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The Kaufman Report

Trade what you see, not what you think.

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Thursday June 19, 2008 **Closing prices of June 18, 2008**

The S&P 1500 dropped again Wednesday as this options expiration week is living up to expectations as far as volatility. After rallying Friday and Monday on Tuesday the index ran into the resistance zone we discussed in Sunday's report and dropped sharply.

The S&P 1500 recorded a panic-selling 90% down day June 11th, just three days after a 90% down day June 6th. June 6th's 90% down day erased a strong rally on June 5th. After the June 5th rally there was rapid deterioration in market breadth. The lack of any kind of a bounce after the June 11th 90% down day was worrisome, but to be followed so quickly by a second 90% down day was very disconcerting. A market that does not respond to oversold conditions is dangerous.

After the break down from the bearish rising wedge on May 21st we said pull backs would not be deep. However, on June 11th 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 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. *At the close on June 13th that spread was just above those same levels which preceded prior drops in equities.* The spread based on the forward P/E was the smallest since December 31, 2007. This week's decline marks the third time stocks dropped after the spread based on the current P/E reached the same level. These spreads probably won't change too much until the coming earnings season.

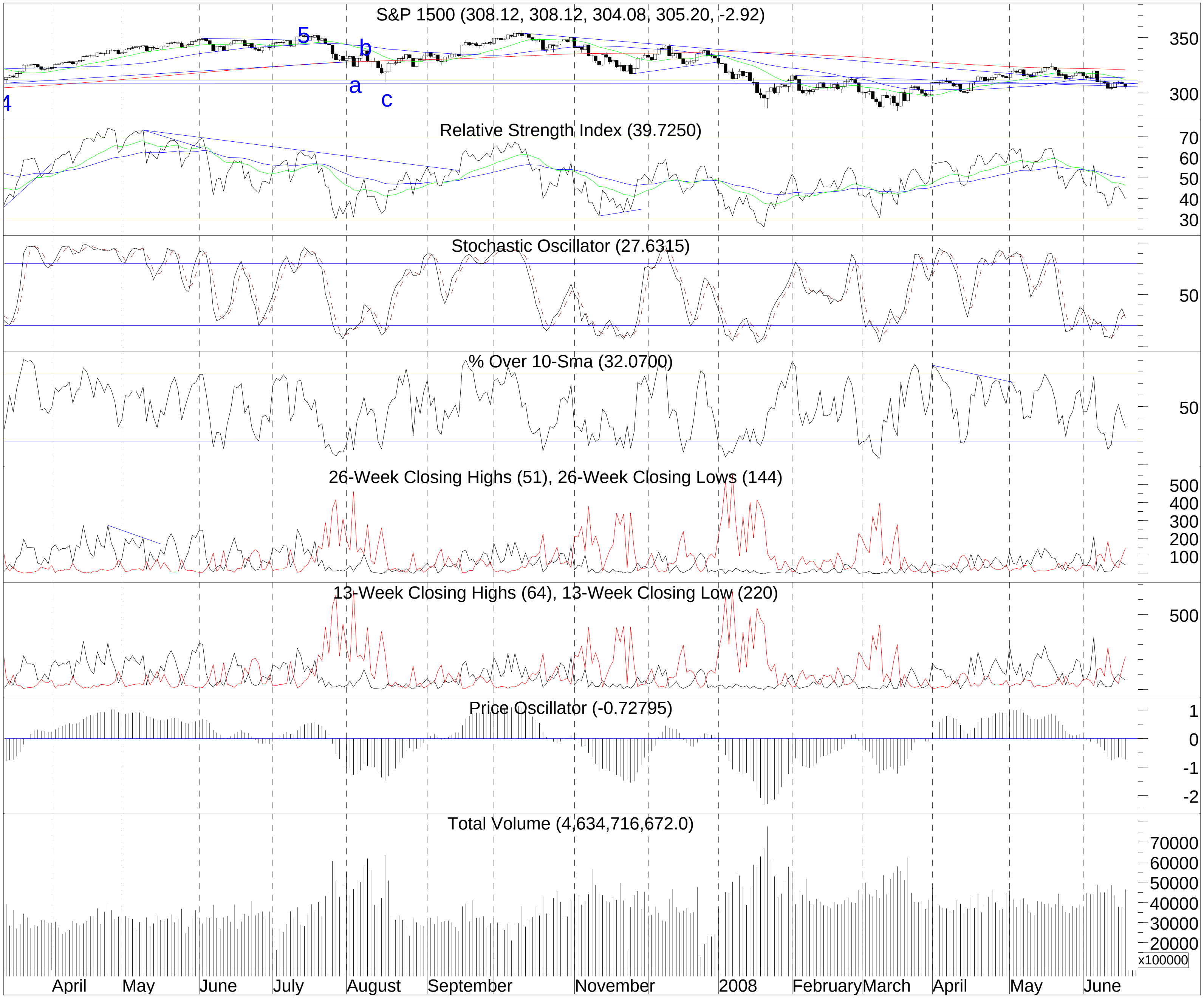
We have seen some improvement in forecast earnings, but since fundamental information will be limited until second quarter earnings season begins in July, we have been saying for a while that upside for stocks as a whole would probably also be limited.

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. Investors need to be alert to sector rotation and not hesitate to move out of lagging sectors and stocks and into leaders.

Federal Funds futures are pricing in an 86% probability that the Fed will *leave rates at 2.00%,* and a 14% probability of *raising 25 basis points to 2.25* when they meet again on June 25th.

The S&P 1500 (305.20) was down 0.948% Wednesday. Average price per share was down 0.83%. Volume was 105% of its 10-day average and 114% of its 30-day average. 24.44% of the S&P 1500 stocks were up on the day. Up Dollars was 12% of its 10-day moving average and Down Dollars was 116% of its 10-day moving average.

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



Our oscillators remain at low levels.

New lows continue to swamp new highs.

Our price oscillator remains in negative territory.

Volume expanded Wednesday.

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The 50% retracement level was surpassed.

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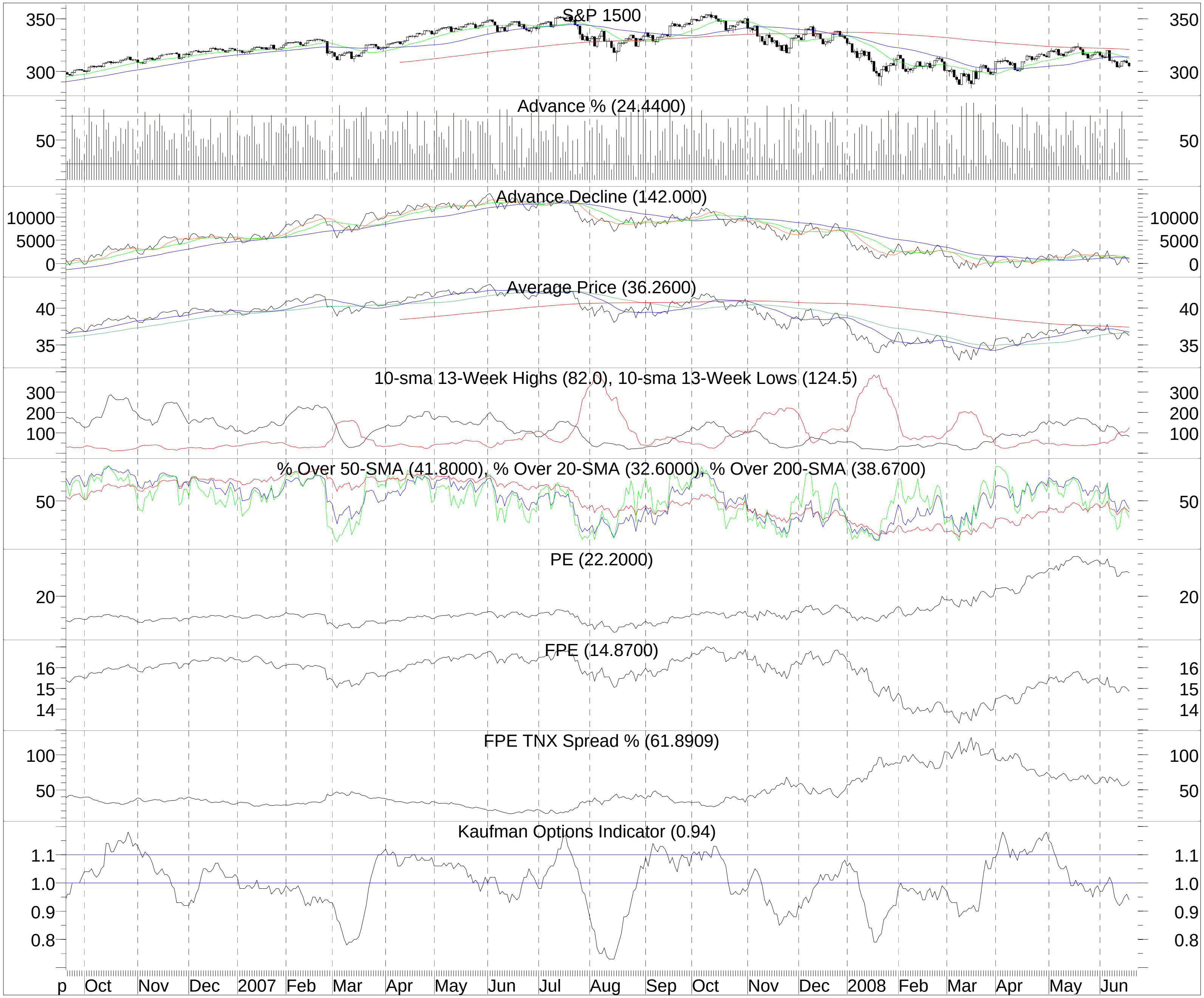

24.44%of stocks traded higher Wednesday.

The 10-sma of new lows is rising(red)and is above the 10-sma of new highs, which is going lower.

Our proprietary options indicator shows bearishness on the part of options buyers, but not as much as is seen at important bottoms.