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The Kaufman Report

Trade what you see, not what you think.

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Monday April 28, 2008 **Closing prices of April 25, 2008**

Sell in May and Go Away?

We have been talking about the mixed picture in the equities market recently, noting that the short and intermediate-term technicals have been bullish, while the longer-term technicals have been bearish. Currently equities are at a major inflection point. As we show in the following pages, many major indexes are just below long term-trend lines and moving averages. A decisive move above these will end the bear market and confirm a long-term up trend.

What are the odds of this taking place? Perhaps a quick look at the positives and negatives will help.

Positives: The recent breakouts from reverse head & shoulders patterns, projecting prices above the 200-day moving averages; indexes are currently above 20 and 50-day moving averages, therefore in intermediate-term up trends; bullish breadth statistics for short and intermediate-term periods; the Dow Theory buy signal that was generated as both the Dow Industrials and Transports broke above prior resistance, with the Transports now above their 200-day moving average in spite of record highs in the price of oil; the spread between the 10-year bond yield and the forward equity yield is still at wide levels where equities should be attractive; downside leadership, which had come from financials and homebuilders, has diminished if not altogether disappeared.

Negatives: The Advance Decline line did not confirm the recent breakout in the indexes; most indexes are still below their downward sloping 200-day moving averages; long-term down trend lines are now coming into play; the P/E based on current earnings is at the highest level since 2004; current and projected earnings continue to move lower; the price of oil spiked 38.8% since February 7th to an all-time high; low volume during the recent rally; too much bullishness among options buyers; short-term negative divergences indicating the recent rally becoming more selective.

We are in a period when the short-term seasonality is positive. We are also in the heart of earnings season. Should earnings reports create more confidence in the minds of investors, it is possible that the resistance areas are penetrated. However, seasonality turns decidedly negative as we get further into May, and unless buyers start to show up in greater numbers, the chance of a bull trap occurring increases.

Our strategy remains the same. We have stressed that this is a split market. Until proven otherwise, the long-term 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. 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.

IMPORTANT DISCLOSURES

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Federal Funds futures are pricing in an 78% probability that the Fed will cut rates *another 25 basis points to 2.00%,* and a 22% probability of *no change* when they meet again on April 30th.

So far 263 companies have reported first quarter earnings. According to Bloomberg 60.5 % have had positive surprises, 12.5% have been in line, and 27.0% have been negative. The year-over-year average change has been -18.8% on a share-weighted basis, -4.0 % market cap-weighted, and -11.8% non-weighted.

The S&P 1500 (316.43) was up 0.723% Friday. Average price per share was up 0.95%. Volume was 100% of its 10-day average and 94% of its 30-day average. 67.97% of the S&P 1500 stocks were up on the day. Up Dollars was 101% of its 10-day moving average and Down Dollars was 38% of its 10-day moving average. For the week the index was up 0.575% on increasing but below average weekly volume.

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

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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.

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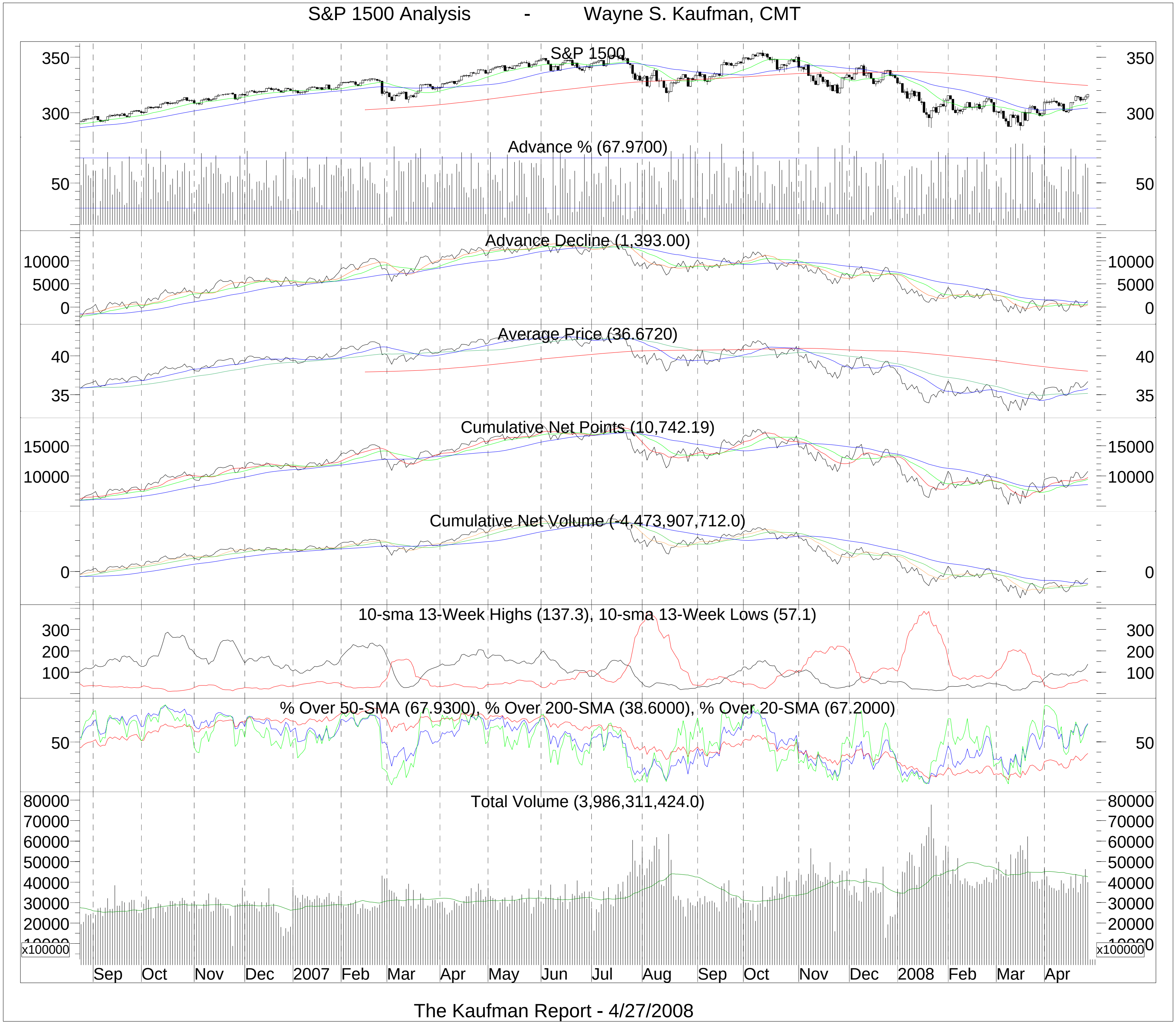
On Friday the S&P 1500 traded at its highest level since January 15th. It is just under the long-term trend line and not far below the 200-sma (red line).

Our oscillators are at high levels, but not at extremes.

There is a negative divergence on the percent over 10-sma as fewer stocks are over their 10-sma even though the index has moved higher.

Our price oscillator, which has a good history of identifying trends, is in positive territory.

The S&P 1500 is above the 50-sma (blue) and the 20-sma (green). It has broken through the neck-line of the reverse head and shoulders pattern, which projects higher prices. Our target would be the 339 area. The long-term down trend line (blue)is just above and has come into play. A break above it would be very bullish, and leave only the 200-sma (red) to define the current situation as a down trend.



The AD line is improving, but it did not confirm the breakout in the index.

The 10-sma of 13-week highs is above the 10-sma of 13-week lows, and is at its highest level since October 15th.

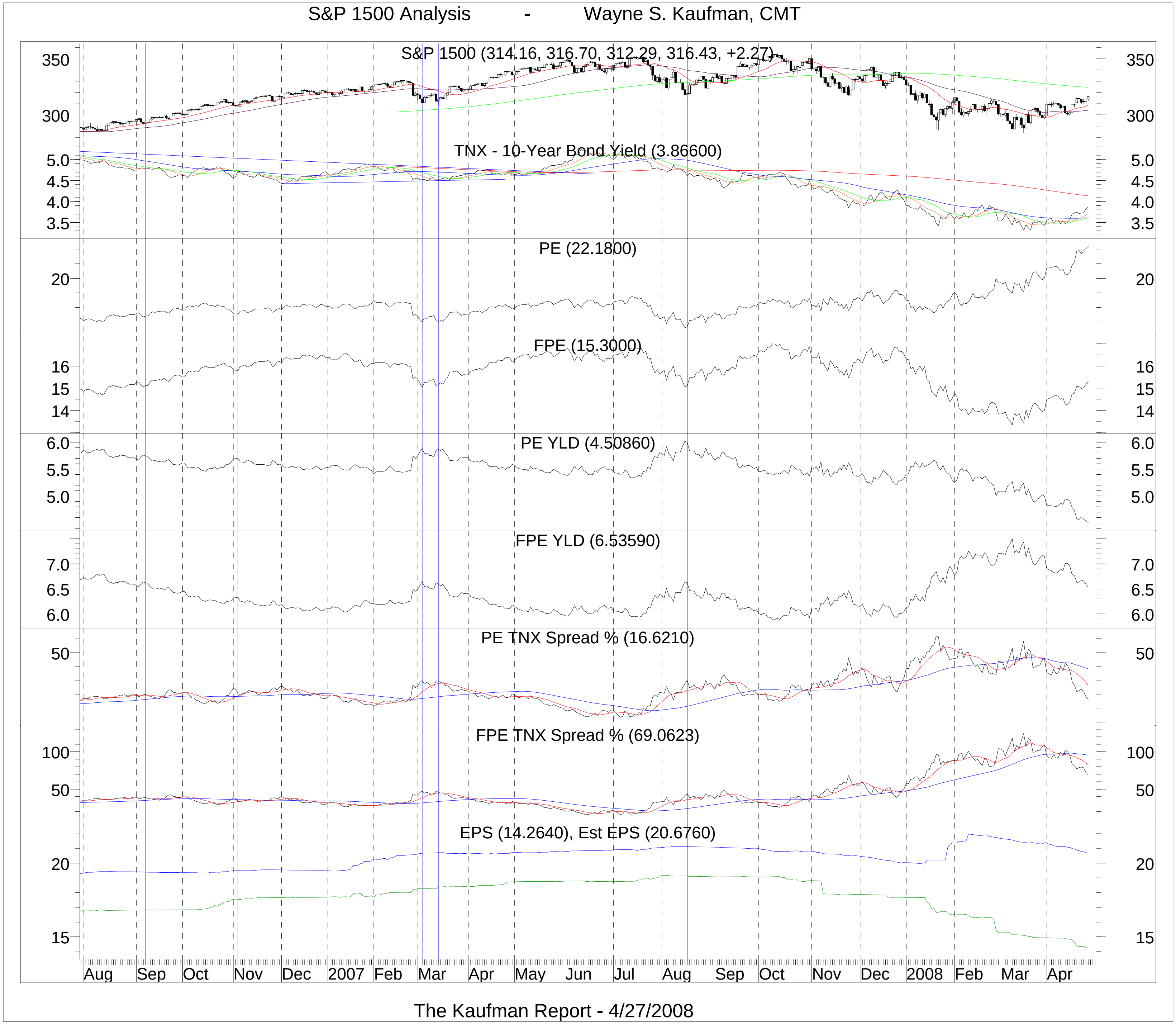
The percentage over 20,50, and 200-sma highlights the difference between the intermediate and long-term pictures.

Volume has been below average during the recent rally.

We remain concerned about the high levels of bullishness indicated by our proprietary options indicator. It is in the area where stocks are vulnerable to a pull back.

We commented at the time that the large amount of gaps up on April 16th and April 18th had been bullish in the past, and once again that has been true.

Almost all of our statistics of demand (green) versus supply (red) are positive, although it is easily seen that the recent rally has seen more of a stepping to the sidelines by sellers than a big increase in buying.

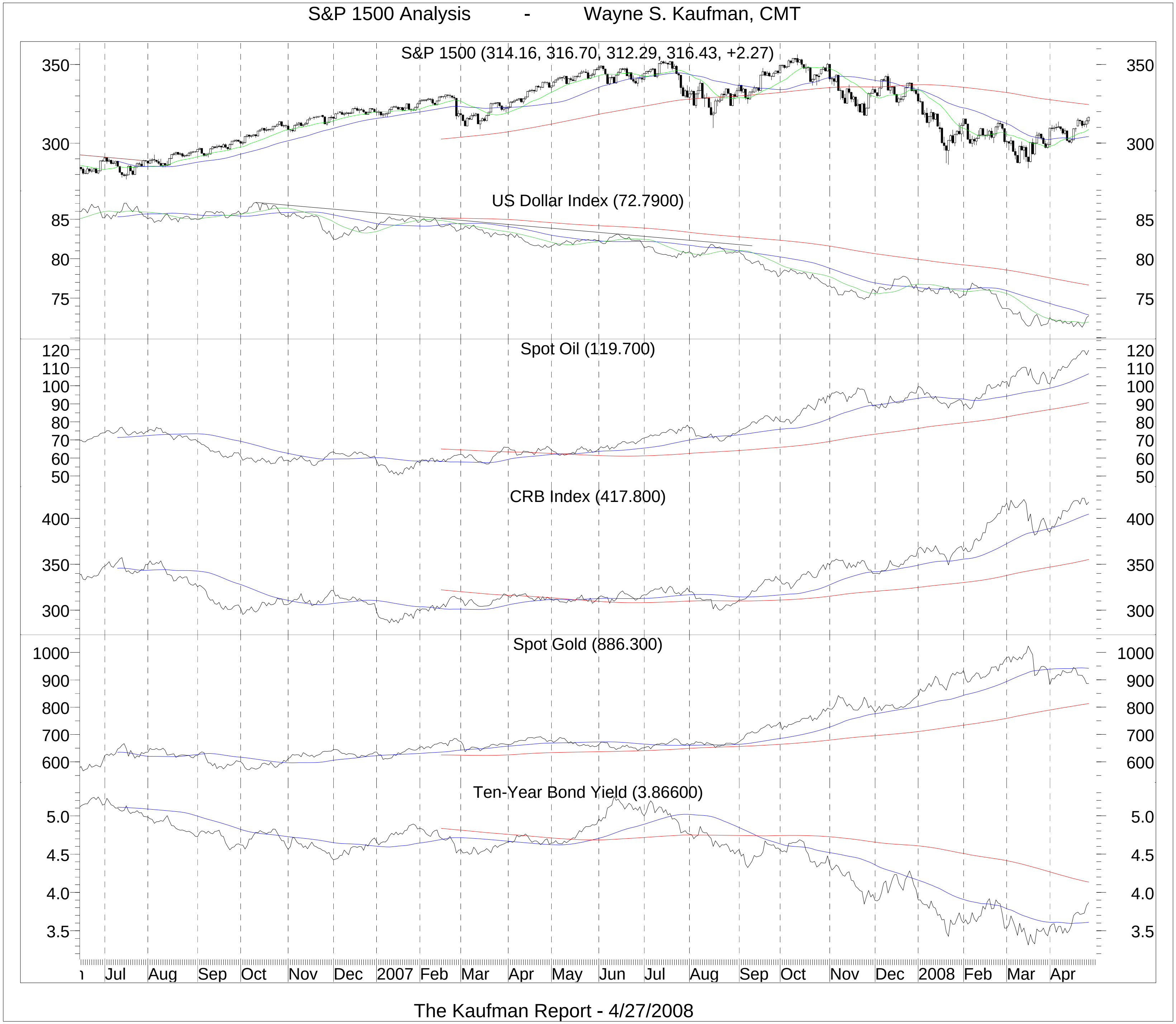


10-year bond yields are above the 20 and 50-sma and rising. They are not yet overbought.

The P/E based on current earnings is at the highest level since 2004.

Spreads between bond and equity yields are plunging as stocks and interest rates rise in tandem. The spread based on projected earnings is still at a level where stocks are attractive versus bonds.

Current and projected earnings continue to march lower.



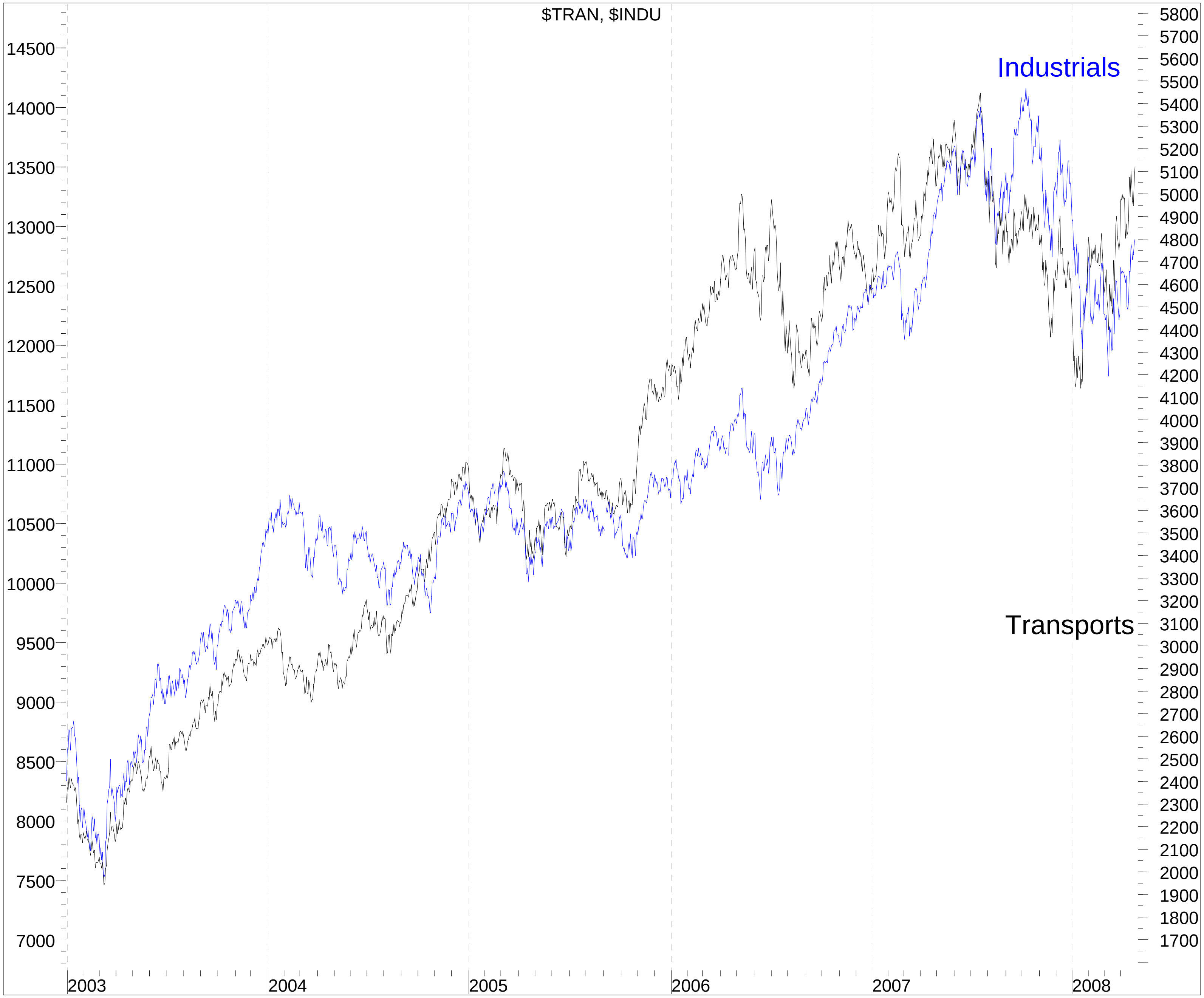
The U.S. Dollar Index is at a one-month high and is at its 50-sma. It is not yet overbought.

In spite of strength in the U.S. Dollar crude oil has continued to move higher. It is short-term overbought.

Gold has been weak for a month, and was not helped by strength in the Dollar.

The long-term picture of the Dow Jones Industrials versus the Dow Jones Transports shows the importance of the Transports. There will not be a bull market without the Transports participating.

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



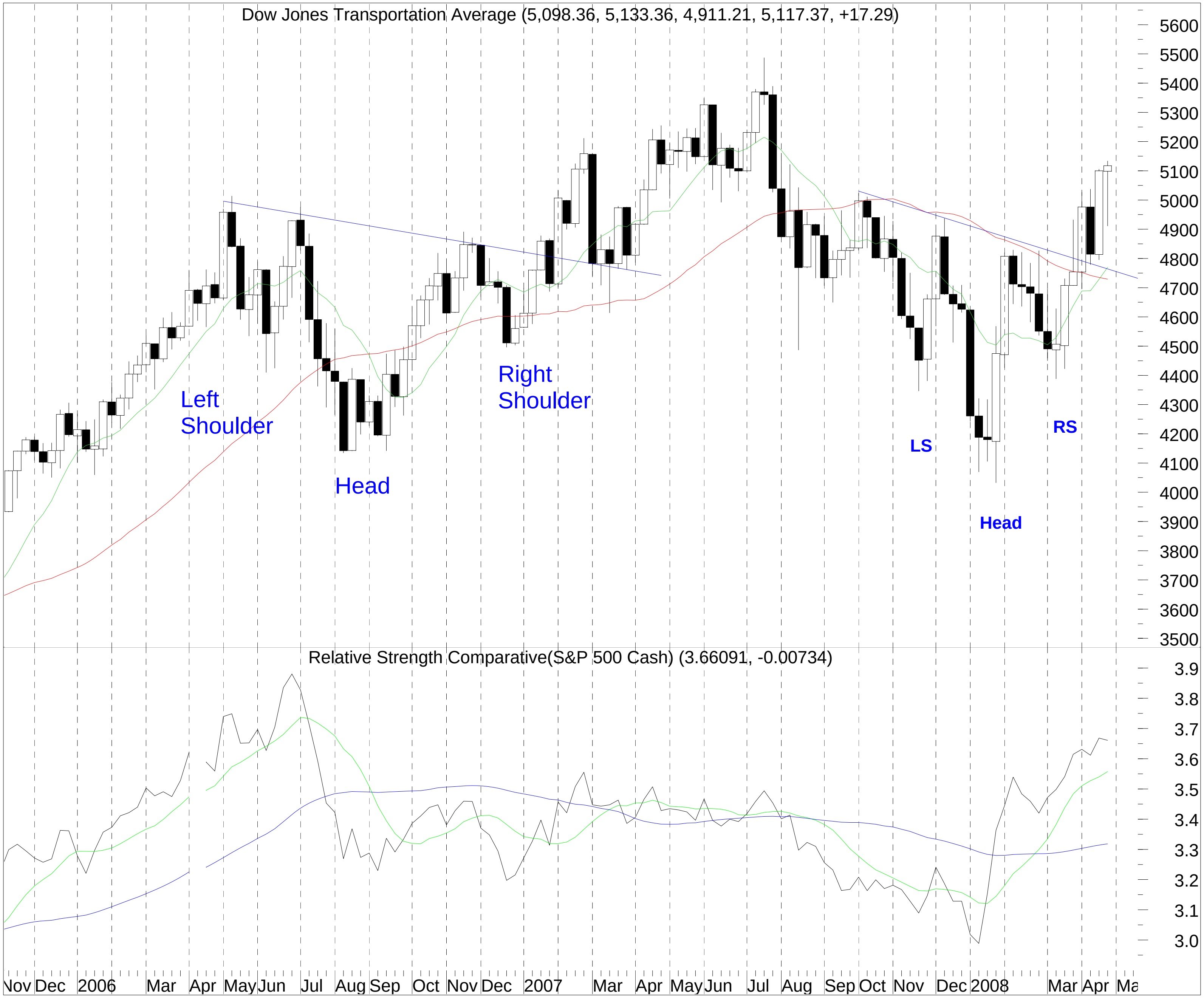
This shorter-term view of the Industrials versus the Transports shows the recent strength of the Transports in spite of crude oil moving to all-time high prices.

Dow Jones Industrials - Wayne S. Kaufman, CMT

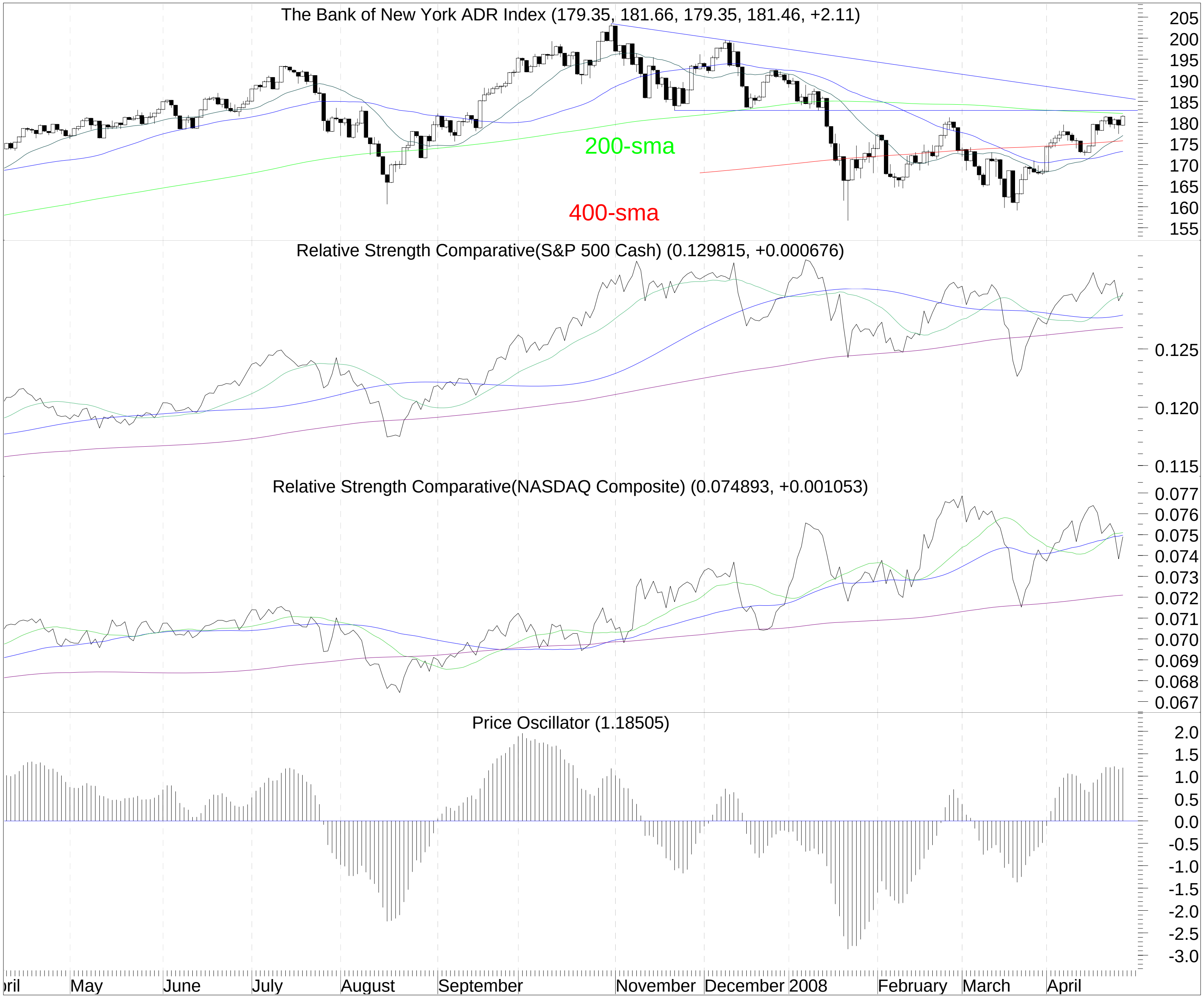
The Kaufman Report - 4/27/2008

The Dow Jones Industrial Average broke out of its recent trading range and is now fighting its long-term down trend line.

The 200-sma is just above (green line).



The Transportation Index has followed through after breaking out of a reverse head & shoulders pattern. It is above its 200-sma (red line). Therefore, it is back in a long-term up trend. However, the 200-sma is still sloping down, and we want this to change quickly.



The ADR Index is comprised of foreign stocks. This index is in a similar position to the S&P 1500, but is closer to its 200-sma (green) and is above its 400-sma (red) where the S&P 1500 is still below its 400-sma. The ADR Index, like the other major indexes, is below its long-term down trend line.

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

The Nasdaq 100 has surpassed the 38.2% Fibonacci retracement of the down trend from the October high. It is not far under resistance in the form of the 200-sma (red line).