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# The Kaufman Report

Trade what you see, not what you think.

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Wednesday July 30, 2008

Closing prices of July 29, 2008

The rally off the July 15<sup>th</sup> low is still alive. On Tuesday the S&P 1500 responded to an oversold condition at the 61.8% retracement level of the rally, and erased Monday's sell off. Every S&P sector traded higher except energy.

The P/E ratio, which we discussed Sunday, has moved back towards the level where it peaked on May 19th. Unfortunately, reported and forecast aggregate earnings continue to move inexorably lower.

We are in a short-term period of seasonal strength, and the question is what happens as we get into the historically weak month of August and near resistance levels? We think it will take some catalyst, such as a sharp move lower in oil prices, to keep the rally going. Until proven otherwise, we believe this is a bear market rally.

The short-term trend is up, the 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.

So far 291 companies in the S&P 500 have reported second quarter earnings. According to Bloomberg, 70.9% have had positive surprises, 5.6% have been in line, and 23.5% have been negative. The year-over-year change has been -23.5% on a share-weighted basis, -24.3% market cap-weighted, and -9.86% non-weighted. Ex-financial stocks these numbers are 8.5%, 11.8%, and 12.8%, respectively.

Federal Funds futures are pricing in a 93.7% probability that the Fed will leave rates at 2.00%, and a 6.3% probability of raising 25 basis points to 2.25 when they meet on August 5<sup>th</sup>.

The S&P 1500 (287.99) was up 2.327% Tuesday. Average price per share was up 2.42%. Volume was 91% of its 10-day average and 97% of its 30-day average. 85.98% of the S&P 1500 stocks were up on the day. Up Dollars was 225% of its 10-day moving average and Down Dollars was 5% of its 10-day moving average.

Options expire August 15<sup>th</sup>.

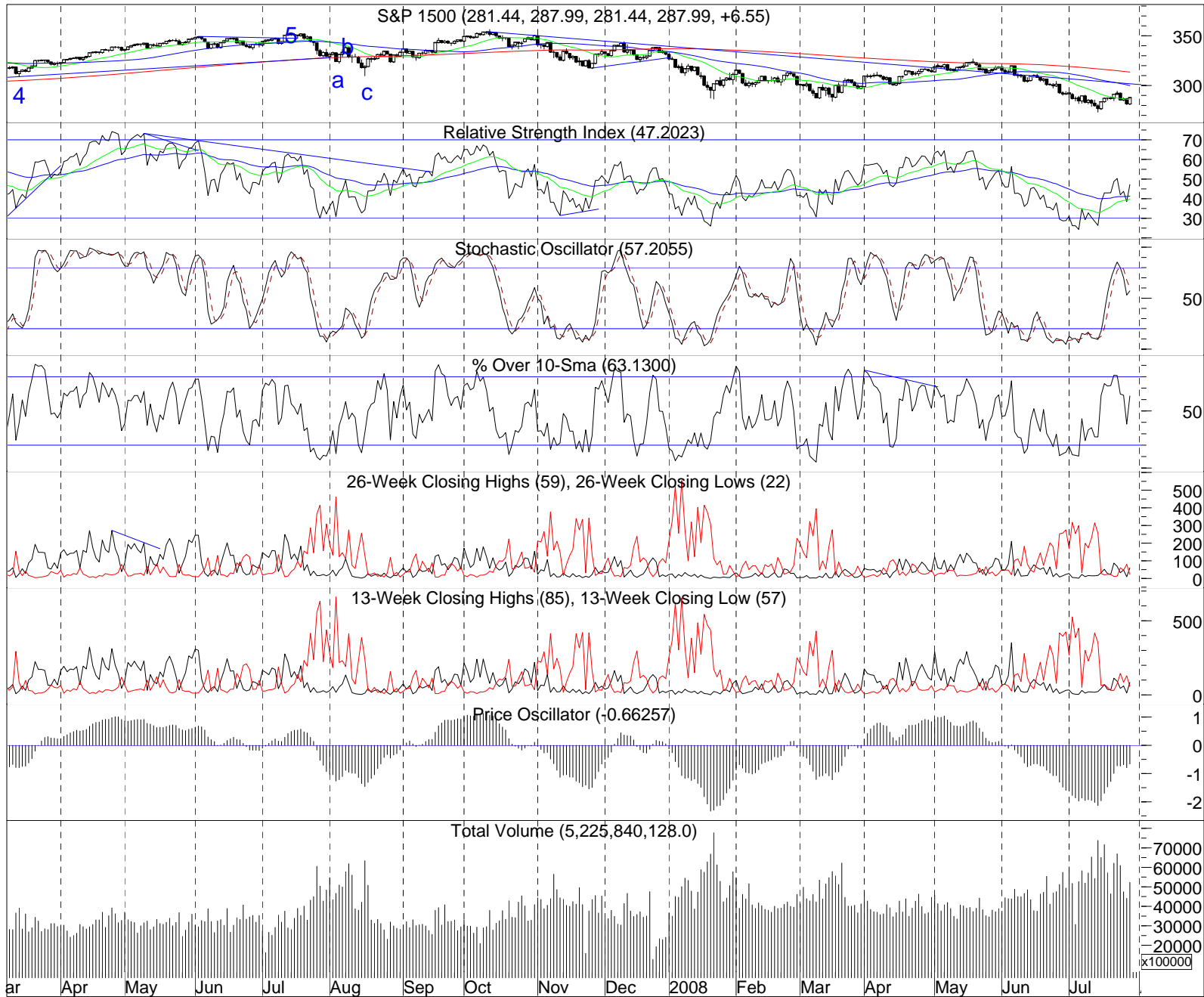
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The S&P 1500 rallied Tuesday from a short-term oversold condition at the 61.8% retracement level. The rally erased Monday's sell off.

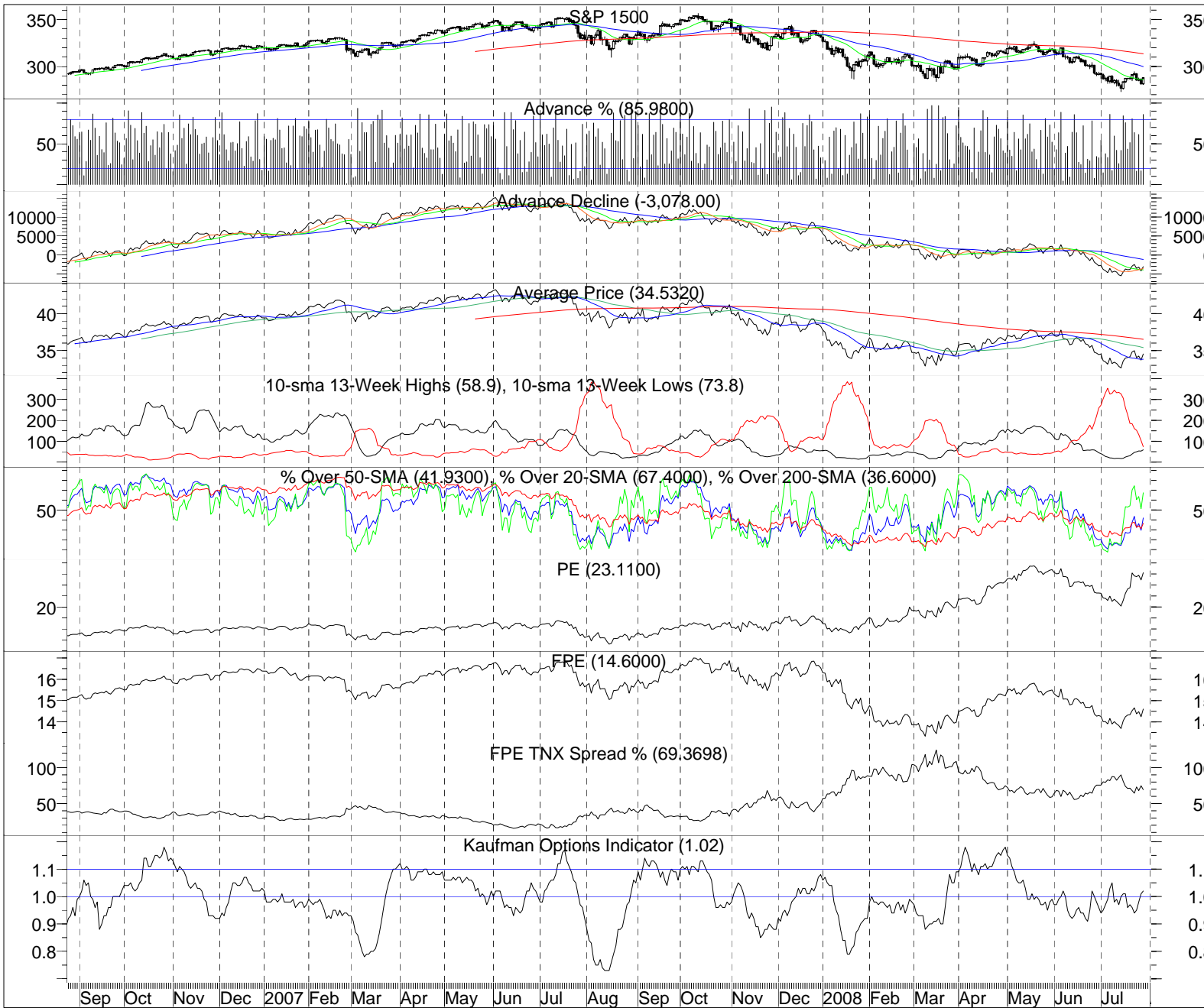


Our oscillators are in neutral territory.

Our price oscillator remains in negative territory.

Volume increased but was below average Tuesday.

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85.98% of the S&P 1500 traded higher Tuesday.

The P/E ratio has moved back towards the level where it peaked May 19th.

Our proprietary options indicator is slightly bullish. We would prefer to see bearishness.