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The Kaufman Report

Trade what you see, not what you think.

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Thursday June 12, 2008 **Closing prices of June 11, 2008**

The S&P 1500 recorded another panic-selling 90% down day Wednesday, just two days after Friday's. Friday's 90% down day erased a strong rally from the day before. Since that Thursday rally there has been a rapid deterioration in market breadth statistics which can't be ignored. The lack of any kind of a bounce after Friday's 90% down day is bad enough, but to be followed so quickly by a second 90% down day is very disconcerting. A market that does not respond to oversold conditions is dangerous.

Since the break down from the bearish rising wedge on May 21st we have been saying pull backs would not be deep. However, on Wednesday the 50% Fibonacci retracement level was broken, leaving us with two other potential targets. Those are the 301 area, and after that the 284 -285 area, which would be a 100% retracement of the rally from the March low to the May high. We explain this on the chart on page 3.

We remain concerned about spreads between earnings yields and bond yields. On May 29th the spread between the earnings yield based on the current P/E narrowed to the smallest level since July 13, 2007, which was an important top just ahead of a sharp drop in equities. The spread based on the forward P/E was the smallest since January 3, 2008. However, we have seen some improvement in forecast earnings, but since fundamental information will be limited until second quarter earnings season begins in July, we have been saying that upside for stocks as a whole will probably also be limited.

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.

Federal Funds futures are pricing in an 84% probability that the Fed will *leave rates at 2.00%,* and a 16% probability of *raising 25 basis points to 2.25* when they meet again on June 25th.

The S&P 1500 (304.11) was down 1.707% Wednesday. Average price per share was down 1.80%. Volume was 108% of its 10-day average and 115% of its 30-day average. 9.16% of the S&P 1500 stocks were up on the day. Up Dollars was 4% of its 10-day moving average and Down Dollars was 230% of its 10-day moving average.

Options expire June 20th. The FOMC meets June 25th.

IMPORTANT DISCLOSURES

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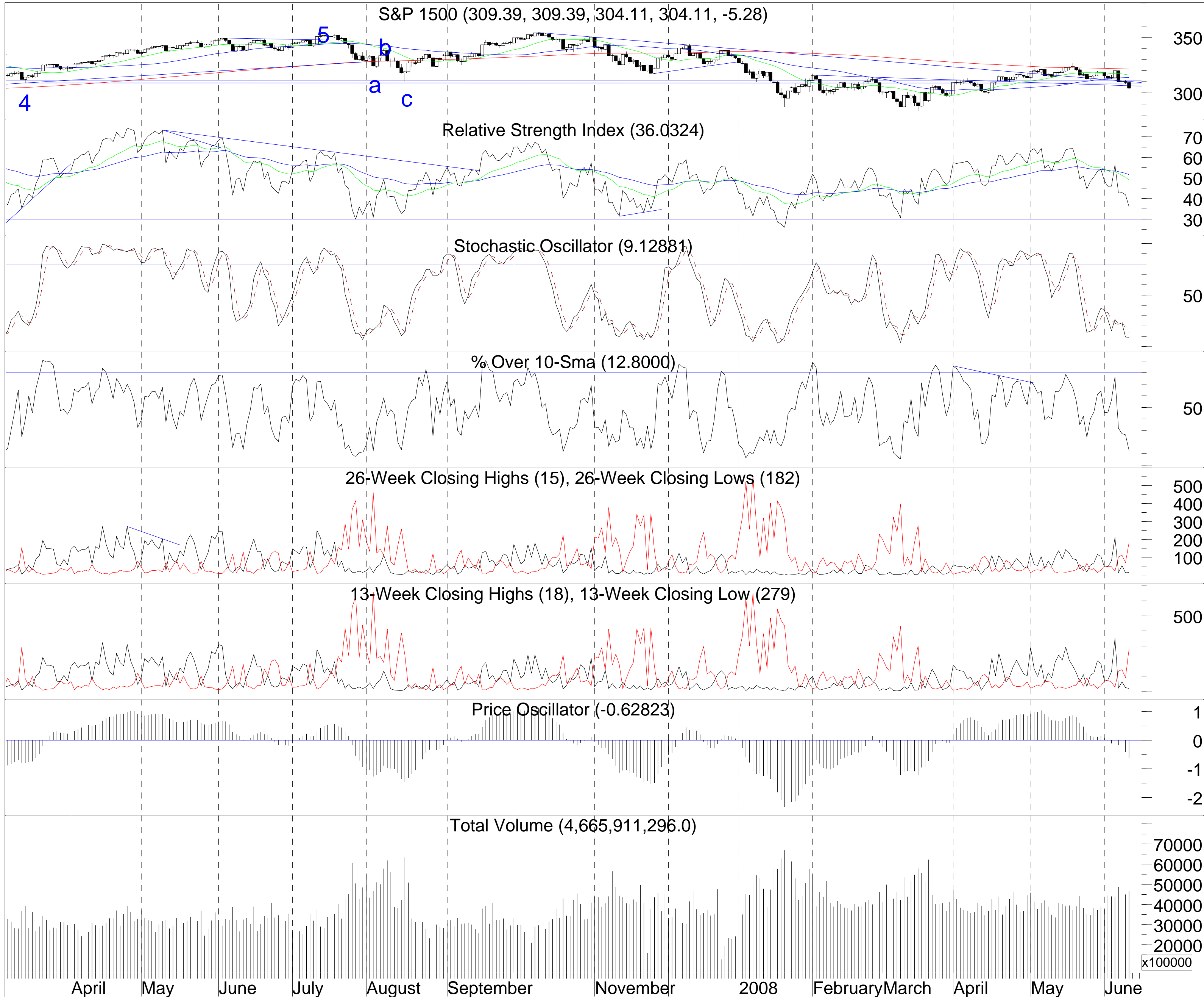


Two of our oscillators are in oversold territory, but the RSI, while it is low, is not oversold yet.

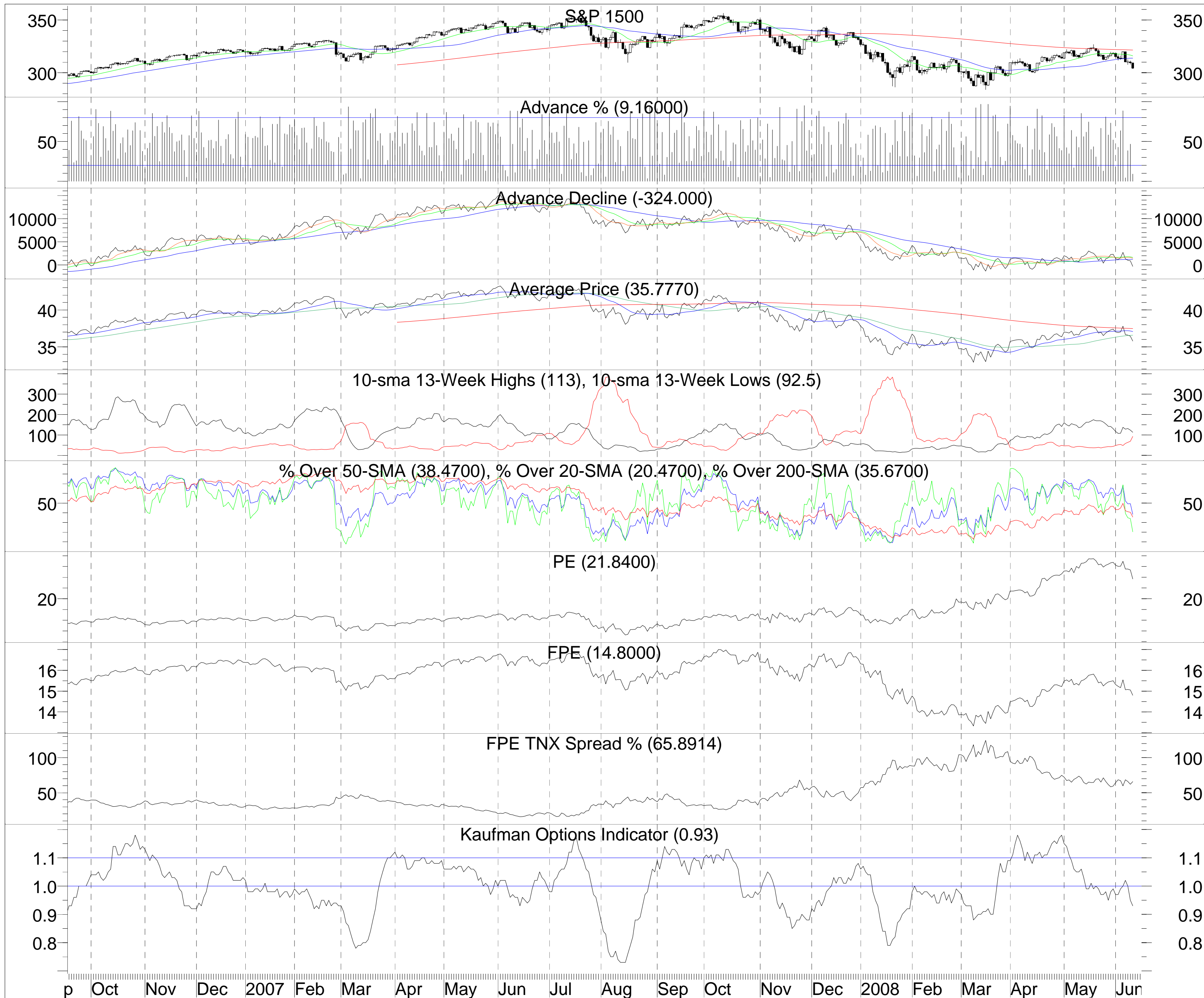
The percent over 10-sma is near the level where low risk short-term trades can be initiated.

New lows followed through after their breakout Friday.

Our price oscillator, a good indicator of trends, has moved deeper into negative territory.

Volume expanded and was above average Wednesday, but is far from the levels marking important bottoms.

When the bearish rising wedge broke out to the down side May 21st we gave targets of the 38.2% and 50% Fibonacci retracements of the rally from the March low to the May high. When the 38.2% area was broken decisively Monday we said next stop was the 50% level. Wednesday the index blew through that, leaving us with two new potential targets. The first is the 301 area, which corresponds to the 61.8% retracement level and also the width of the wedge at its base subtracted from the lower trend line at the point of the break down. The next target after that is a 100% retracement of the entire wedge, which is down at the 284 - 285 area.



Only 9.16% of the S&P 1500 traded higher Wednesday.

The 10-sma of highs and lows are converging rapidly.

Our proprietary options indicator is in negative territory, but not at the levels which mark important bottoms.