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The Kaufman Report

Trade what you see, not what you think.

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Monday June 29, 2009 **Closing prices of June 26, 2009**

During the terrific rally off the March lows we said the rally would end sometime in June or early July. At this point it seems the top arrived on June 11th, and we said aggressive traders could enter short in our report on Sunday June 14th. We also have said that we thought any pullback wouldn't be too deep, and would hopefully be used by underperforming money managers as a chance to enter positions ahead of the end of the quarter. We said we hoped for a window dressing rally to make end of quarter statements look good, and we would be selling into such a rally. We still think investors should use the seasonally strong period into the July 4th holiday to generate liquidity. **Our advice is to sell stocks you don't have a very good reason for holding on to**. Due to the enormous liquidity created by governments around the globe we hope to see another rally leg beginning in the second half of July or in August.

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.

The S&P 1500 (209.21) was down 0.072% Friday. Average price per share was up 0.36%. 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 0.243% on decreasing and below average weekly volume.

Only three of the ten S&P sectors were up on the day led by Financials +0.61%. The downside was led by energy -0.99%. For the week five sectors were up led by Telecom +3.65% and Health Care +1.32%. Downside leaders were Energy -2.69% and Financials -1.27%.

The S&P 1500 is up 0.057% in June, up 15.59% quarter-to-date, up 2.09% year-to-date, and down 41.30% 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: 66.87%. 13-Week Closing Highs: 114. 13-Week Closing Lows: 9.

Put/Call Ratio: 0.815. Kaufman Options Indicator: 0.87.

P/E Ratios: 58.23 (before charges), 14.33 (continuing operations), 15.86 (analyst estimates).

*P/E Yield 10-year Bond Yield Spreads: **-51% (earnings bef. charges),** 95% (earnings continuing ops), and 79% (projected earnings).* Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $3.59, a drop of 81.28%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $14.33, down 28.17%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.19, a drop of 39.91%.

498 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.4% had positive surprises, 8.0% were in line, and 24.5 % have been negative. The year-over-year change has been -33.2% on a share-weighted basis, -23.1% market cap-weighted and -34.4% non-weighted. Ex-financial stocks these numbers are -32.6%, -22.5%, and -30.8 %, respectively.

IMPORTANT DISCLOSURES

The S&P 500 printed a doji candle on Friday on increasing volume. This type of higher volume churn shows a tug of war between buyers and sellers. The index remains below its 20-sma. During the week the 50-sma moved above the 200-sma, the famous "golden cross", for the first time since December 2007.

Momentum indicators are neutral.

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Weekly momentum indicators are still at high levels with the stochastic having a negative crossover and coming down from the overbought zone.

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Last week the Nasdaq 100 closed the gap from June 1st as we expected. It also bounced off its 50-sma and remains in an up trend.

Momentum indicators are neutral.

The last candle on the weekly chart may not be a perfect hanging man, but could still be a warning.

Weekly momentum indicators are still at high levels.

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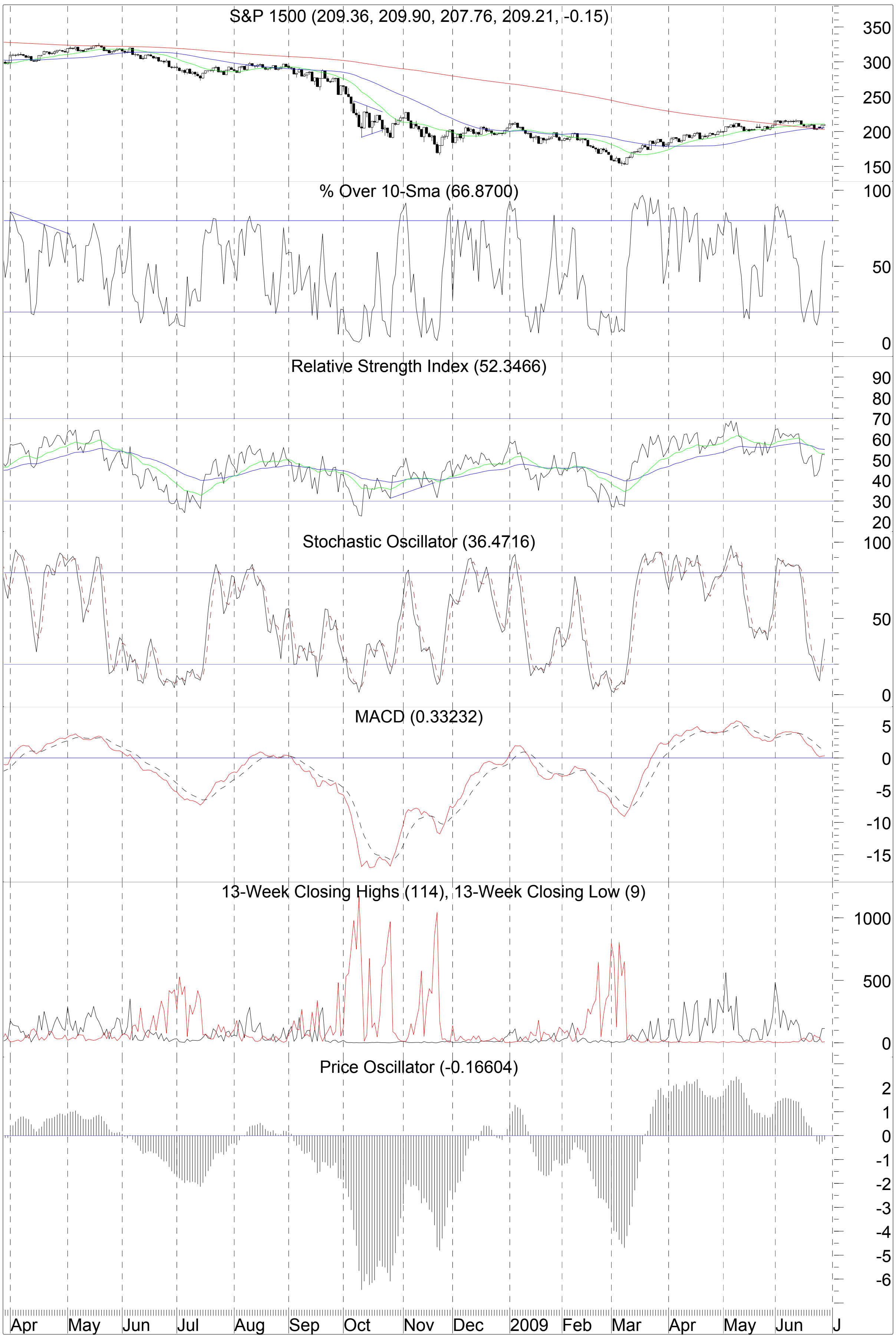
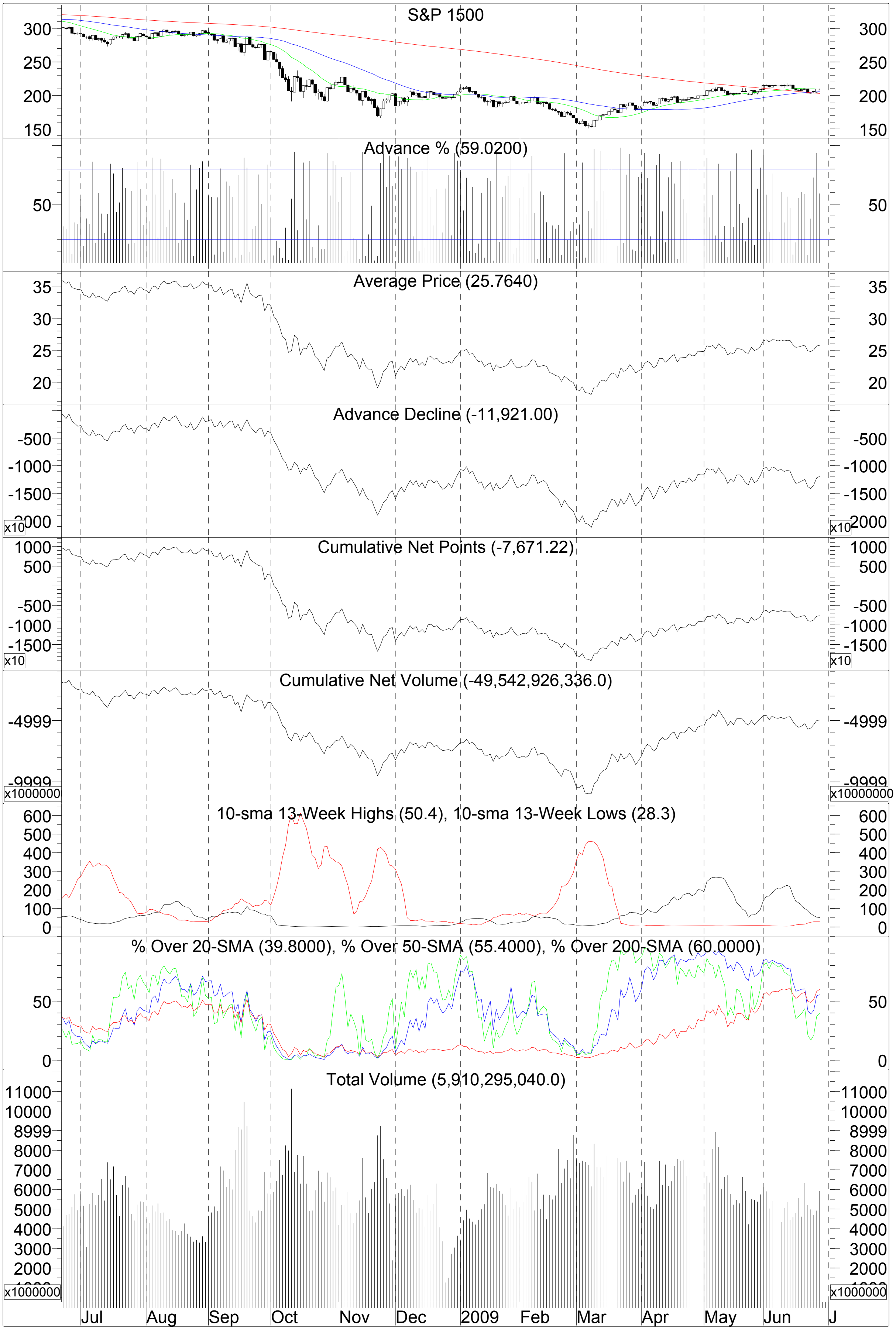


66.87% of stocks are over their 10-sma, not far from the overbought zone.

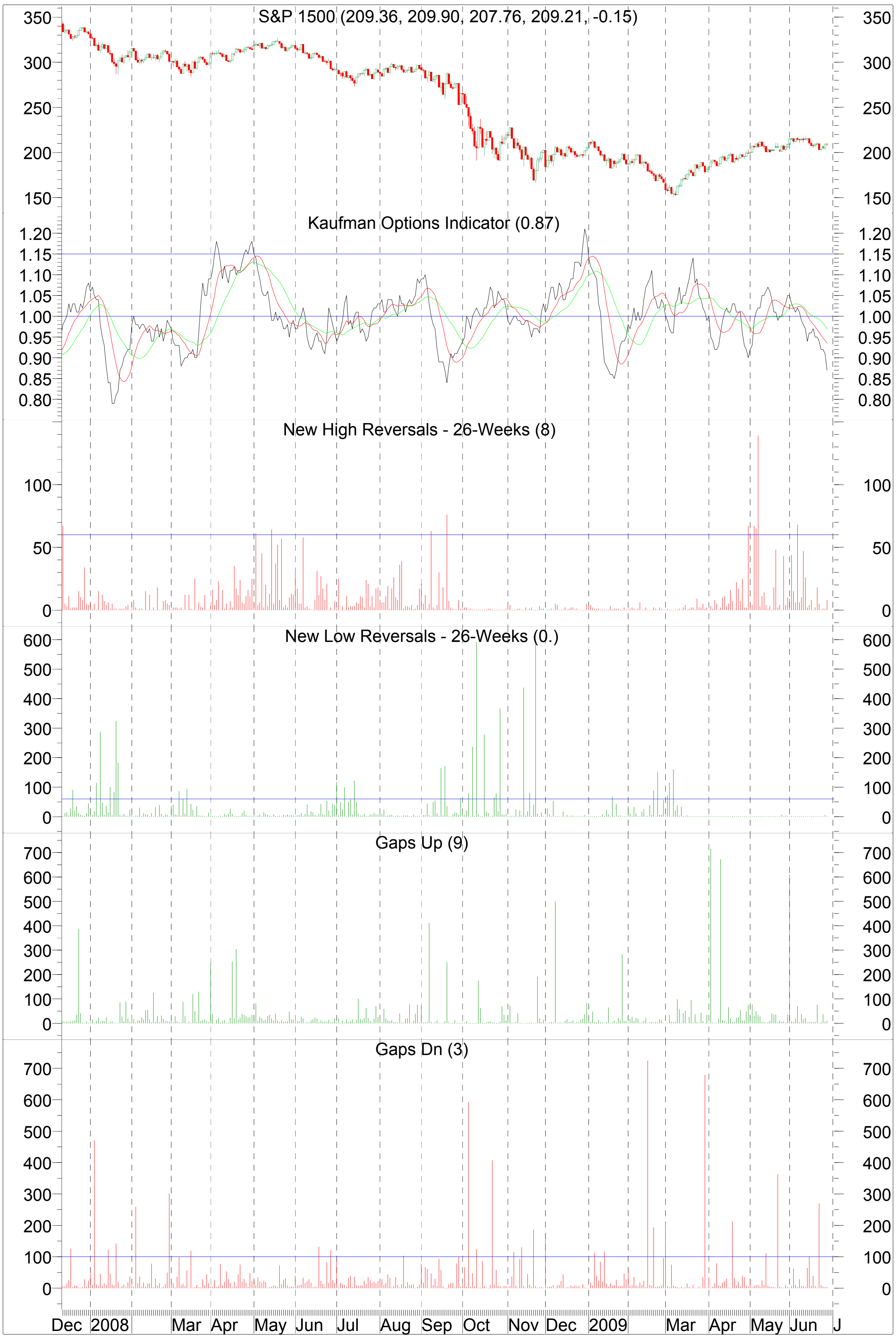
Our price oscillator has turned negative, but not yet decisively so. A move lower than last weeks's readings would be very bearish short-term.



Since June 1st only one session had advancers at 80% or more. Obviously this is a sign of a weakening rally.

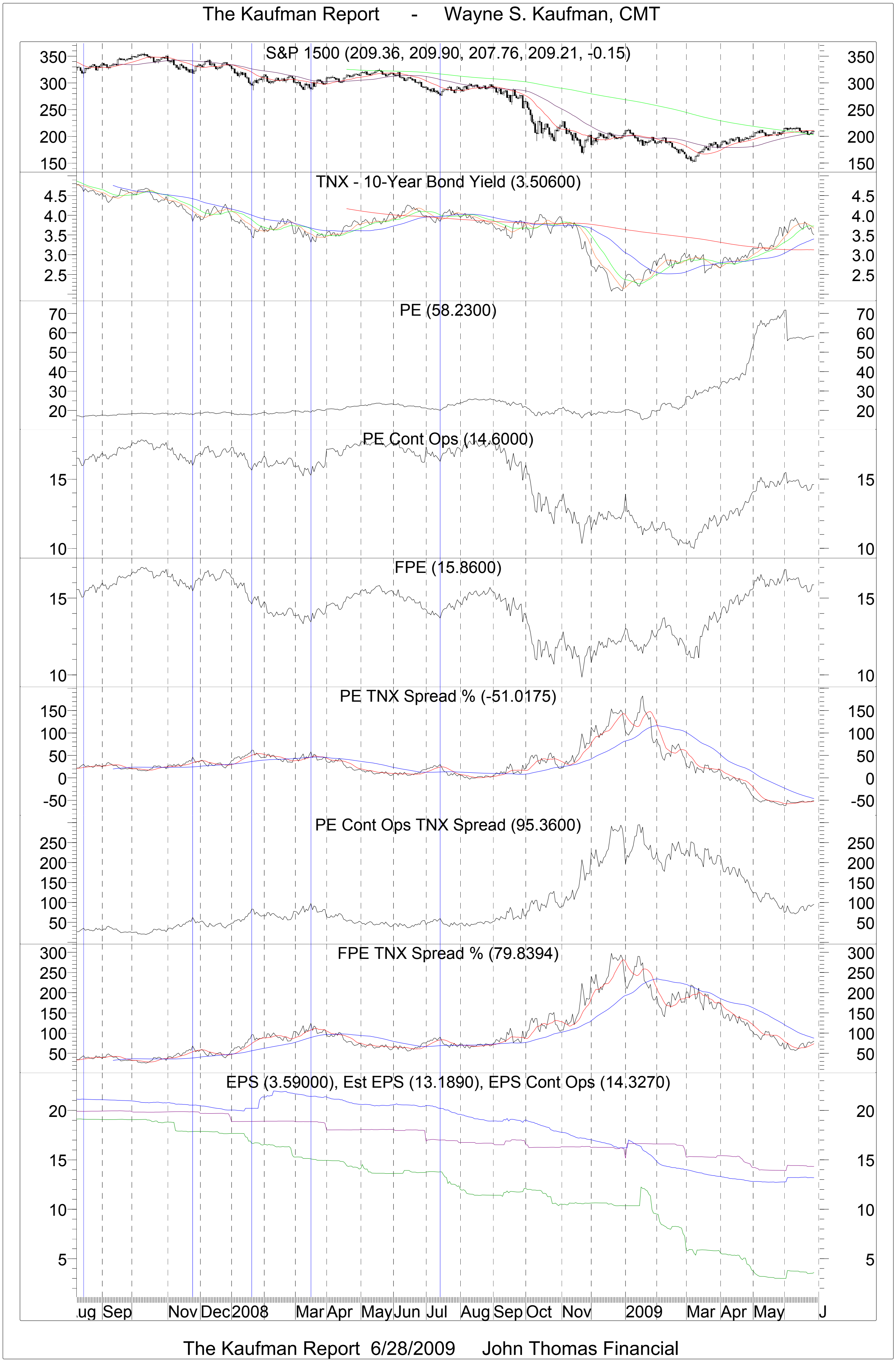
The 10-sma of 13-week closing lows has been rising.

Short-term statistics have been weak, but the percent over 200-sma is just below the 61.02% hit on June 12th, which was the best level since July 2007.



Our proprietary options indicator is at low levels, but can still go lower before turning up. Still, we wouldn't expect to see a sharp move lower in the very short-term with this degree of pessimism.

A quick glance at our statistics of supply (red) versus demand (green) show that buyers have become very reluctant.



The P/E before charges remains at a very high level.

Earnings have been flat lining since the end of last quarter's earnings season. That will change in July as Q2 numbers start to come out.

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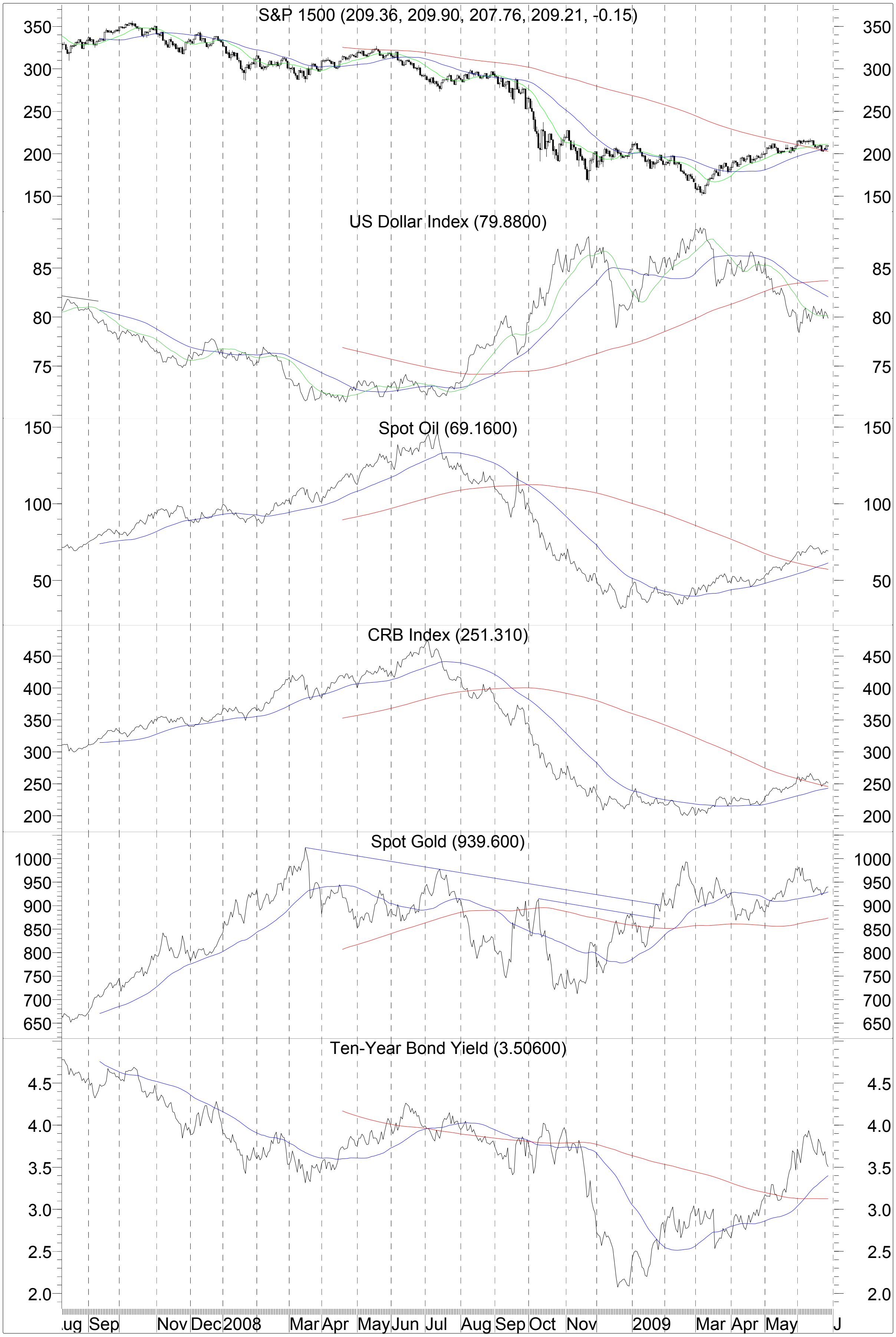

The US Dollar Index seems to be poised to make another leg down.

Gold is bouncing off its 50-sma (blue). If the US Dollar does start another leg down gold should maintain its classic inverse relationship with the Dollar and move higher.