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The Kaufman Report

Trade what you see, not what you think.

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Wednesday December 10, 2008 — Closing prices of December 9, 2008

Stocks pulled back on decreasing volume Tuesday after Monday's rally gave a bullish signal by surpassing the high of 11/28. The pull back was expected as some indicators had reached overbought levels. They are still high, leaving room for stocks to move lower. We remain bullish in the short-term, for reasons outlined in Sunday's report, but we are concerned about the 50-day moving average which is back in the picture, and about the recent bullishness of options buyers as we get towards a quadruple witching expiration next week. Therefore, investors need to be selective, careful with entry points, and disciplined enough to use stop losses if new support levels do not hold.

The S&P 1500 (200.46) was down 2.358% Tuesday. Average price per share was down 2.54%. Volume was 99% of its 10-day average and 93% of its 30-day average. 22.52% of the S&P 1500 stocks were up on the day, with up volume at 27.34% and up points at 12.47%. Up Dollars was 3.23% of total dollars, and was 4% of its 10-day moving average while Down Dollars was 151% of its 10-day moving average. The index is down 0.97% month-to-date, down 24.63% quarter-to-date, down 39.51% year-to-date, and down 43.75% from the peak of 356.38 on 10/11/07. Average price per share is $23.14, down 46.47% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 0.838. The Kaufman Options Indicator was 1.05.

The spread between the reported earnings yield and 10-year bond yield is 99% and 214% based on projected earnings. These are unheard of levels*. *The dividend yield on the S&P 500 recently moved higher than the 10-year bond yield for the first time since 1958.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $10.64, a drop of 44.53%, and have been moving slightly higher since $10.57 on 10/24. Estimated aggregate earnings peaked at $21.95 in February 2008, are still moving lower, and are now $16.80, a drop of only 23.46%. Analysts have obviously been very late in lowering estimates. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.*

497 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.2% have had positive surprises, 9.7% have been in line, and 32.1% have been negative. The year-over-year change has been -18.3% on a share-weighted basis, +5.3% market cap-weighted, and -2.6% non-weighted. Ex-financial stocks these numbers are 10.1%, 23.7%, and 16.0%, respectively.

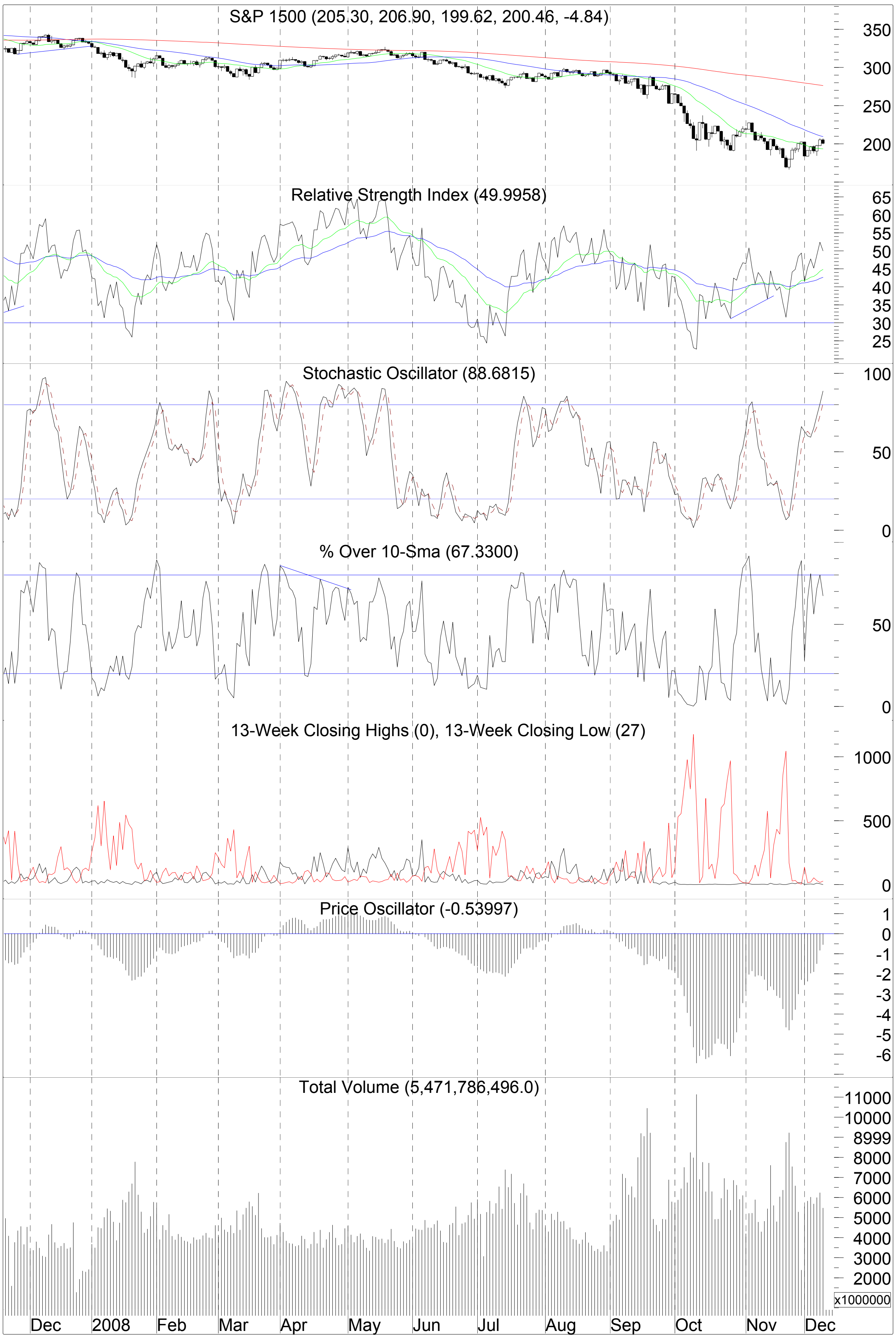
Federal Funds futures are pricing in a 2.0% probability that the Fed will *cut rates 50 basis points to 0.50%,* and a 98.0% probability of *cutting 75 basis points to 0.25%* when they meet on December 16th. They are pricing in an 11.6% probability that the Fed will *cut rates 50 basis points to 0.50%* on January 28th, and an 88.2% probability of *cutting 75 basis points to 0.25%.*

The short-term trend is now up, while the intermediate and long-term trends remain 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 still be respected. Investors should not hesitate to move out of laggard sectors and stocks and into leaders.

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

The S&P 1500 broke above the 11/28 high on Monday, a bullish signal. It remains above the 20-sma (green) with the 50-sma (blue) bearing down on it. The next week or so will be very interesting as we see if the short-term up trend remains intact or if the 50-sma pushes stocks below supports and back into a down trend.

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



The RSI has moved slightly above the level where it met resistance three times prior, which is good, but it still is near the top of the range for bear markets.

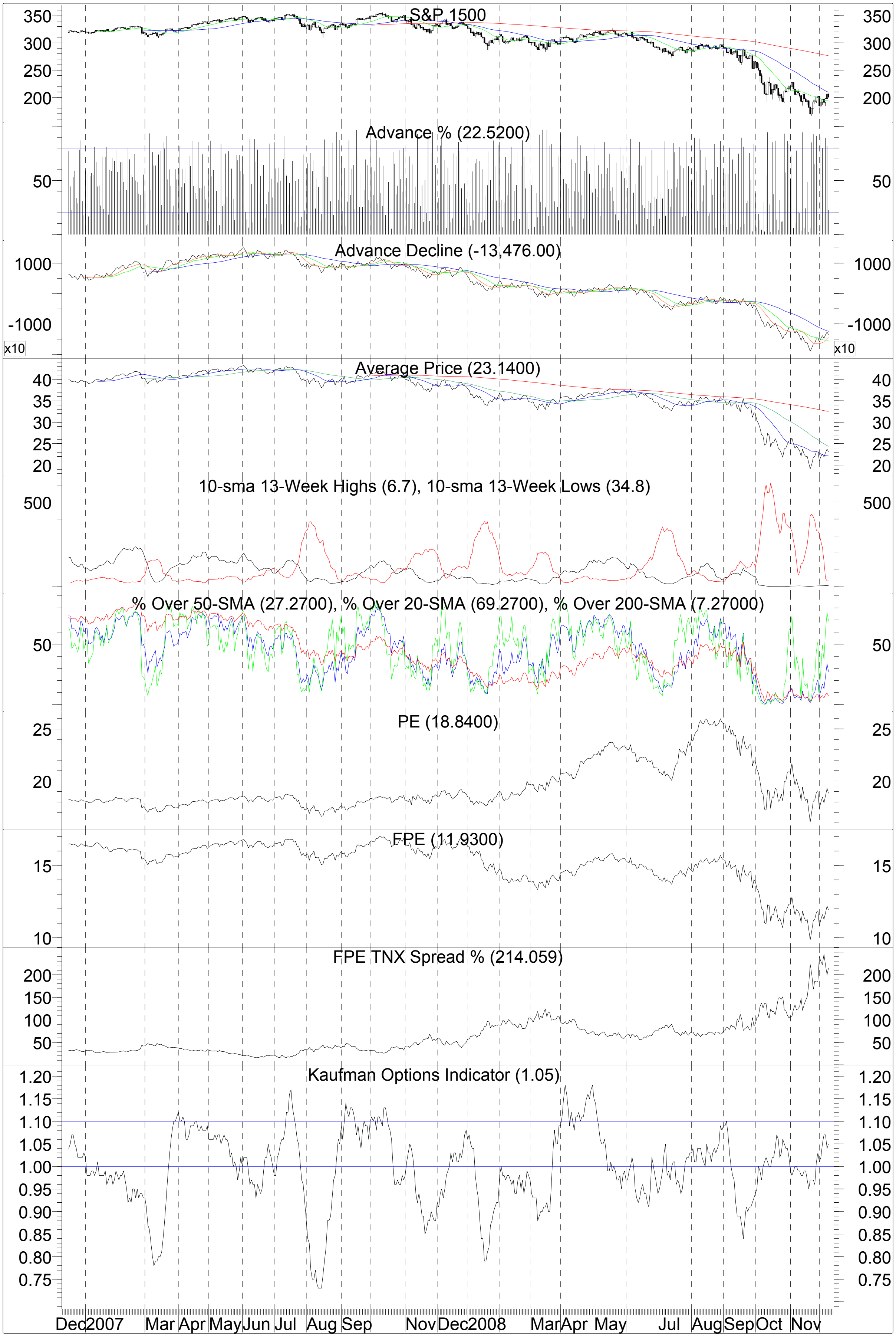
The stochastic has entered overbought territory.

The percent over 10-sma is coming down from the overbought zone.

Our price oscillator, a good indicator of trends, is the closest to the neutral level it has been since early September. This level can be support or resistance, based on the prior trend.

Volume decreased during Tuesday's down day.

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



22.52% of stocks traded higher Tuesday.

On Monday the percent over 20-sma hit the highest level since 8/15.

P/E ratios remains range bound.

Spreads between equity and bond yields remain at very wide levels.

Our options indicator is showing bullishness among options buyers, which concerns us heading into next week's quadruple witching expiration.

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