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The Kaufman Report

Trade what you see, not what you think.

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Friday June 13, 2008 **Closing prices of June 12, 2008**

The S&P 1500 rallied Thursday, printing an inverted hammer on the daily chart. Hammers are bottoming candles, and Thursday's hammer shows buyers starting to creep off the sidelines. Hopefully next week's earnings reports from Goldman Sachs and Morgan Stanley will give them greater courage.

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 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. <u>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.</u>

<u>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.</u>

Federal Funds futures are pricing in an 78% probability that the Fed will *<u>leave rates at 2.00%,</u>* and a 22% probability of *<u>raising 25 basis points to 2.25</u>* when they meet again on June 25th.

The S&P 1500 (305.03) was up 0.303% Thursday. Average price per share was up 0.34%. Volume was 110% of its 10-day average and 120% of its 30-day average. 64.19% of the S&P 1500 stocks were up on the day. Up Dollars was 135% of its 10-day moving average and Down Dollars was 21% of its 10-day moving average.

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

IMPORTANT DISCLOSURES

The Kaufman Report - Wayne S. Kaufman, CMT

The Kaufman Report - 6/12/2008

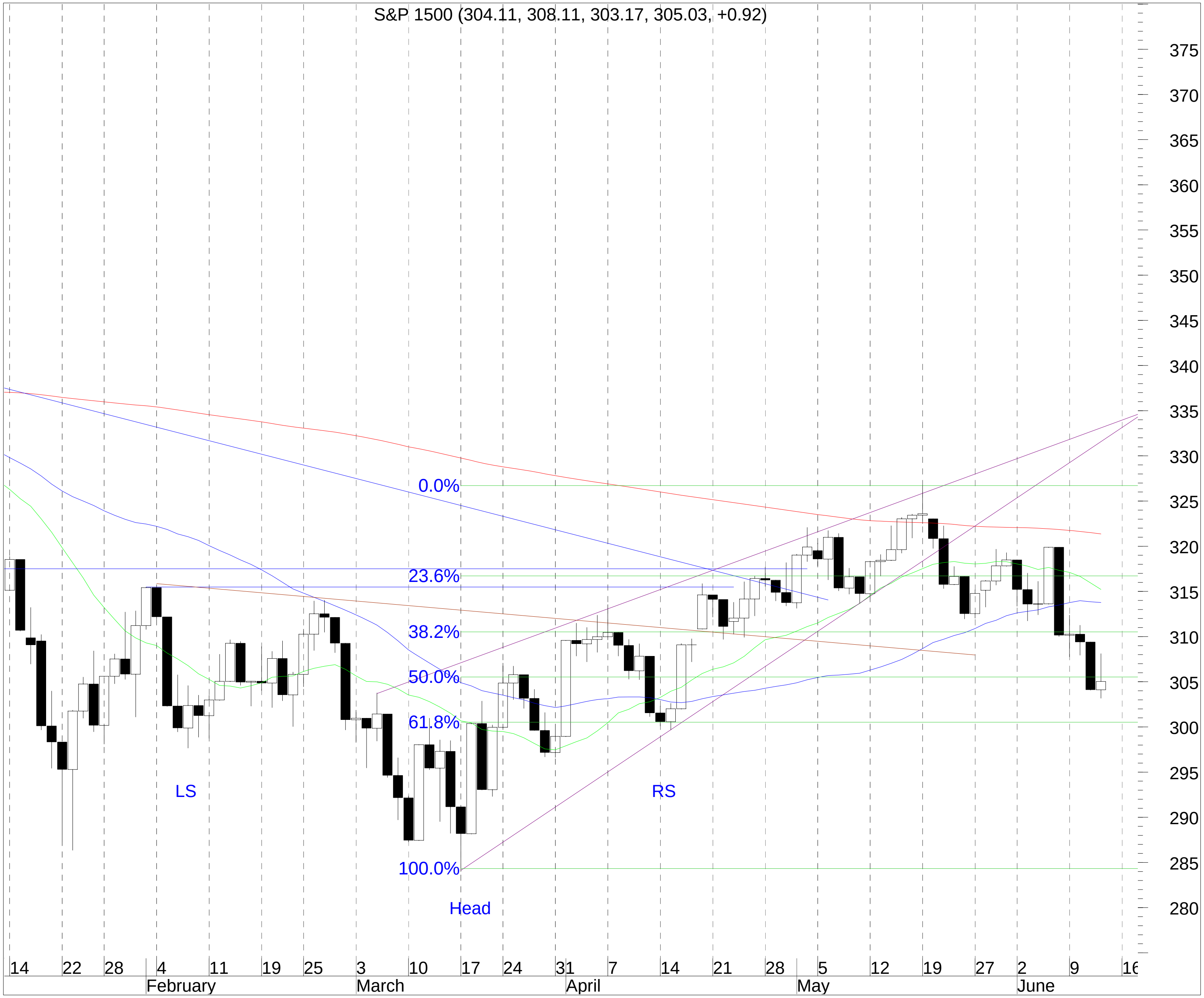
The S&P 1500 printed an inverted hammer on the daily chart. Hammers are bottoming candles.

The stochastic and percent over 10-sma are overold. The RSI is at a low level but not yet oversold.

New lows continue to be greater than new highs.

Our price oscillator, a good trend indicator, is in negative territory.

Volume expanded Thursday.



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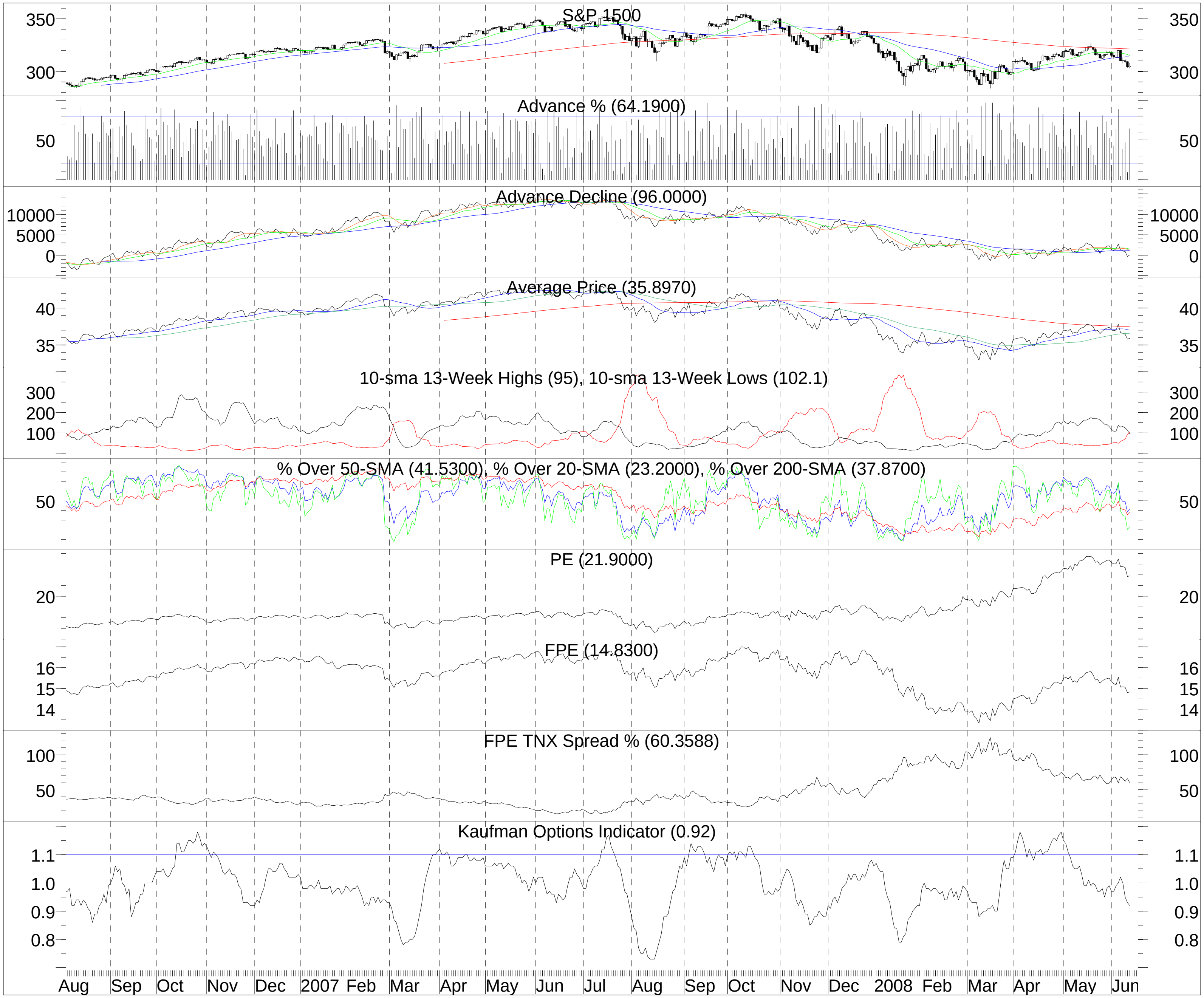

64.19% of the S&P 1500 traded higher Thursday.

The 10-sma of 13-week lows has crossed above the 10-sma of 13-week highs.

Our proprietary options indicator is showing bearishness among options buyers, but is not at the levels that have marked important bottoms.