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The Kaufman Report

Trade what you see, not what you think.

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Friday April 25, 2008 **Closing prices of April 24, 2008**

The S&P 1500 rallied Thursday after an early sell off. Sector rotation was again an important theme as former laggards financials, Asian, and technology stocks moved higher as former leaders stumbled. The index failed to close above the February 1st close for the second time in five sessions. The long-term down trend line from October is just above and coming into play.

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. The Advance Decline did not confirm the recent break above resistance. 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.

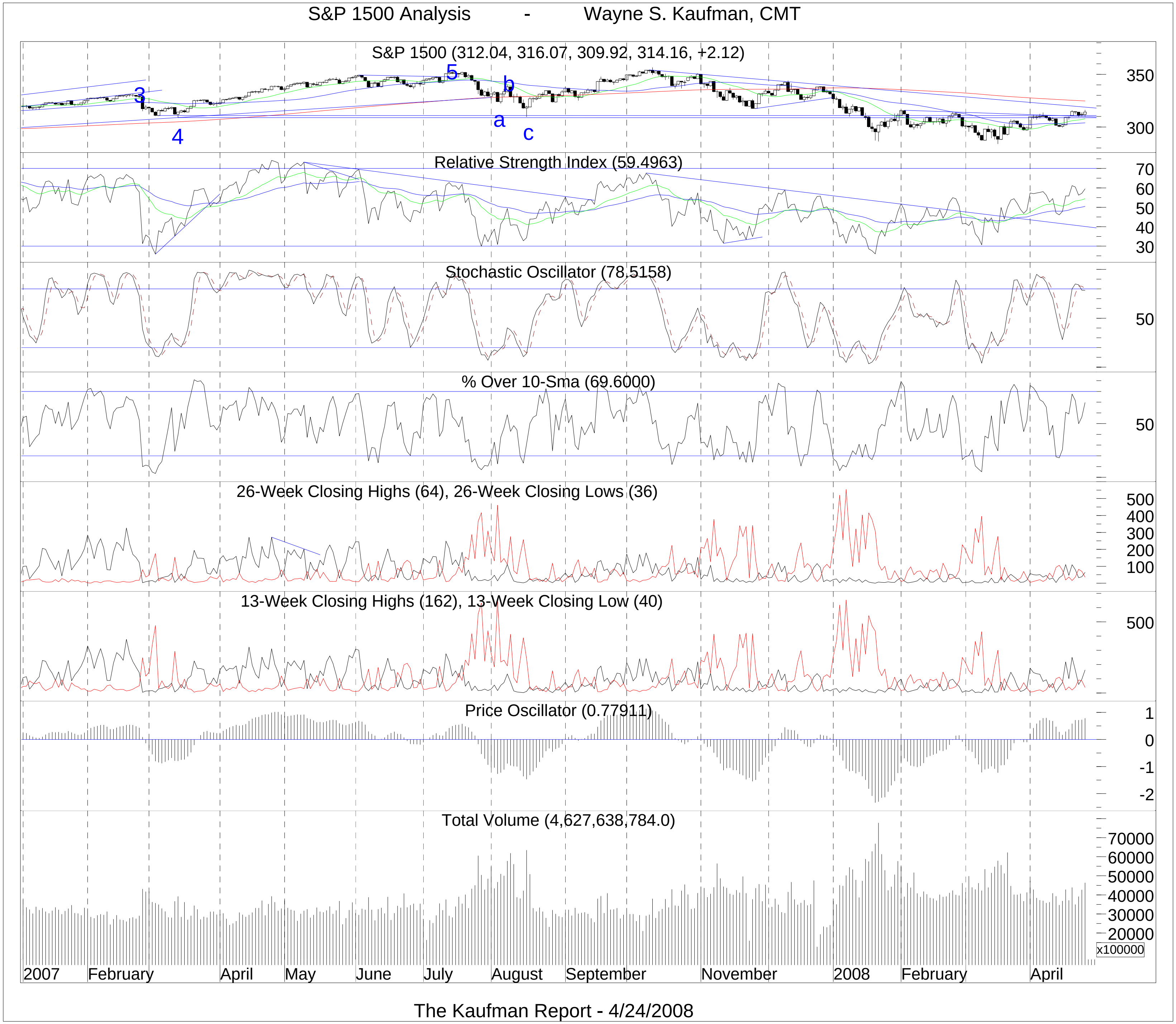
In the long-term, the trend remains down, and this remains a bifurcated, risky, opportunistic traders market with adept traders able to enter long and short. Whipsaw risk is very high. Investors need to be alert for sector rotation and not be afraid to move out of lagging stocks and sectors and into 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 *no change* when they meet again on April 30th.

So far 257 companies have reported first quarter earnings. According to Bloomberg 59.9 % have had positive surprises, 12.5% have been in line, and 27.6% have been negative. The year-over-year average change has been -19.2% on a share-weighted basis, -4.3% market cap-weighted, and -12.8% non-weighted.

The S&P 1500 (314.16) was up 0.679% Wednesday. Average price per share was up 0.82%. Volume was 117% of its 10-day average and 108% of its 30-day average. 72.77% of the S&P 1500 stocks were up on the day. Up Dollars was 154% of its 10-day moving average and Down Dollars was 39% of its 10-day moving average.
Options expire May 16th. The FOMC meets April 30th.

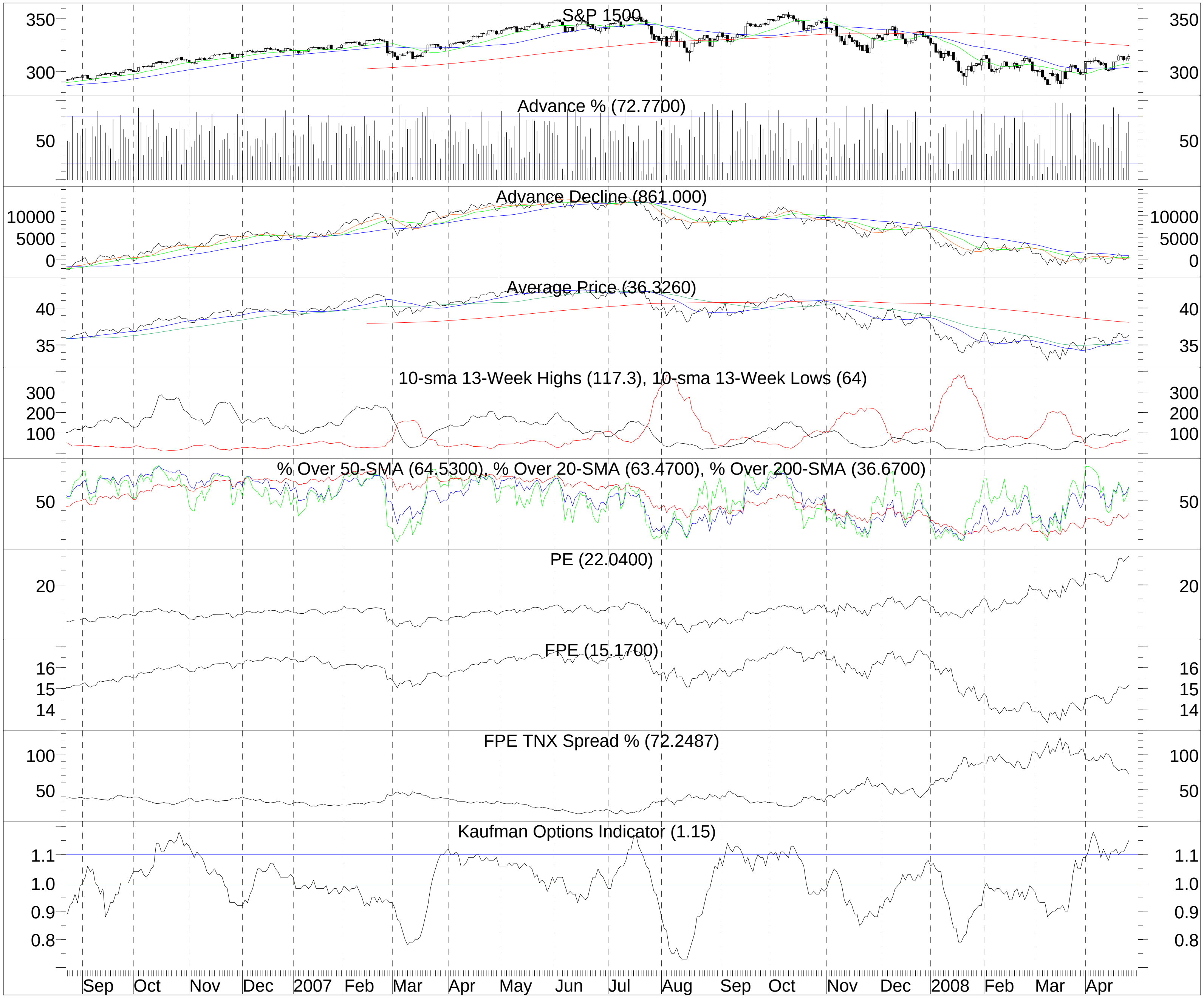
IMPORTANT DISCLOSURES



The S&P 1500 rallied Thursday after an early sell off but still closed under the early February high.

Volume expanded Thursday.

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



The AD line did not confirm last week's breakout.

The 10-sma of 13-week highs is the highest since October 18th. The 10-sma of lows is rising also, not a characteristic of a healthy rally.

The P/E and forward P/E ratios continue to rise as earnings and forecasts continue to move lower.

Our proprietary options indicator is showing too much bullishness on the part of options buyers.

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

The Kaufman Report - 4/24/2008

The S&P 1500 couldn't get through resistance at the early February high again Thursday. The long-term down trend line is just above, with the 200-day moving average (red line) just above that. Therefore it won't be long before the down trend is broken or stocks continue lower.