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The Kaufman Report

Trade what you see, not what you think.

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Monday June 22, 2009 **Closing prices of June 19, 2009**

Last week we pointed out multiple negative divergences that had developed and said investors should use extreme caution. We also said extremely aggressive investors could enter short positions. The negative divergences kicked in and June 11th's new highs turned into a failed breakout. Our expectation has been for the rally off of the March lows to end in June or July, so a pullback at this time fits our road map. However, we don't think a pullback here will be too deep since the recent weakness is more due to the reluctance of buyers than conviction on the part of sellers, and our options indicator which shows options buyers have become more pessimistic. We will become more bearish if S&P 500 support at the 878 area is broken. Caution is still advised at this time.

We also hoped that a pullback would be seen as an opportunity to enter positions ahead of the end of the quarter by money managers who have underperformed recently, so we are looking for entry points to use money that has been raised by the use of stop losses. **Therefore, we think this is a split market in the short-term with high whipsaw potential. Agile traders can trade this market long and short.**

The next six weeks promises to be a fascinating time for equities. The FOMC meets on June 24th followed shortly thereafter by the end of the second quarter. The end of this quarter promises to be particularly interesting as it combines earnings warning season with window dressing and some nail biting by money managers who are under-performing the market. By the second week of July we will be entering second quarter earnings season. Investors need to be on their toes during this time and not press the snooze button.

We have been saying that we would sell into an end of quarter rally. We also think there is the potential for a deep correction as the year unfolds. However, we accept the possibility that huge global government intervention along with a possibly healing economy and companies that have become very lean and mean could create a scenario where profits will start to surprise to the upside and the deteriorating earnings trend will start to change. If so, we will be more than happy to delay our expected bearishness.

This is a bifurcated, opportunistic trader's market, with adept traders able to enter long or short. Based on the S&P 500 the short-term is down, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

IMPORTANT DISCLOSURES

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The S&P 1500 (209.72) was up 0.335% Friday. Average price per share was up 0.41%. Volume was 128% of its 10-day average and 115% of its 30-day average. 58.63% of the S&P 1500 stocks were up, with up volume at 65.41% and up points at 64.22%. Up Dollars was 72.80% of total dollars, and was 148% of its 10-day moving average. Down Dollars was 31% of its 10-day moving average. For the week the index was down 2.676% on increasing weekly volume.

Only four of the ten S&P sectors were up on the day led by Financials +1.7% and Info Tech +1.2%. The downside was led by Utilities -1.2% and Telecom -1.06%.

For the week only Health Care was positive +2.1%. Leading the way down was Energy -6.5% and Materials -6.4%.

The S&P 1500 is up 0.301% in June, up 15.87% quarter-to-date, up 2.34% year-to-date, and down 41.15% from the peak of 356.38 on 10/11/07. Average price per share is $25.77, down 40.39% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 34.47%. 13-Week Closing Highs: 73. 13-Week Closing Lows: 16.

Put/Call Ratio: 0.86. Kaufman Options Indicator: 0.95.

P/E Ratios: 57.60 (before charges), 14.57 (continuing operations), 15.83 (analyst estimates).

*P/E Yield 10-year Bond Yield Spreads: **-54% (earnings bef. charges),** 81% (earnings continuing ops), and 67% (projected earnings)*. Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $3.64, a drop of 81.02%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $14.40, down 27.82%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.25, a drop of 39.64%.

497 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.3% had positive surprises, 8.1% were in line, and 24.6 % have been negative. The year-over-year change has been -33.5% on a share-weighted basis, -23.2% market cap-weighted and -34.5% non-weighted. Ex-financial stocks these numbers are -32.9%, -22.6%, and -30.09 %, respectively.

Federal Funds futures are pricing in a probability of 88.0% that the Fed will *leave rates unchanged*, and a probability of 12.0% of *cutting 25 basis points to 0.0%* when they meet on June 24th. They are pricing in a probability of 80.9% that the Fed will *leave rates unchanged* on August 12th, a probability of 10.9% of cutting 25 basis points to 0.0%, and a probability of 8.2% of *raising 25 basis points*.

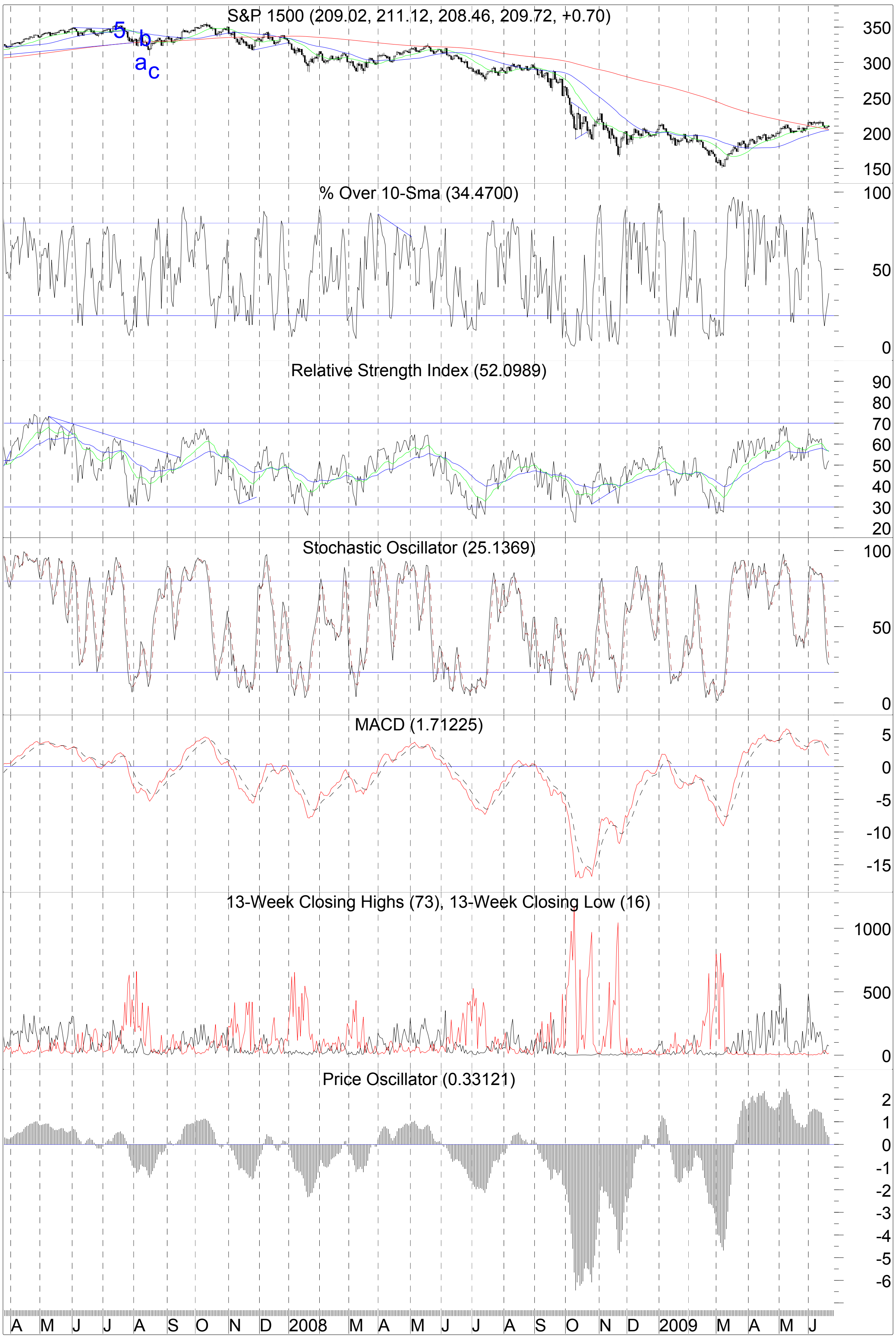
IMPORTANT DISCLOSURES

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 S&P 500 found support at the down sloping 200-sma and bounced up to its 20-sma. A test of the 50-sma seems likely. The index is nearing a positive crossover of the 50-sma and the 200-sma. The 50 has not been above the 200-sma since December 2007.

Our momentum indicators are no longer at high levels, with the stochastic showing a positive crossover from the oversold zone.

The 20-week moving average is nearing the 40-week moving average. It hasn't been above it since late 2007.



Short-term momentum indicators are no longer at high levels.

Our price oscillator hasn't turned negative yet.

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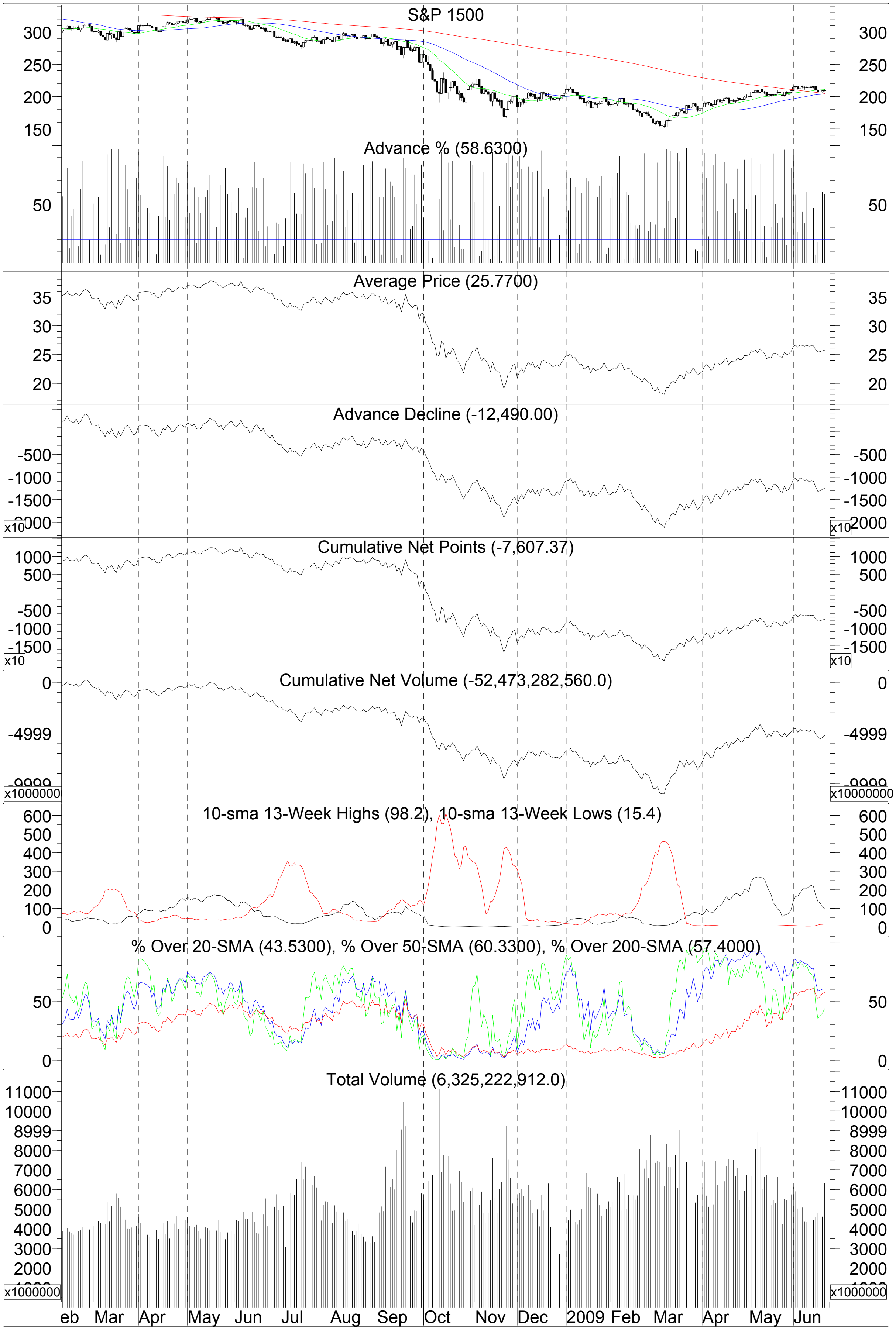

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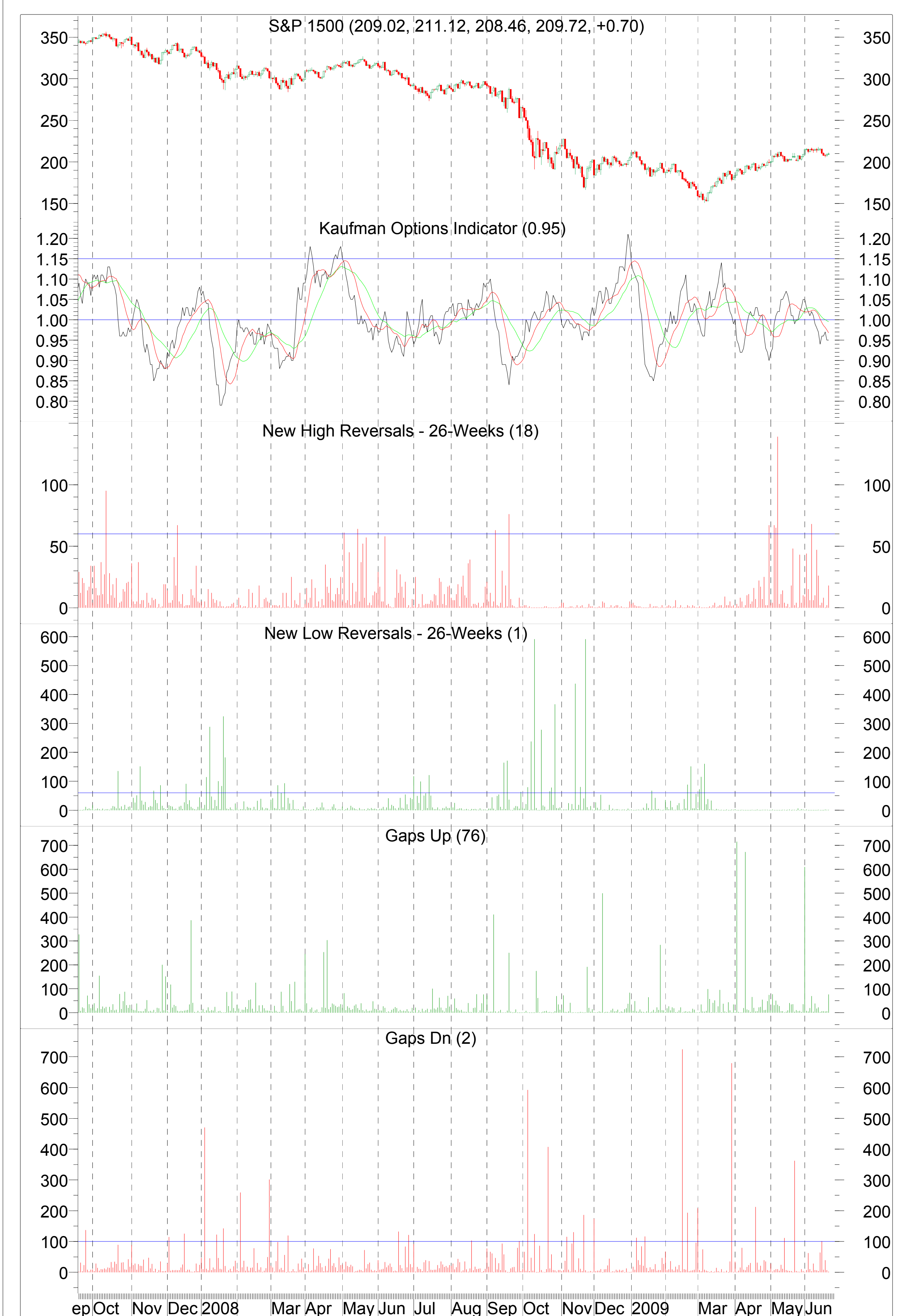

Our options indicator is in negative territory, but not at the levels of pessimism seen at important bottoms. It can go either way from here.

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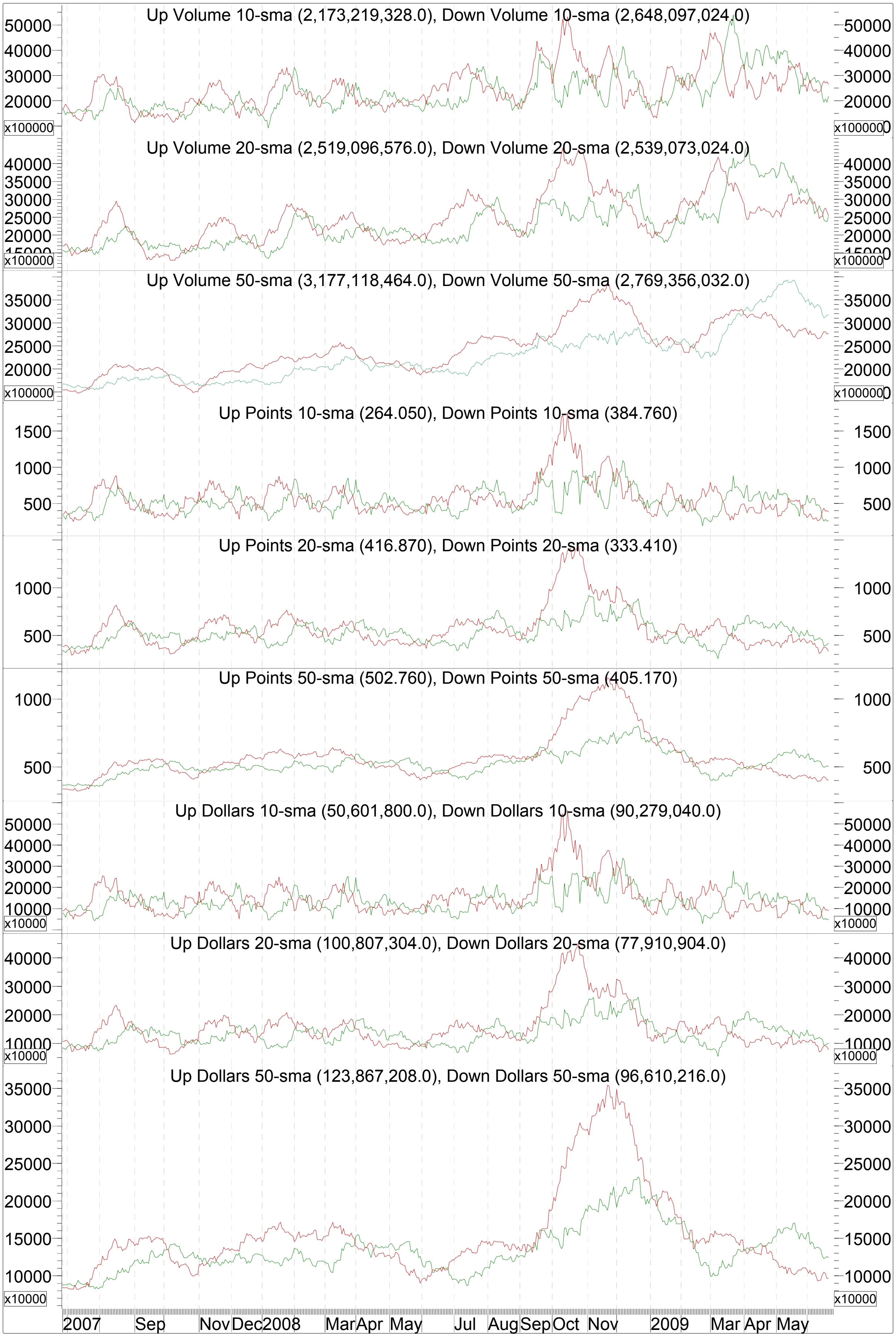

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Our statistics of supply (red) versus demand (green) make it easy to see that buyers haven't been around. Sellers haven't been aggressive either. Will second quarter earnings be the catalyst to change this one way or the other? If so, sharp moves could be not too far ahead.

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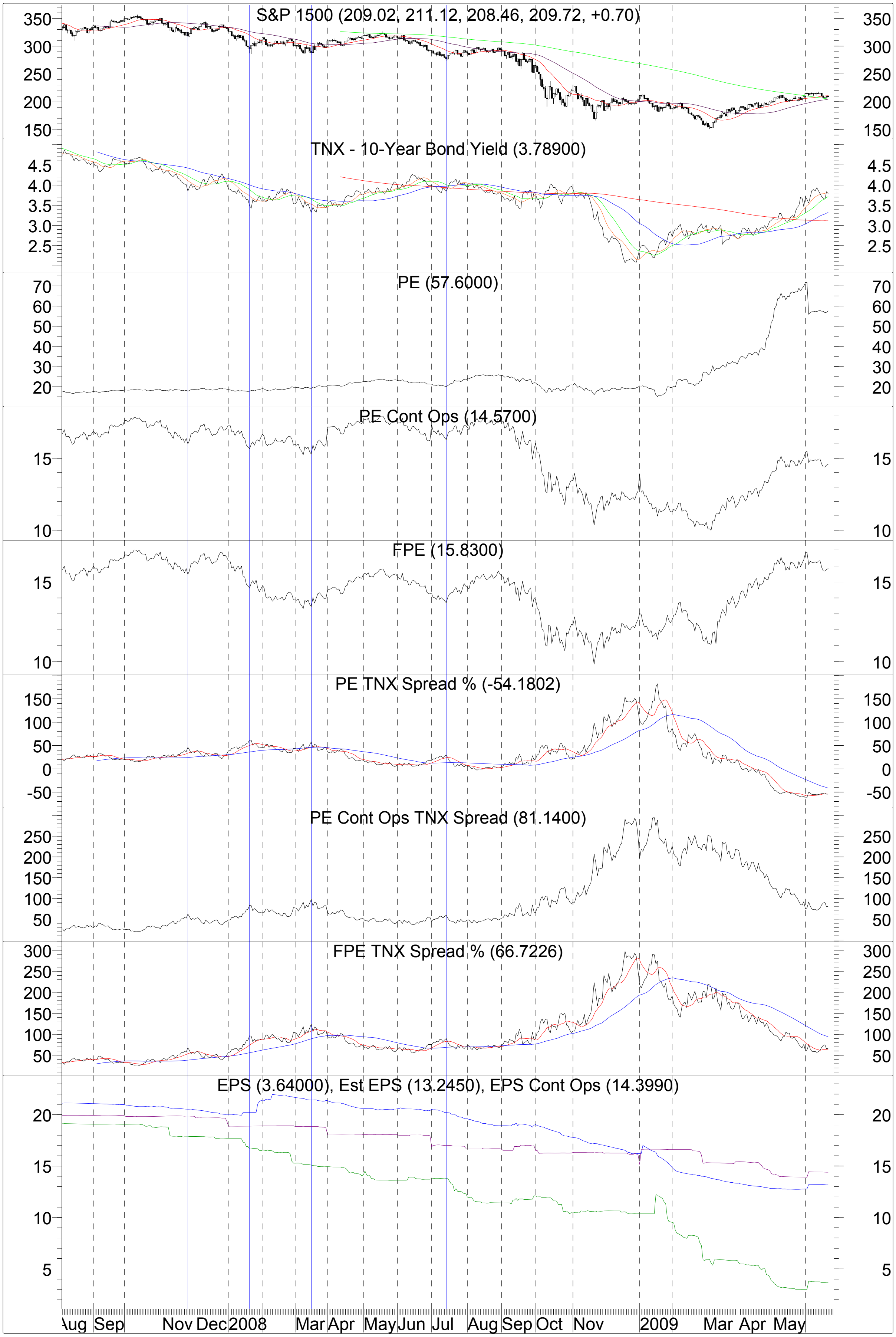
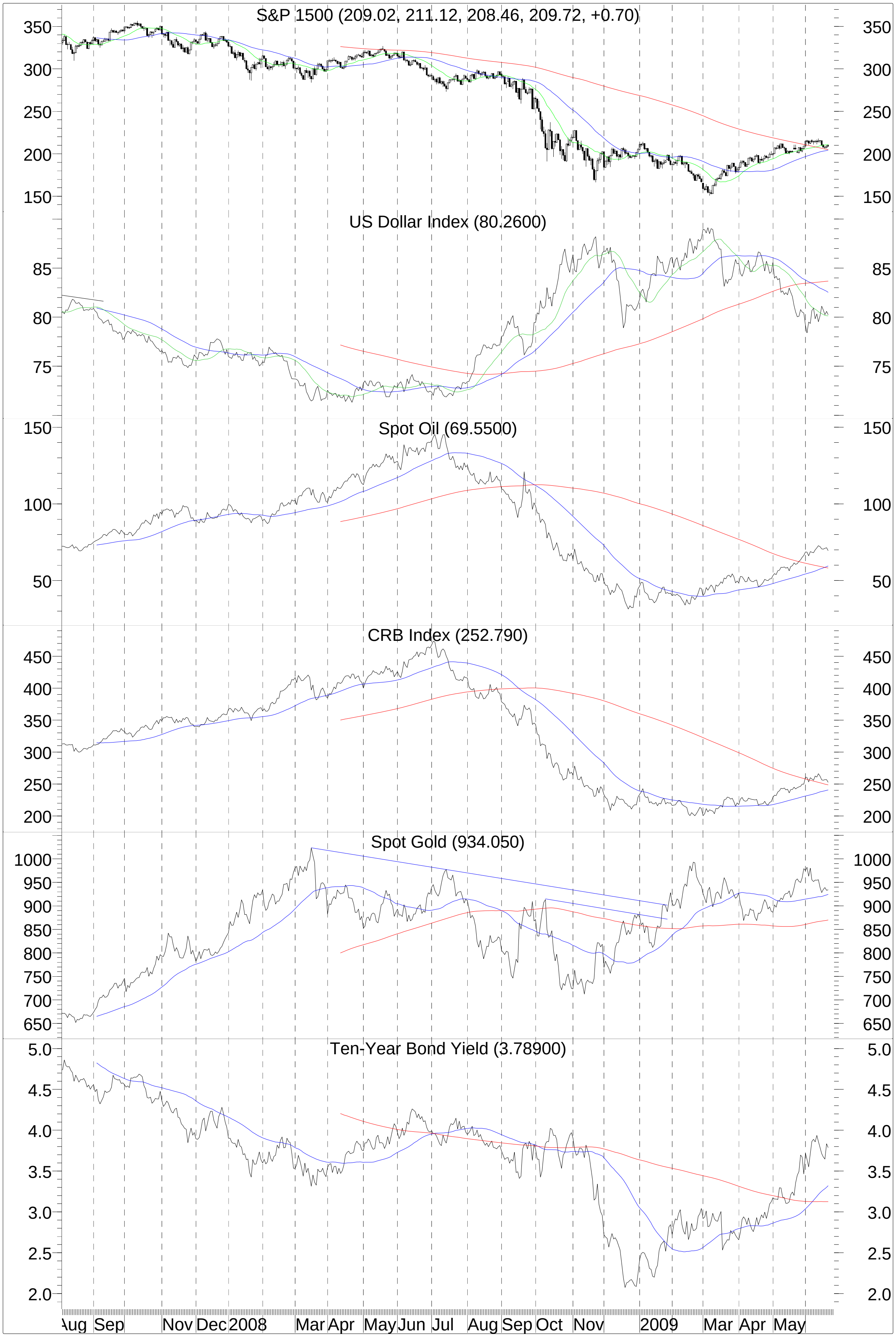


With little earnings news around these numbers are all flat lining.



The US Dollar Index is in a short-term up trend and seems headed higher.

Last week we said crude oil was short-term overbought. We don't expect new highs in the short-term.

Gold is hanging on to its 50-sma. Three weeks ago we said it was overbought, and we are looking for an entry point long. There is a large reverse head and shoulders pattern which needs a breakout over 1000. If the breakout occurs gold may move up quickly. However, we are now concerned with the almost universal bullishness on precious metals.