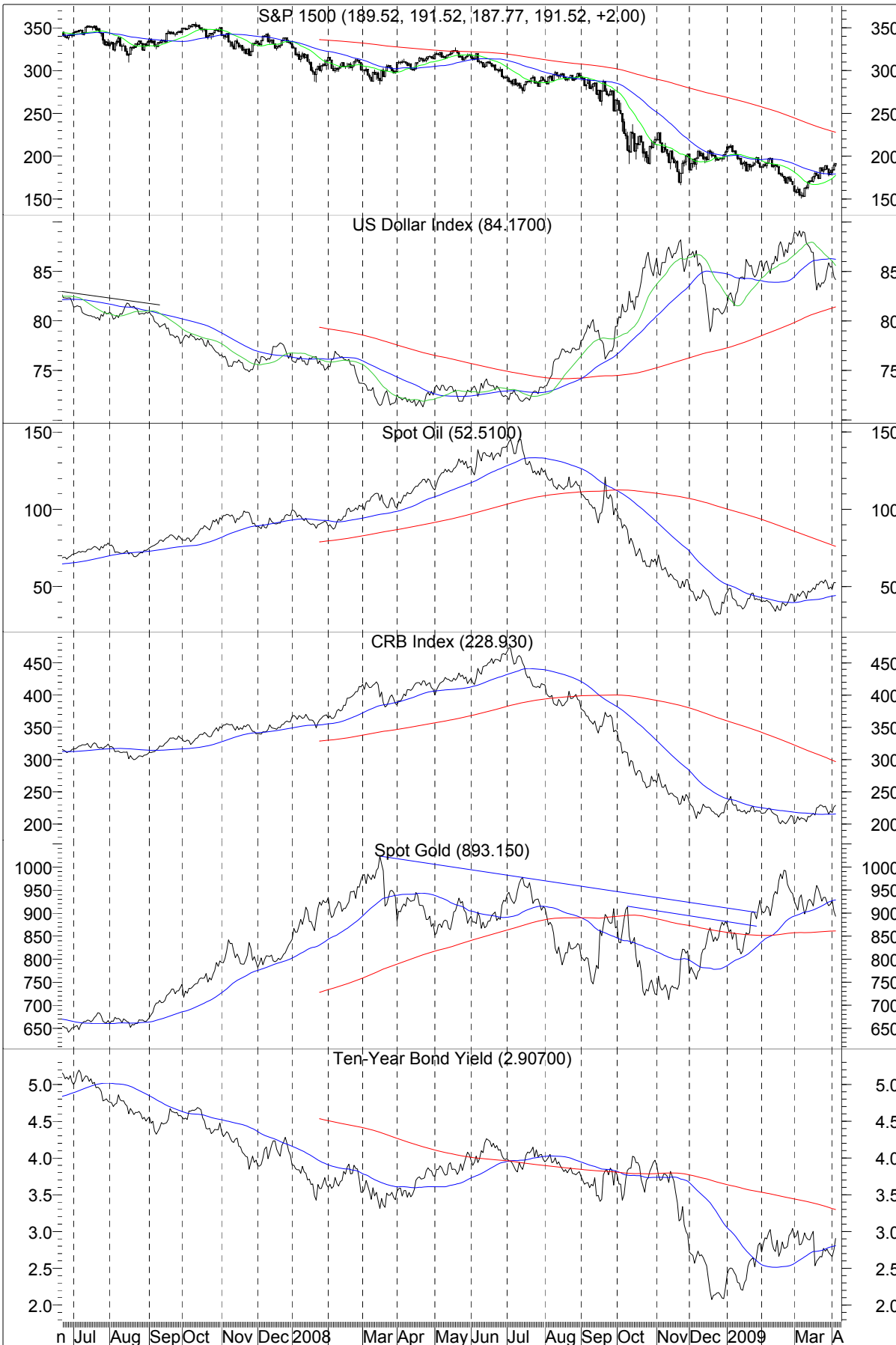
All of our statistics of demand (green) versus supply (red) show that demand has is now swamping supply.



P/E ratios have moved to high levels.

Spreads between equity and bond yields have moved to low levels, with the spread based on current P/E ratios now negative. Our P/E is before one-time charges.

Reported and projected earnings continue their inexorable move lower.



Crude oil continues its move higher and it is above its 20 and 50-sma (blue). There is support at 48. The 50-sma is at 44.

The commodities index is holding above its 50-sma (blue).

Gold remains in a short-term down trend with some support at 884 and the 200-sma at 860.