John Thomas Financial
14 Wall Street, 5th Floor
New York, New York 10005
wskaufman@johnthomasbd.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Thursday April 24, 2008 **Closing prices of April 23, 2008**

Bull and bears fought to a near draw Wednesday as the S&P 1500 continued its consolidation after last week's rally. Recent leaders sold off and recent laggards like Health Care, Semiconductors, and China stocks were the leaders on the day.

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.

However, there are reasons for concern. Our proprietary options indicator is still showing too much bullishness on the part of options buyers. Our 10-day moving averages of 13-week highs and 13-week lows are each rising, which is not the sign of a healthy rally. The down trend line from the October high is bearing down on the index. Current and projected earnings continue their inexorable march lower.

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 the 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 an 18% probability of *a 50 basis point cut to 1.75%* when they meet again on April 30th.

So far 193 companies have reported first quarter earnings. According to Bloomberg 59.1% have had positive surprises, 12.4% have been in line, and 28.5% have been negative. The year-over-year average change has been -26.6% on a share-weighted basis, -9.5% market cap-weighted, and -18.7% non-weighted.

The S&P 1500 (312.04) was up 0.299% Wednesday. Average price per share was up 0.28%. Volume was 109% of its 10-day average and 99% of its 30-day average. 58.51% of the S&P 1500 stocks were up on the day. Up Dollars was 93% of its 10-day moving average and Down Dollars was 56% of its 10-day moving average.

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

IMPORTANT DISCLOSURES

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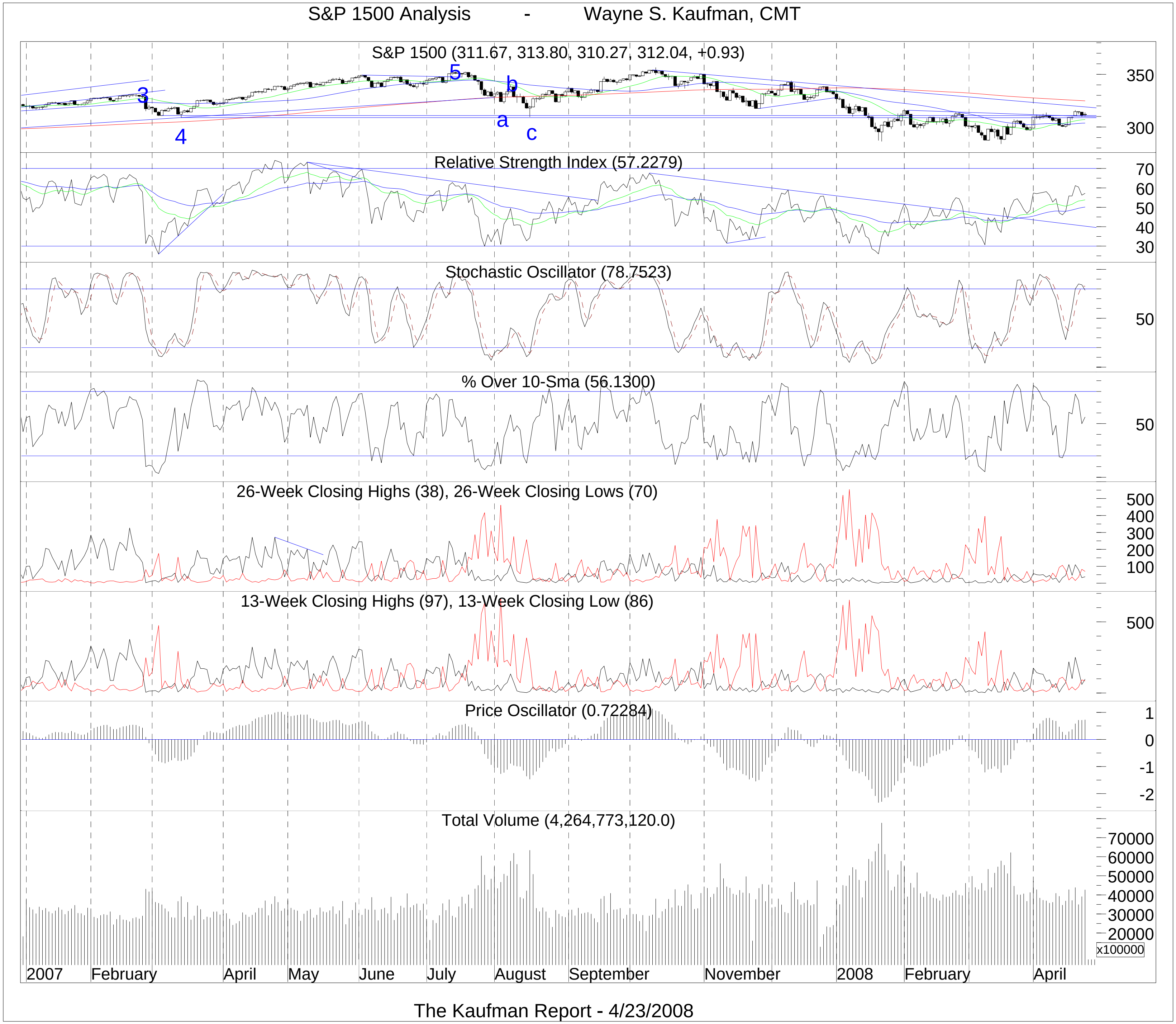
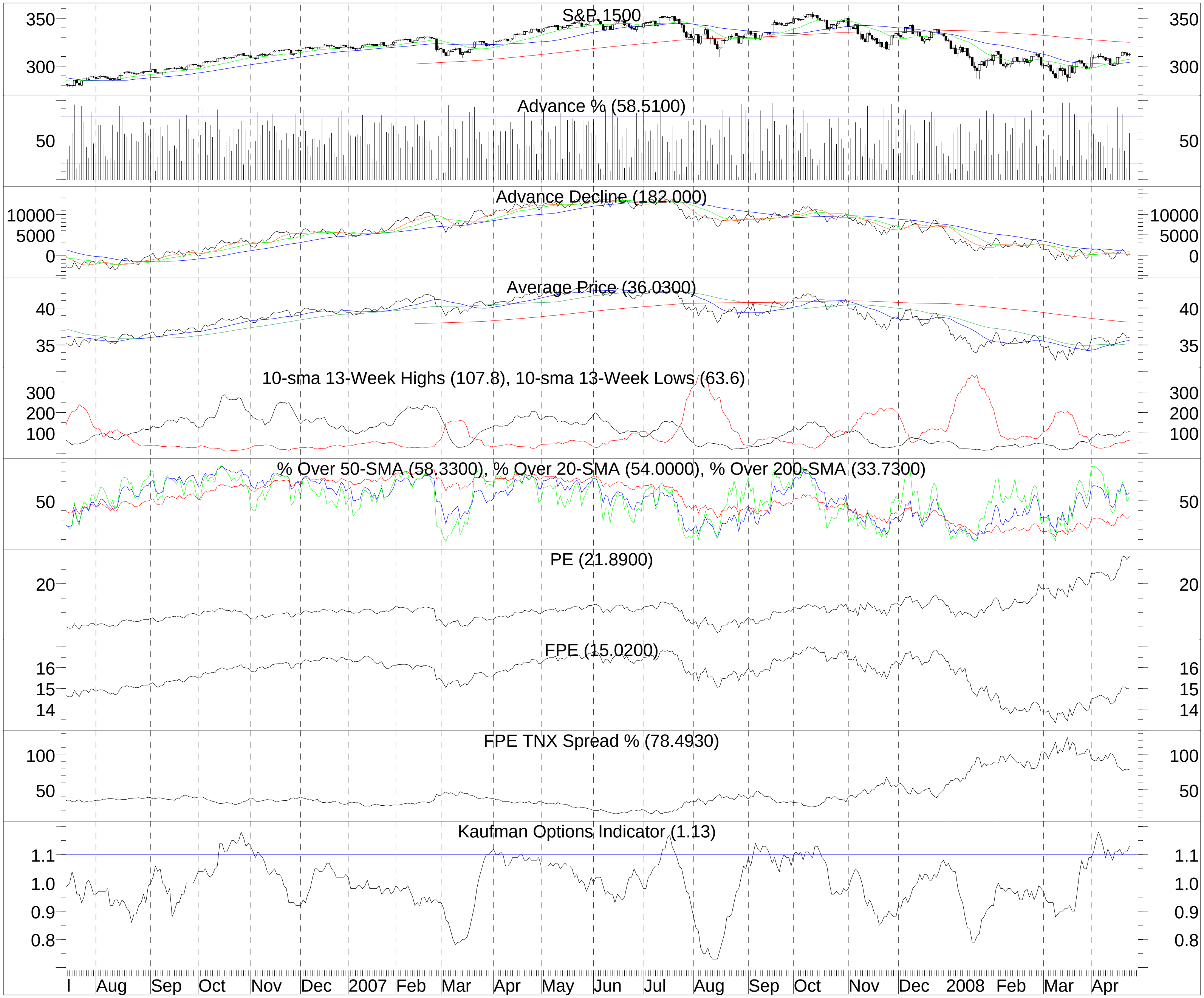


The S&P 1500 continued its sideways move Wednesday as recent leaders sold off and recent laggards like Health Care, Semiconductors, and China stock were the leaders on the day.

Volume increased as bulls and bears fought to a near stalemate.

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



The AD line did not confirm the recent break-out in the S&P 1500.

The 10-sma of 13-week highs and the 10-sma of 13-week lows are each rising. This is a red flag and we do not want to see this characteristic of an unhealthy market continue.

We still believe our proprietary options indicator is showing too much bullishness which leaves stock vulnerable to a pull back.