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The Kaufman Report

Trade what you see, not what you think.

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Wednesday April 23, 2008 **Closing prices of April 22, 2008**

The S&P 1500 was consolidating again on Tuesday after last week's strong rally. The index is still above all the important short-term moving averages as it pulls back from price resistance. The down trend line from the October high is bearing down on the index. Therefore, as we said Sunday, it won't be long before something's got to give!

We have discussed the improvements in the intermediate-term picture in stocks recently. The overall picture remains mixed, but last week's strong rally built on the recent strength as the Dow Jones Industrial Average broke out of its sideways channel and confirmed the prior breakout of the Dow Jones Transportation Index. In Dow Theory this was a bullish signal.

The obvious, important question to investors is whether or not this is just a bear market rally, or is this the start of a new long-term uptrend? Again, the overall picture remains mixed. The short and intermediate-term trends are bullish, with longer-term indicators bearish. Our strategy is simple. We have stressed that this is a split market. We believe that investors can profit by buying companies showing high relative strength while keeping in mind that a down trend can resume at any time.

In the long-term, the trend remains down, and this remains a bifurcated, risky, opportunistic traders market with adept traders able to enter long and short. Whipsaw risk is very high. Investors need to be alert for sector rotation and not be afraid to move out of lagging stocks and sectors and into leading ones.

Federal Funds futures are pricing in an 82% probability that the Fed will cut rates *another 25 basis points to 2.00%,* and a 18% probability of *a 50 basis point cut to 1.75%* when they meet again on April 30th.

So far 157 companies have reported first quarter earnings. According to Bloomberg 57.3% have had positive surprises, 12.1% have been in line, and 30.6% have been negative. The year-over-year average change has been -31.0% on a share-weighted basis, -13.7% market cap-weighted, and -17.9% non-weighted. Unfortunately, current and forecast earnings continue to march inexorably lower.

The S&P 1500 (311.11) was down 0.955% Tuesday. Average price per share was down 1.47%. Volume was 101% of its 10-day average and 90% of its 30-day average. 14.53% of the S&P 1500 stocks were up on the day. Up Dollars was 9% of its 10-day moving average and Down Dollars was 225% of its 10-day moving average.

Options expire May 16th. The FOMC meets April 30th.

IMPORTANT DISCLOSURES

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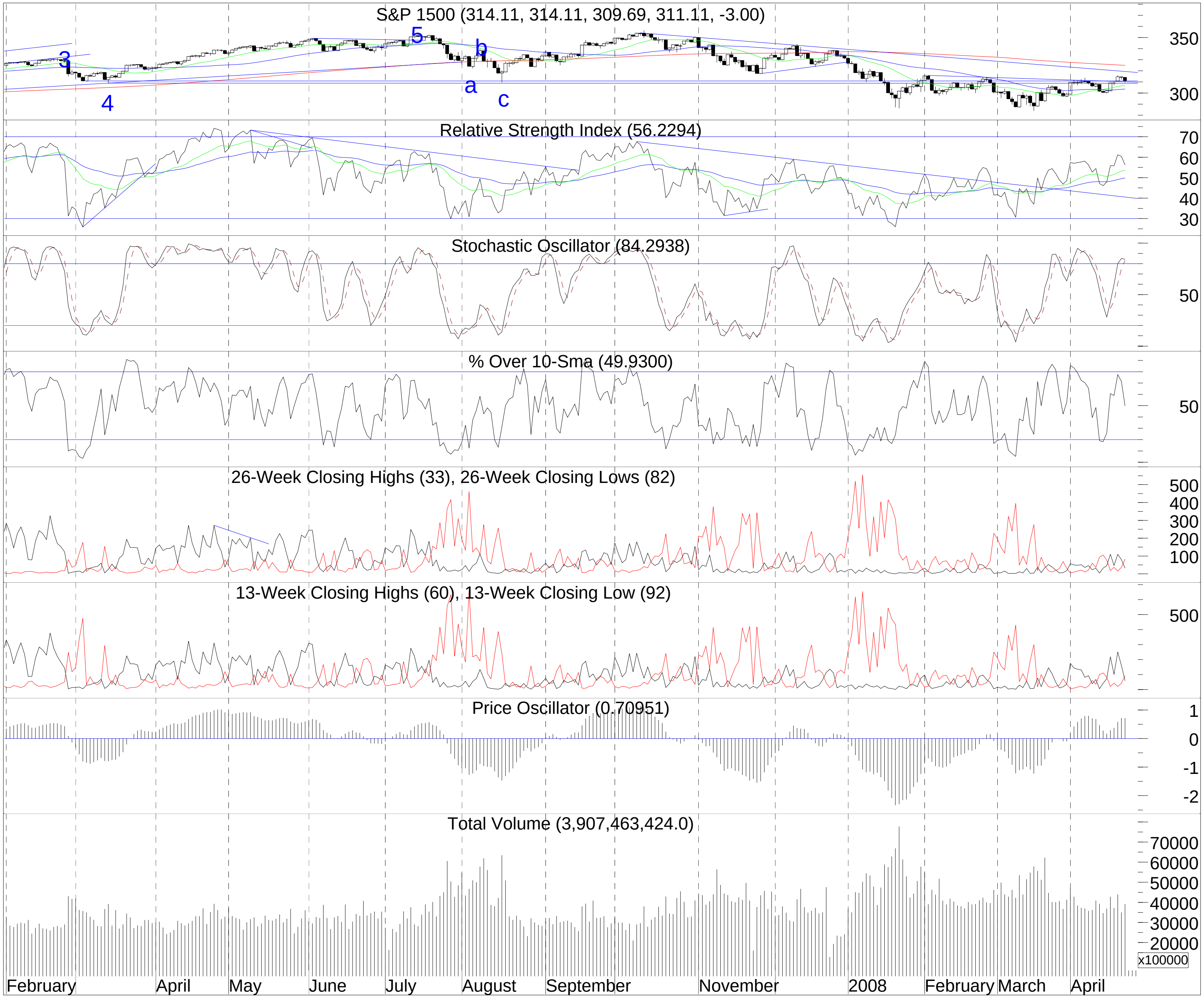
S&P 1500 Analysis - Wayne S. Kaufman, CMT



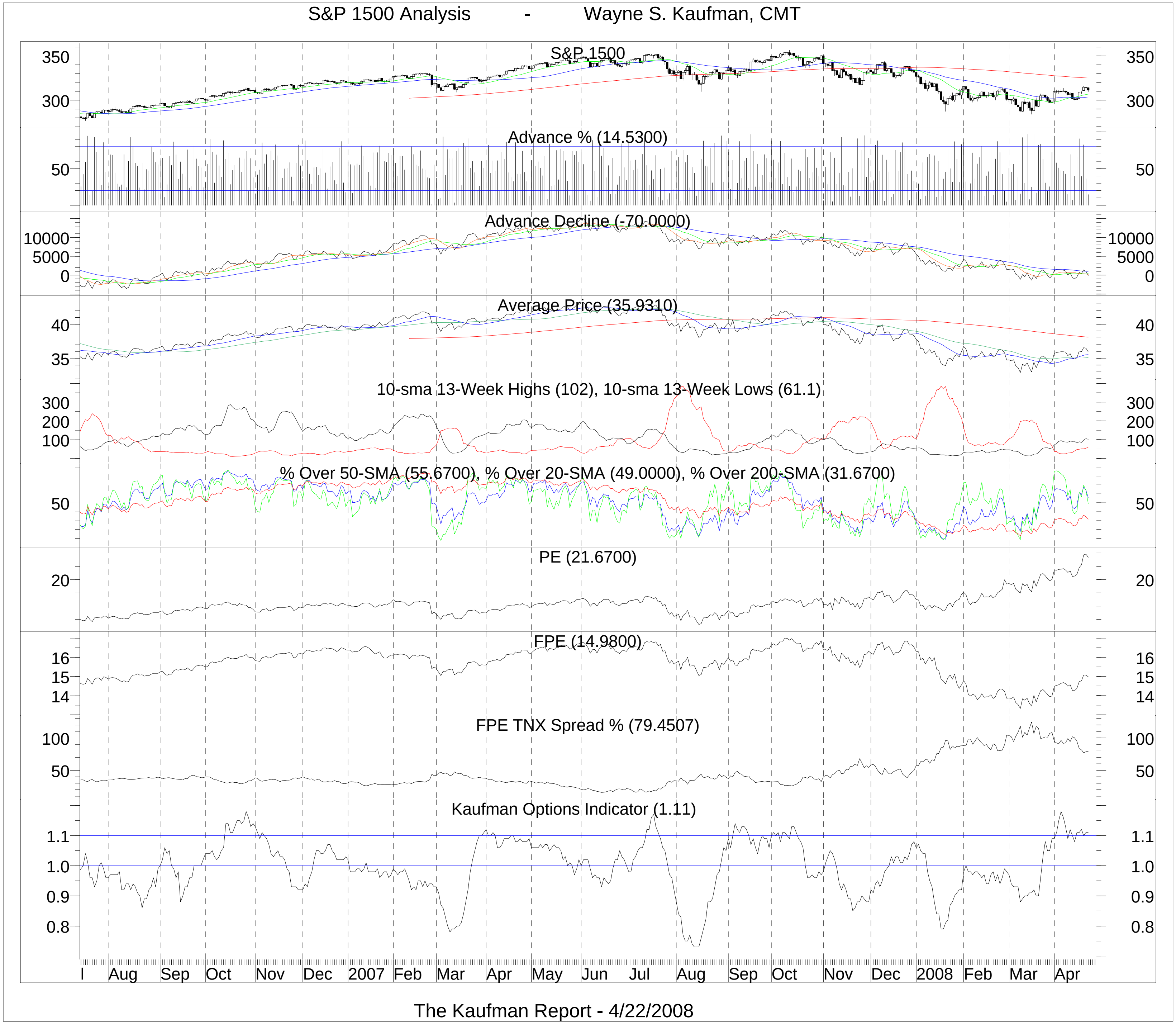
The Kaufman Report - 4/22/2008

The S&P 1500 dropped Tuesday as it continues to consolidate after last week's big rally. There is room for a further drop with the 20 and 50-sma at 306.65 and 303.55 respectively.

The stochastic is curling down from the overbought zone.

The percent over 10-sma is dropping after the recent negative divergence.

Volume increased Tuesday but was still below average.



Only 14.53% of stocks traded higher Tuesday.

The AD line did not confirm the recent breakout.

Our proprietary options indicator has pulled back from the over-bullish zone, but still leaves stocks vulnerable to a further drop.