

Wednesday November 19, 2008

Closing prices of November 18, 2008

Stocks reversed an early afternoon sell off as the S&P 1500 finished slightly up on the day. In doing so it managed to close above the closing low of October 27<sup>th</sup>. Seven of the ten S&P sectors traded higher led by Energy, which was up 3.34%. Financials, Materials, and Telecom closed lower.

In the very short-term there are still positive divergences in some indicators, and spreads between equity and bond yields have widened to extreme levels where stocks have bottomed recently. With indicators at low or oversold levels, a bounce higher seems likely. However, the intermediate and longer-term picture is still negative and we still expect a retest of the lows of 2002 at some point.

The S&P 1500 (193.82) was up 0.838% Tuesday. Average price per share was down 0.06%. Volume was 111% of its 10-day average and 97% of its 30-day average. 48.61% of the S&P 1500 stocks were up on the day, with up volume at 49.49% and up points at 48.62%. Up Dollars was 56.09% of total dollars, and was 57.8% of its 10-day moving average while Down Dollars was 16.33% of its 10-day moving average. The index is down 11.707% month-to-date, down 27.125% quarter-to-date, down 41.51% year-to-date, and down 45.61% from the peak of 356.38 on 10/11/07. Average price per share is down 49.06% from the peak of \$43.23 on 6/4/2007.

The Put/Call Ratio was 1.081. The Kaufman Options Indicator was 0.97. The spread between the reported earnings yield and 10-year bond yield is 54.50% and 151.01% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$10.56, a drop of 44.94%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$17.20, a drop of only 21.64%. 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.*

473 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.0% have had positive surprises, 9.6% have been in line, and 32.5% have been negative. The year-over-year change has been -18.5% on a share-weighted basis, +5.3% market cap-weighted, and -1.8% non-weighted. Ex-financial stocks these numbers are 10.7%, 24.1%, and 17.4%, respectively.

Federal Funds futures are pricing in an 88.0% probability that the Fed will cut rates 50 basis points to 0.50%, and an 12.0% probability of cutting 75 basis points to 0.25% when they meet on December 16<sup>th</sup>. They are pricing in a 69.8% probability that the Fed will cut rates 50 basis points to 0.50% on January 28<sup>th</sup>, and a 21.1% probability of cutting 25 basis points to 0.75%.

The short, intermediate and long-term trends are down. We reiterate that this continues to be an opportunistic trader's market, with adept traders able to take advantage long or short, but the primary downtrend must be respected. Investors need to be alert to sector rotation and should not hesitate to move out of lagging sectors and stocks and into leaders.

## 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 INFORMATION PROVIDED IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. THIS INFORMATIONAL REPORT IS NOT AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL. THIS REPORT HAS BEEN PREPARED AS A MATTER OF GENERAL INFORMATION. IT IS NOT INTENDED TO BE A COMPLETE DESCRIPTION OF ANY SECURITY OR COMPANY MENTIONED, AND IS NOT AN OFFER TO BUY OR SELL ANY SECURITY. ALL FACTS AND STATISTICS ARE FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY. ADDITIONAL INFORMATION ON THESE SECURITIES AND COMPANIES IS AVAILABLE UPON REQUEST. SECURITIES, FINANCIAL INSTRUMENTS OR STRATEGIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. THIS MATERIAL DOES NOT TAKE INTO ACCOUNT YOUR PARTICULAR INVESTMENT OBJECTIVES, FINANCIAL SITUATIONS OR STRATEGIES. BEFORE ACTING ON THE MATERIALS HEREIN, YOU SHOULD CONSIDER WHETHER IT IS SUITABLE FOR YOUR PARTICULAR CIRCUMSTANCES AND, IF NECESSARY SEEK PROFESSIONAL ADVICE. INVESTMENTS INVOLVE RISK AND AN INVESTOR MAY INCUR EITHER PROFITS OR LOSSES. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE. TRADING AND INVESTMENT DECISIONS ARE THE SOLE RESPONSIBILITY OF THE READER.**

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

S&P 1500 (192.21, 195.52, 186.56, 193.82, +1.61)



The S&P 1500 printed a hammer candle on the daily chart Tuesday as it rebounded from a sell off and once again closed higher than the close of October 27th. A move over resistance at 206 - 207 would be bullish.

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

S&P 1500 (192.21, 195.52, 186.56, 193.82, +1.61)

Relative Strength Index (39.9949)

Stochastic Oscillator (21.9446)

% Over 10-Sma (16.0000)

13-Week Closing Highs (5), 13-Week Closing Low (395)

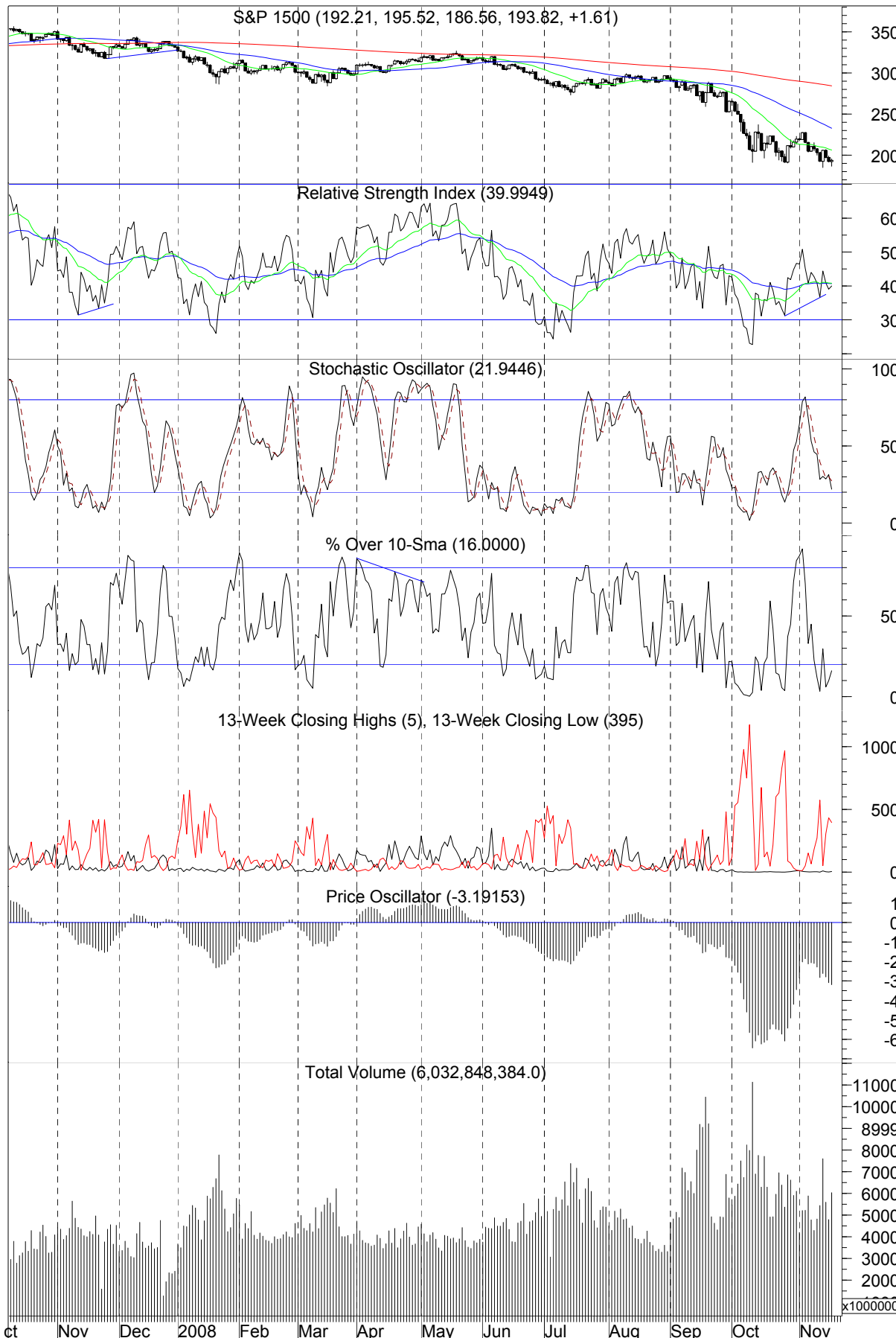
Price Oscillator (-3.19153)

Total Volume (6,032,848,384.0)

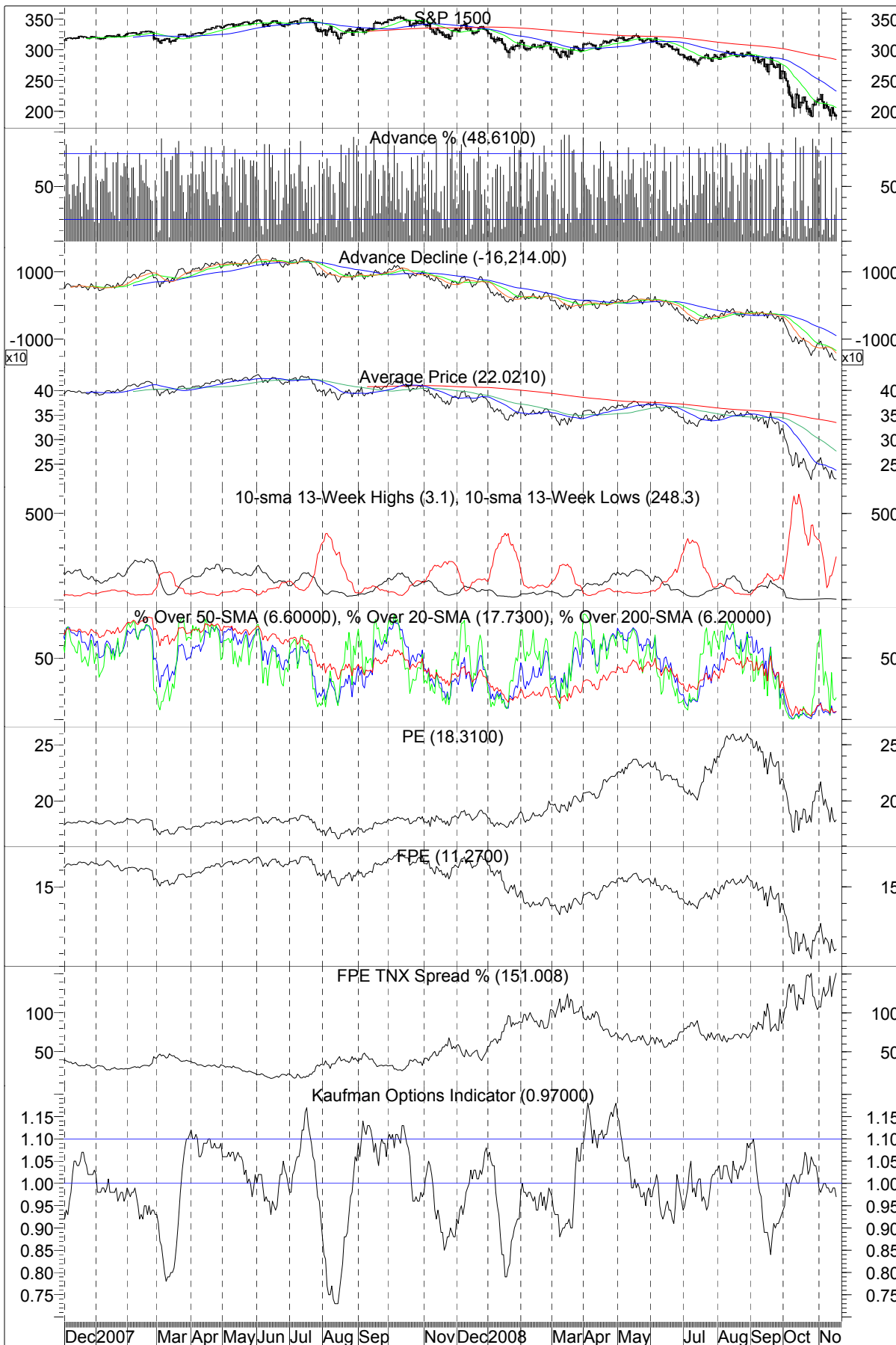
The RSI is still showing a positive divergence.

The stochastic is still oversold, as is the percent over 10-sma.

Volume increased during Tuesday's session.



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



48.61% of stocks traded higher Tuesday.

Spreads between equity and bond yields are at extremely wide levels where stocks have bottomed recently.

Our proprietary options indicator is showing slight pessimism.