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# The Kaufman Report

Trade what you see, not what you think.

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Wednesday July 2, 2008

Closing prices of July 1, 2008

The third quarter got off to an interesting start as a classic turnaround Tuesday printed a classic hammer candle on the daily chart. Hammers are bottoming candles which are formed as sellers are met by buyers. There were 126 new low reversals in the S&P 1500 Tuesday, a number that is usually bullish in the near-term. Stocks bottomed at exactly the time my hernia surgery was completed. For that reason, this will be a short report.

In the short-term, our oscillators are at oversold or low levels. Spreads between bond and earnings yields remain at the best levels seen in over two months. The spread based on forecast earnings hit the widest since April 23<sup>rd</sup> on Friday and remains there, at a level where historically stocks have been extremely attractive versus bonds. If earnings estimates are met in the coming earnings season, and projections are not ratcheted down, in hindsight stocks will appear to have been undervalued at current levels.

The current short, intermediate, and long-term trends are down, and we reiterate that this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short. Investors need to be alert to sector rotation and should not hesitate to move out of lagging sectors and stocks and into leaders.

Federal Funds futures are pricing in a 75.3% probability that the Fed will leave rates at 2.00%, and a 24.7% probability of raising 25 basis points to 2.25 when they meet on August 5<sup>th</sup>.

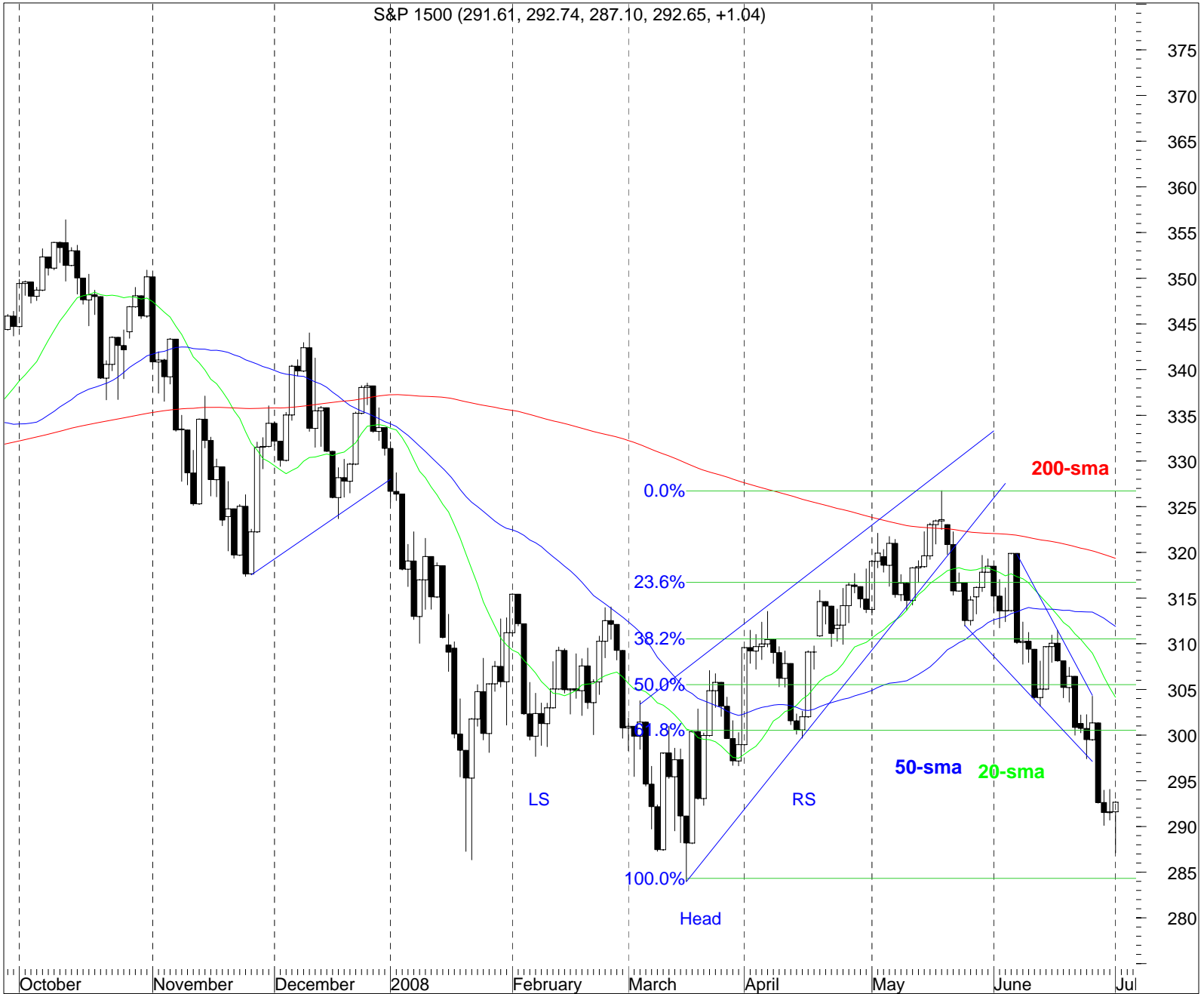
The S&P 1500 (292.65) was up 0.357% Tuesday. Average price per share was up 0.25%. Volume was 118% of its 10-day average and 133% of its 30-day average. 54.35% of the S&P 1500 stocks were up on the day. Up Dollars was 144% of its 10-day moving average and Down Dollars was 41% of its 10-day moving average.

Options expire July 18<sup>th</sup>.

## IMPORTANT DISCLOSURES

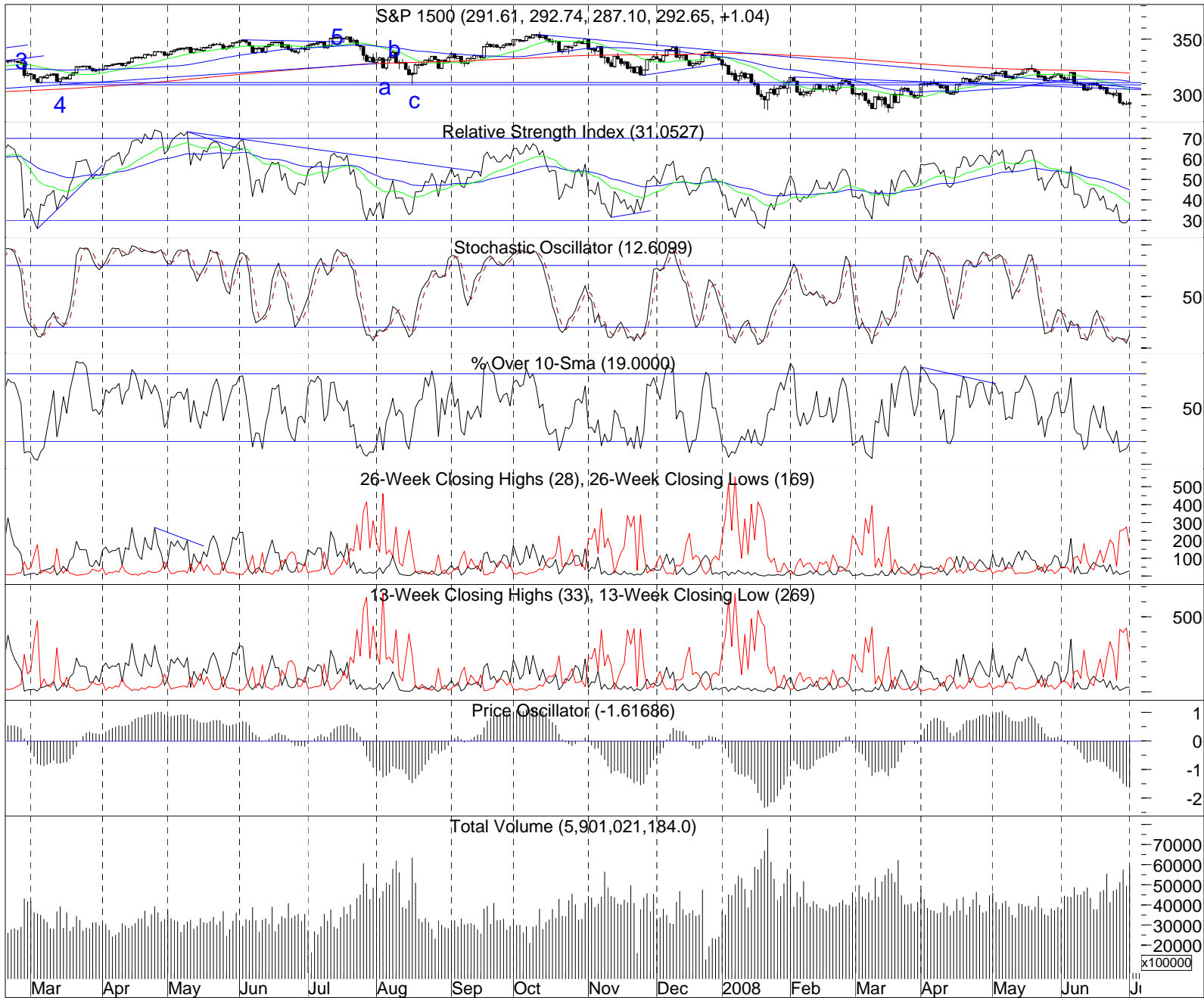
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The S&P 1500 printed a classic hammer on decent volume Tuesday. Hammers are bottoming candles, and show that sellers were met by buyers.

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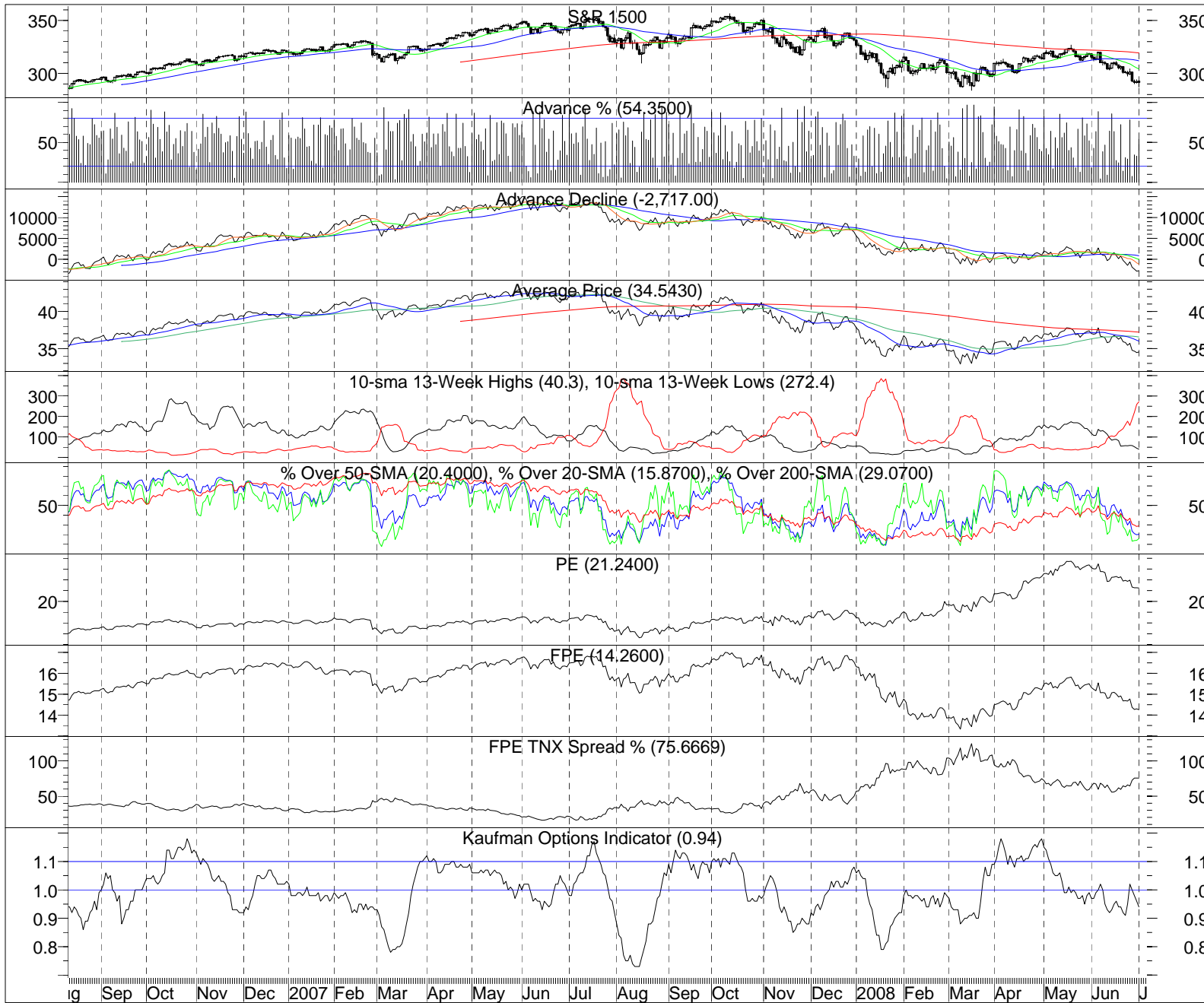


Our oscillators are still at oversold or very low levels.

Our price oscillator is at levels where stocks have bottomed in the past.

Volume expanded Tuesday

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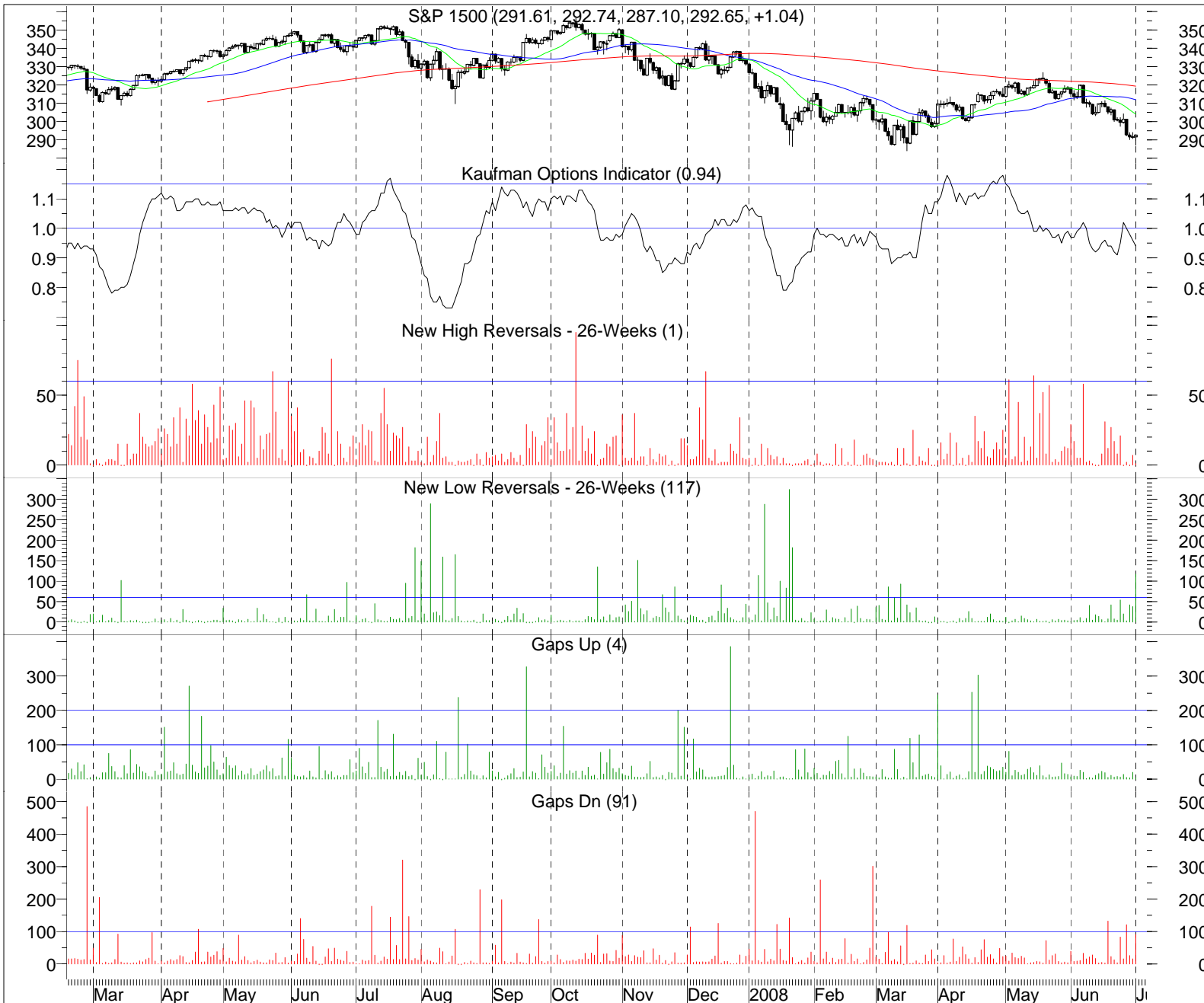


Only 54.35% of stocks traded higher Tuesday.

The spread between the 10-year bond yield and the projected earnings yield remains at a level where historically stocks have been very attractive.

Our options indicator is in negative territory, but not at levels where important bottoms have been made. Still, a rally can take place from here.

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There were 126 New Low Reversals Tuesday. A new low reversal is where a stock makes a 26-week intra-day low but closes up on the day. An amount this high has usually been bullish for stocks in the short-term. It shows sellers being met by buyers.