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The Kaufman Report

Trade what you see, not what you think.

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Wednesday December 3, 2008 **Closing prices of December 2, 2008**

Stocks rallied Tuesday in yet another 90% day, right after Monday's 90% panic-selling session. 90% days seem to have become meaningless. In the past back to back days like this would have been viewed in a very positive light, but the recent levels of volatility and this severe bear market have nullified many indicators. Unfortunately Tuesday's buying didn't come close to matching Monday's selling intensity, and left the S&P 1500 below important moving averages. Therefore, until stronger demand indicates that the lows of 11/21 will hold, investors need to respect the primary trend of the market, which remains down.

The S&P 1500 (191.43) was up 4.095% Tuesday. Average price per share was up 4.83%. Volume was 92% of its 10-day average and 99% of its 30-day average. 90.62% of the S&P 1500 stocks were up on the day, with up volume at 91.91% and up points at 96.17%. Up Dollars was 99.7% of total dollars, and was 184% of its 10-day moving average while Down Dollars was ½ of 1% of its 10-day moving average. The index is down 5.43% month-to-date, down 28.02% quarter-to-date, down 42.23% year-to-date, and down 46.28% from the peak of 356.38 on 10/11/07. Average price per share is $21.98, down 49.16% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 0.938. The Kaufman Options Indicator was 1.02.

***The spread between the reported earnings yield and 10-year bond yield is 106% and 229% based on projected earnings. These are unheard of levels*.**

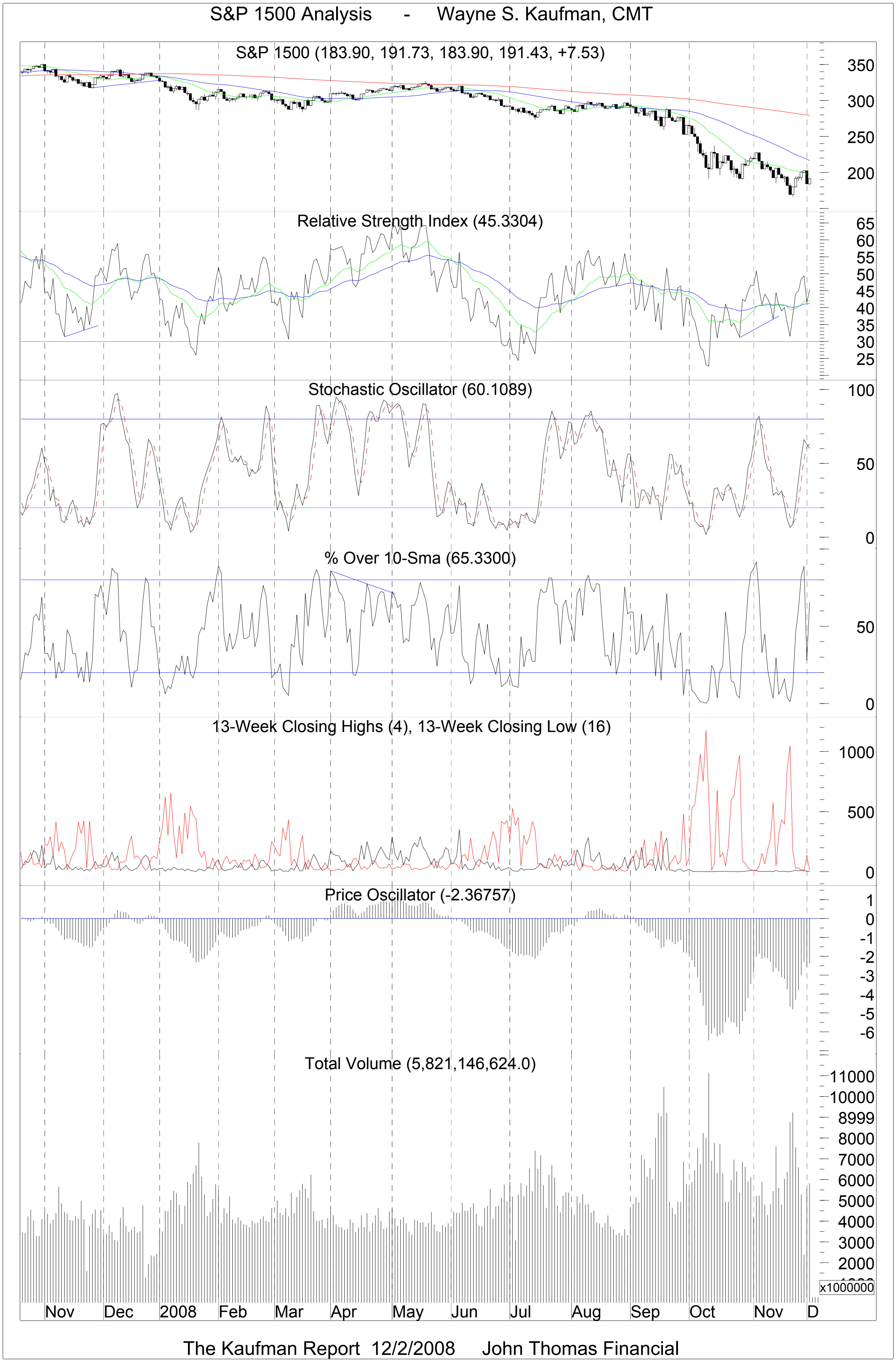
Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $10.64, a drop of 44.53%, and have been moving slightly higher since $10.57 on 10/24. Estimated aggregate earnings peaked at $21.95 in February 2008, are still moving lower, and are now $16.98, a drop of only 22.64%. 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.*

491 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.3% have had positive surprises, 9.2% have been in line, and 32.5% 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 an 62.0% probability that the Fed will *cut rates 50 basis points to 0.50%,* and a 38.0% probability of *cutting75 basis points to 0.25%* when they meet on December 16th. They are pricing in a 50.8% probability that the Fed will *cut rates 50 basis points to 0.50%* on January 28th, and a 42.3% probability of *cutting 75 basis points to 0.25%.*

The short-term, 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.

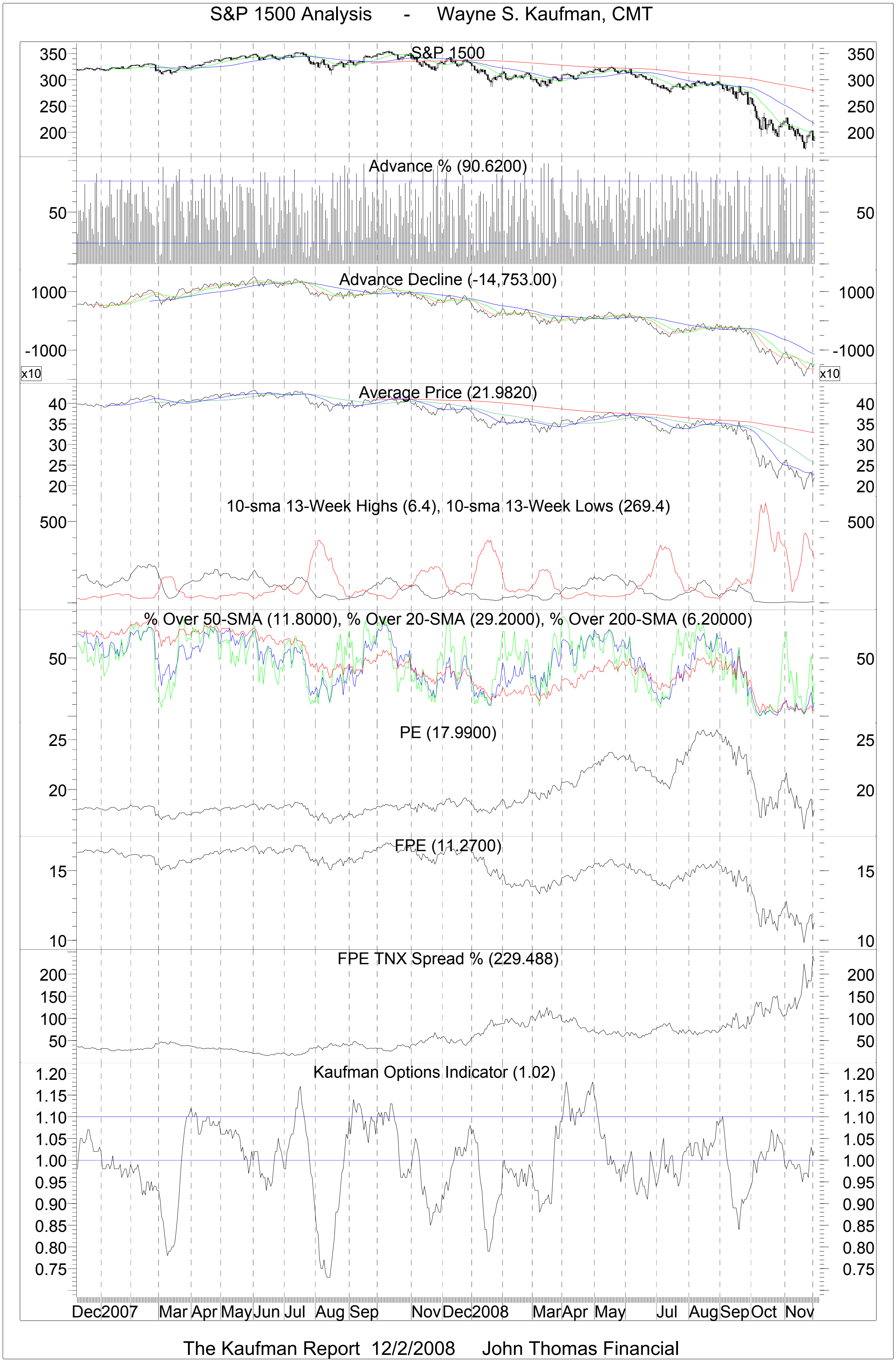
Tuesday's rally left the S&P 1500 below important moving averages.



Our momentum indicators are neutral.

Our price oscillator remains in negative territory.

Volume was up slightly Tuesday.



90.62% of stocks traded higher Tuesday.

P/E ratios remain in their recent range.

Spreads between equity and bond yields are at sky-high levels where stocks should be attractive.

Options buyers are slightly optimistic, not showing the pessimism usually seen at important bottoms.