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The Kaufman Report

Trade what you see, not what you think.

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Monday June 2, 2008 **Closing prices of May 30, 2008**

The S&P 1500 rebounded last week with a 1.9% gain that was highlighted by sector rotation. Transports led the way as they responded to a drop in crude oil, and continued strength was seen in Telecom, Computer Hardware, Information Technology, Internet, Health Care, and Biotech. Nasdaq 100 and mid-cap stocks are outperforming, and there has been short-term weakness in ADRs. May ended with a gain of 1.51%, and quarter-to-date the S&P 1500 is up an impressive 6.53%.

Looking back to gain perspective, in March investors were convinced the world was coming to an end. The Fed stepped in aggressively, putting a floor underneath the market. First quarter earnings season in April gave investors confidence, at the very least causing sellers to go into hibernation. As the earnings news flow dried up, the market has traded on a technical basis, which it usually does when there is a dearth of news.

A bearish rising wedge pattern was formed as stocks traded higher off the March lows, which broke out to the downside on May 21st. Stocks sold off that day on above average volume, which was probably caused by technical traders reacting to the trend line break. In the six sessions which have followed, only one has seen stocks trade lower, and that was the lowest volume day of the six. So, other than the day of the trend line break, sellers have been on the sidelines. The bottom was found at exactly the 38.2% Fibonacci retracement level of the rally from the March low to the May high, again a response to a technical catalyst.

As we enter June the fundamental news flow will probably remain weak. With short-term seasonality turning negative, we expect to see some weakness for equities. This will be a good test of how aggressive sellers will become. We have been saying we are not expecting any pull backs to be deep.

We remain concerned about spreads between earnings yields and bond yields. On Thursday 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, which are above their level of two weeks ago for the first time since February</u>.

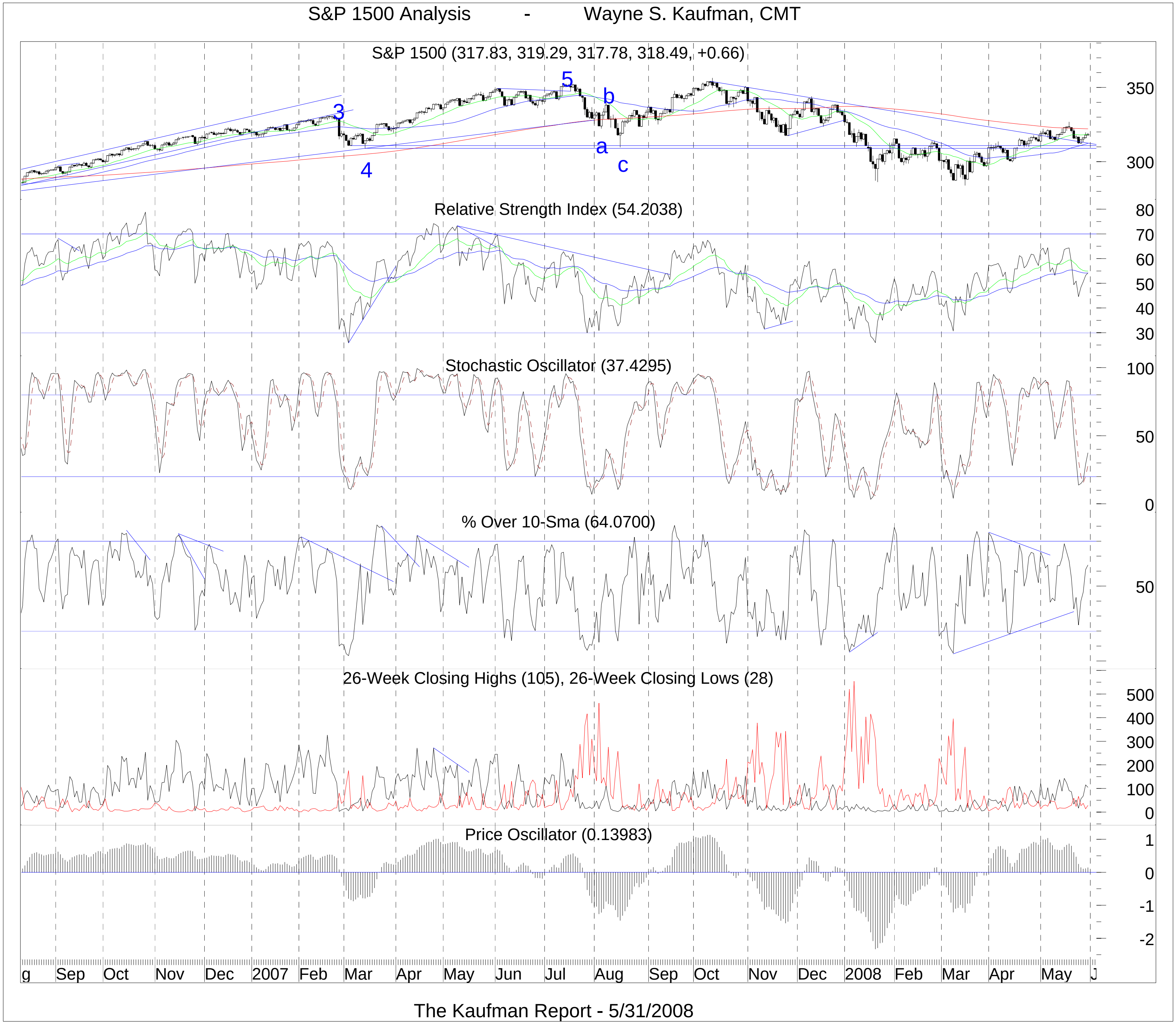
<u>Stocks are in short and intermediate-term up trends, but until we can add the long-term to that analysis this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short.</u>

Federal Funds futures are pricing in an 98% probability that the Fed will *<u>leave rates at 2.00%,</u>* and a 2% probability of *<u>cutting another 25 basis points to 1.75</u>* when they meet again on June 25th.

The S&P 1500 (318.49) was up 0.208% Friday. Average price per share was up 0.27%. Volume was 102% of its 10-day average and 99% of its 30-day average. 52.03% of the S&P 1500 stocks were up on the day. Up Dollars was 105% of its 10-day moving average and Down Dollars was 44% of its 10-day moving average. For the week the index was up 1.9%.

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

IMPORTANT DISCLOSURES



The S&P 1500 rebounded last week after pulling back to the 38.2% Fibonacci retracement level and near the 50-sma.

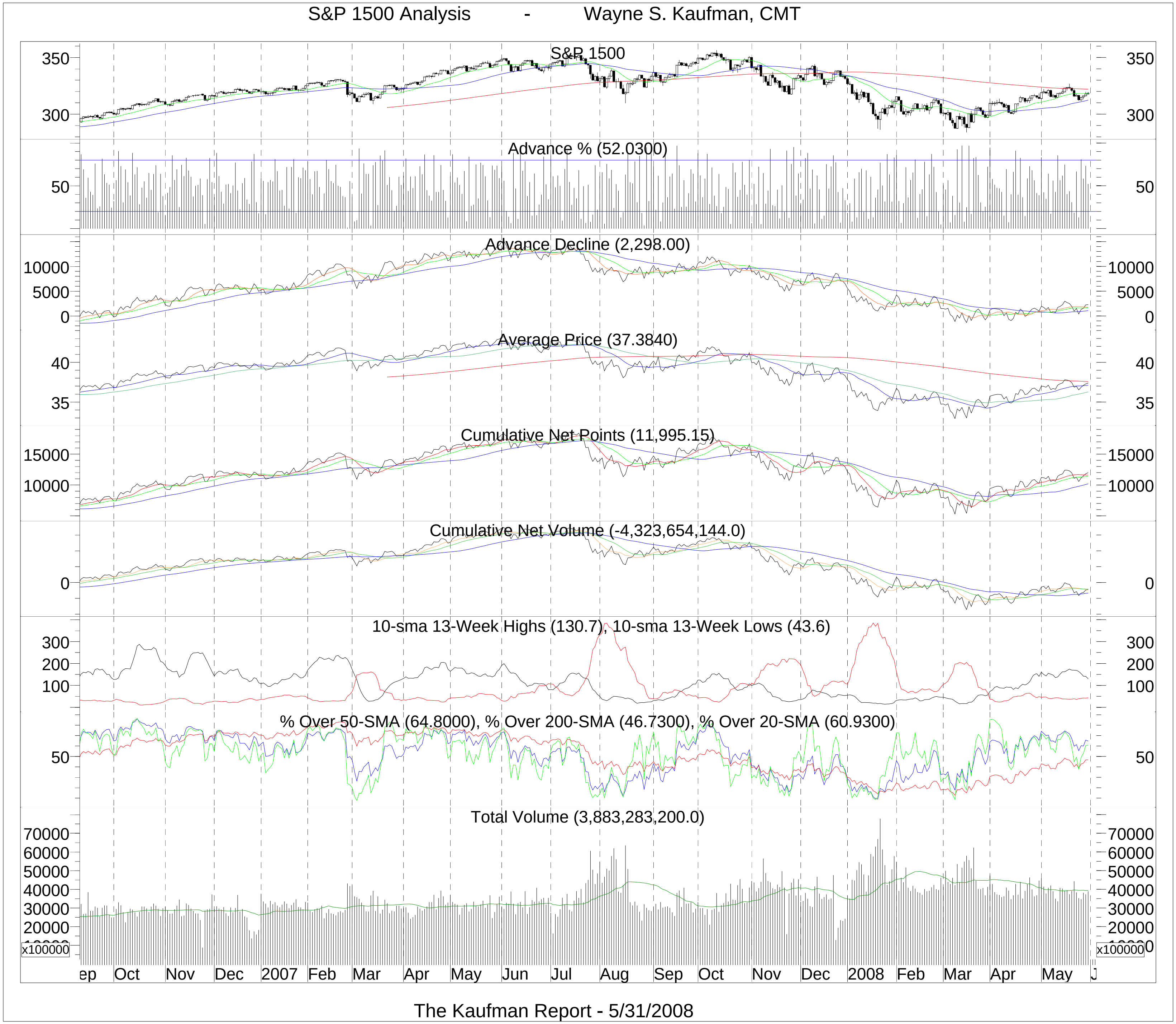
Our oscillators are neutral.

New highs continue to dominate new lows.

Our price oscillator, a good indicator of trends, remains in positive territory after coming close to neutral.

S&P 1500 Analysis - Wayne S. Kaufman, CMT

After breaking down out of the bearish rising wedge, the S&P 1500 sold off but found support at the 38.2% Fibonacci retracement and the 50-sma. It is currently at the 20-sma (green) and just below the 200-sma (red). 319.36 would be a 50% retracement of the move down from the recent high to the low.



Only 52.03% of the S&P 1500 traded higher Friday.

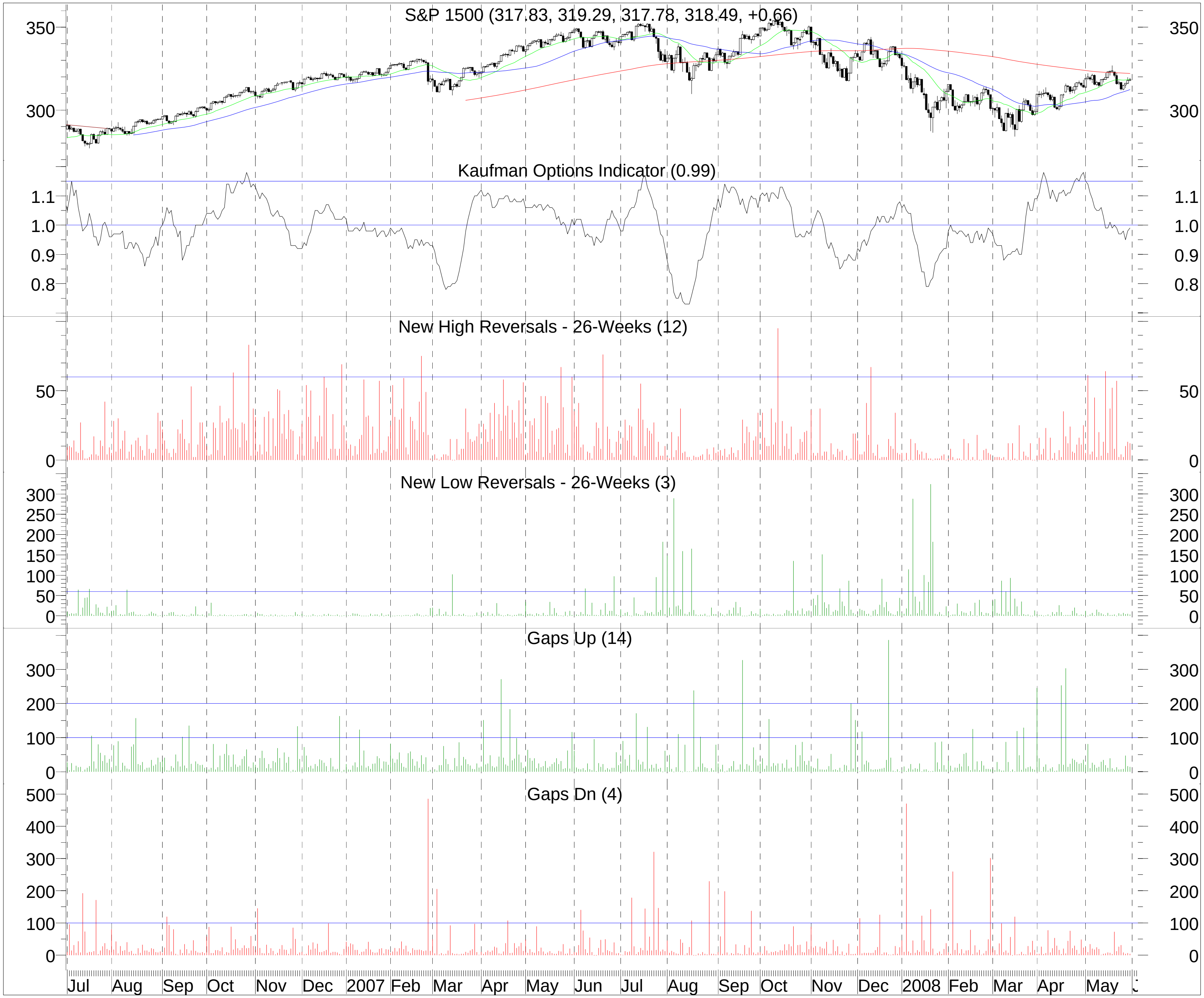
Our statistics of market internals do not show us anything very important at this time.

The 10-sma of 13-week closing highs has pulled back, but is still well above 13-week lows.

64.8% of stocks are above their 50-sma.

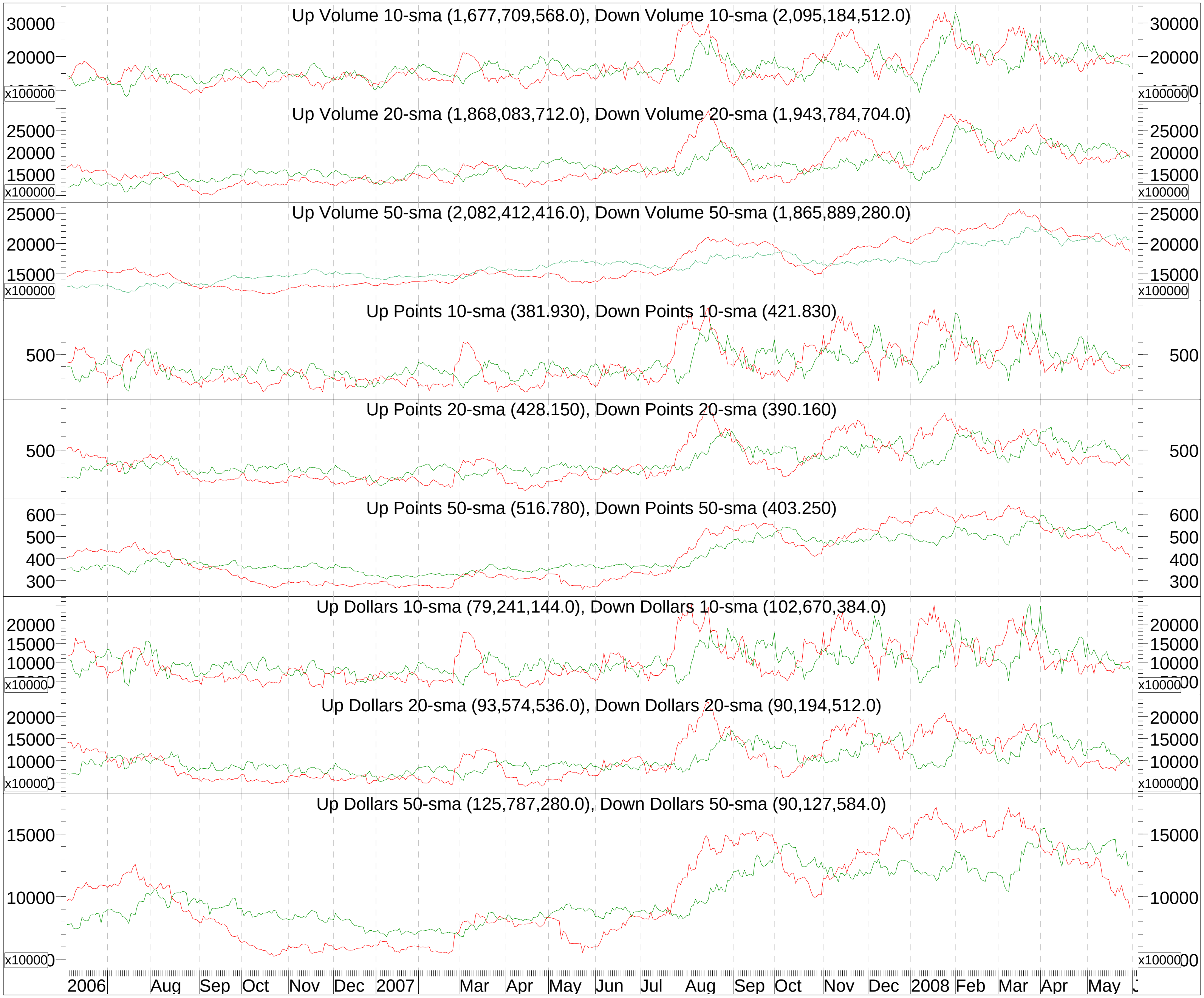
Volume has been low recently.

S&P 1500 Analysis - Wayne S. Kaufman, CMT

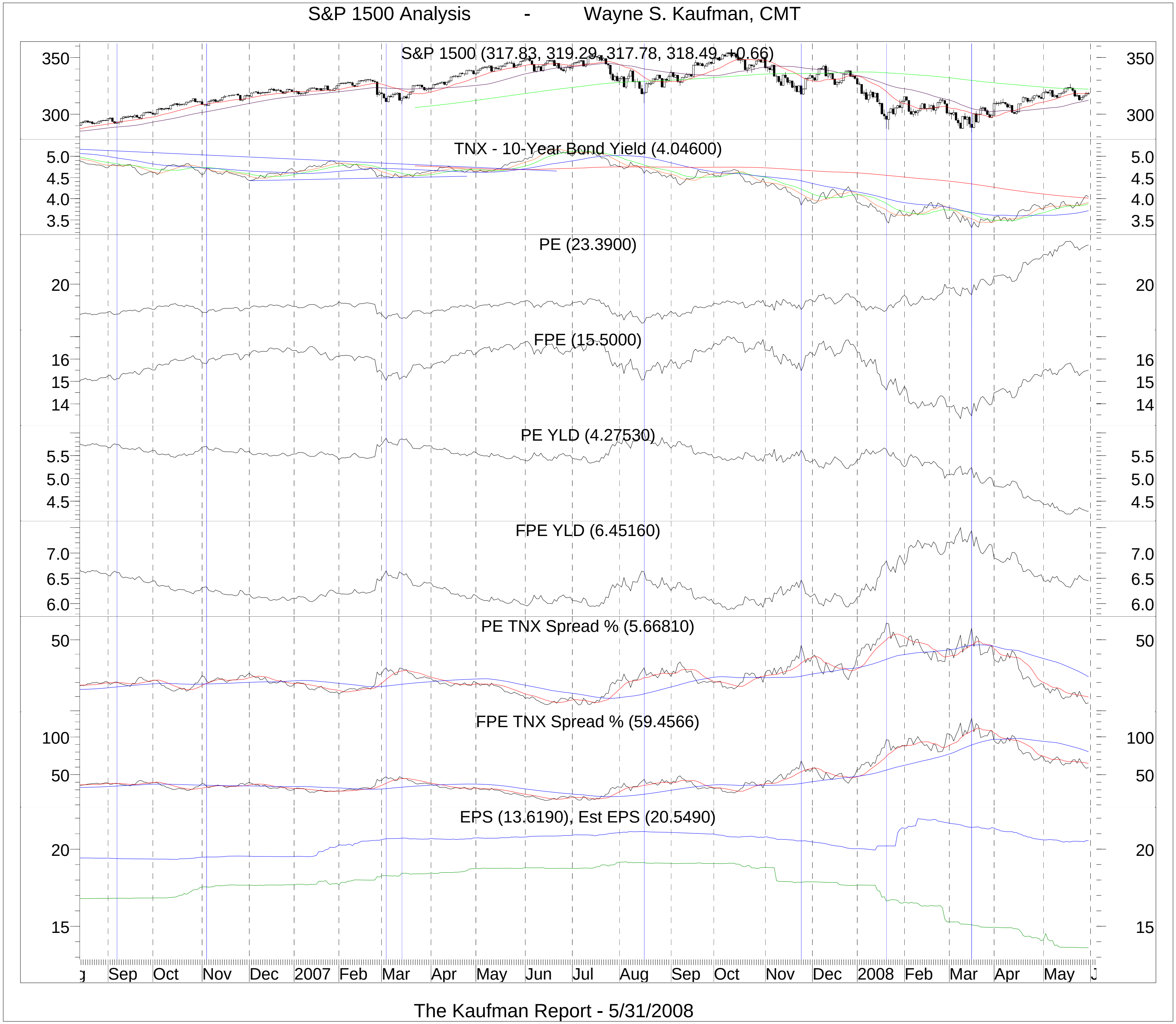


Our options indicator remains about neutral.

S&P 1500 Analysis - Wayne S. Kaufman, CMT



Our 10-day statistics of supply (red) are higher than the 10-day statistics of demand (green) and the 20 and 50-day statistics of supply. The 10-day statistics of demand are lower than the 20 and 50-day statistics. There has been some pickup in supply but in a low volume market it is difficult to draw many conclusions. Both buyers and sellers appear reluctant, and it will take some real news, most likely in the form of second quarter earnings, to increase volume substantially.



10-year bond yields are above the 200-sma (red) for the first time since 8/14/2007. They are not yet overbought.

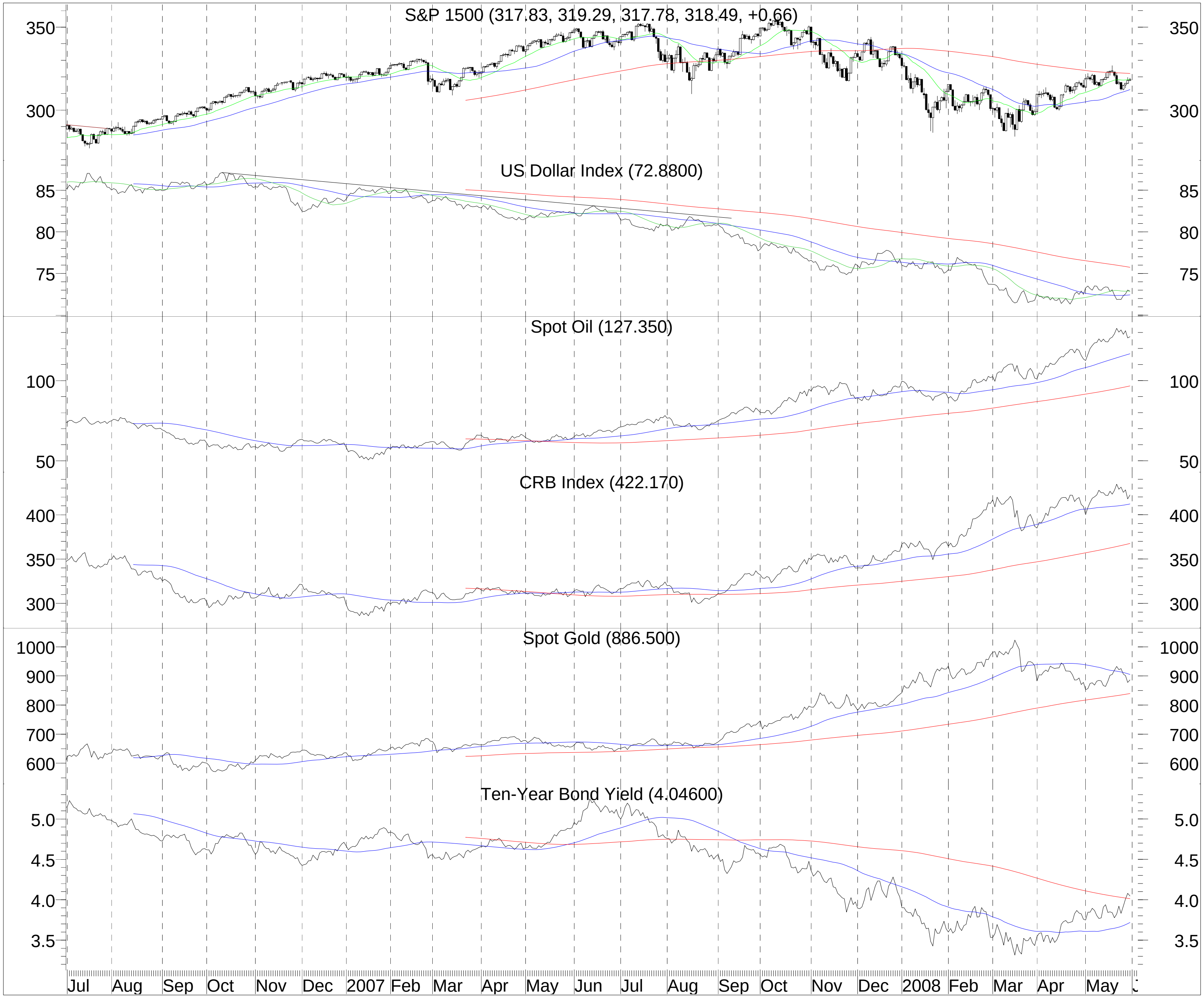
The P/E ratio remains near the highest levels since 2003.

The forward P/E is about average.

Spreads between bond and earnings yields are mixed. The spread based on current P/E is very low and at an area where stocks usually pull back. The spread based on the forward P/E has narrowed dramatically but is still in an area where stocks are attractive.

Earnings projections are above the level of two weeks ago for the first time since February.

S&P 1500 Analysis - Wayne S. Kaufman, CMT

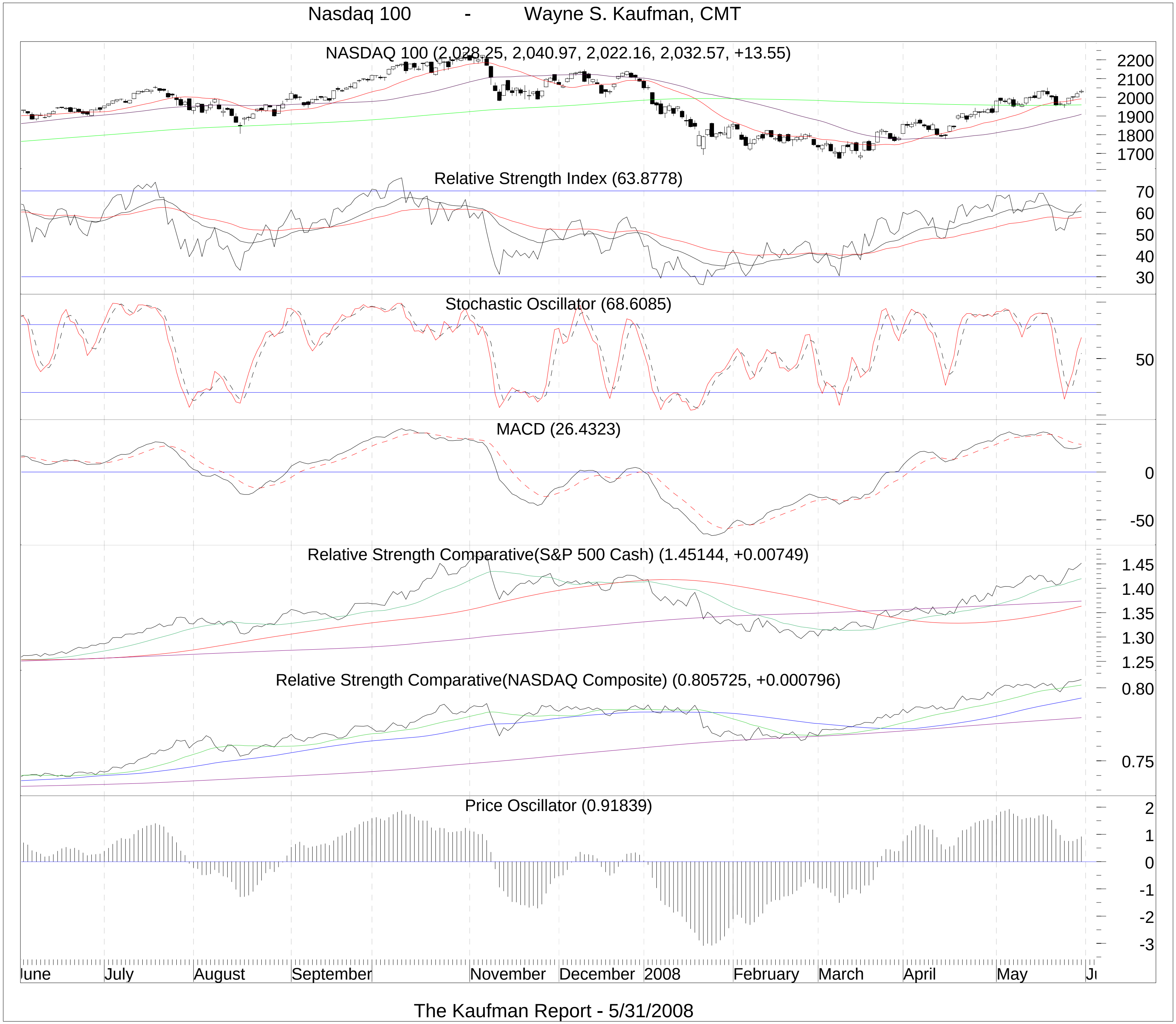


The U.S. Dollar Index is in a short and intermediate term up trend, but still well below the 200-sma. It is not overbought but has stiff resistance in the 74 - 74.5 area.

Crude oil has pulled back after hitting overbought levels. It may pull back some more, but we don't believe it will go too much lower in the near-term.

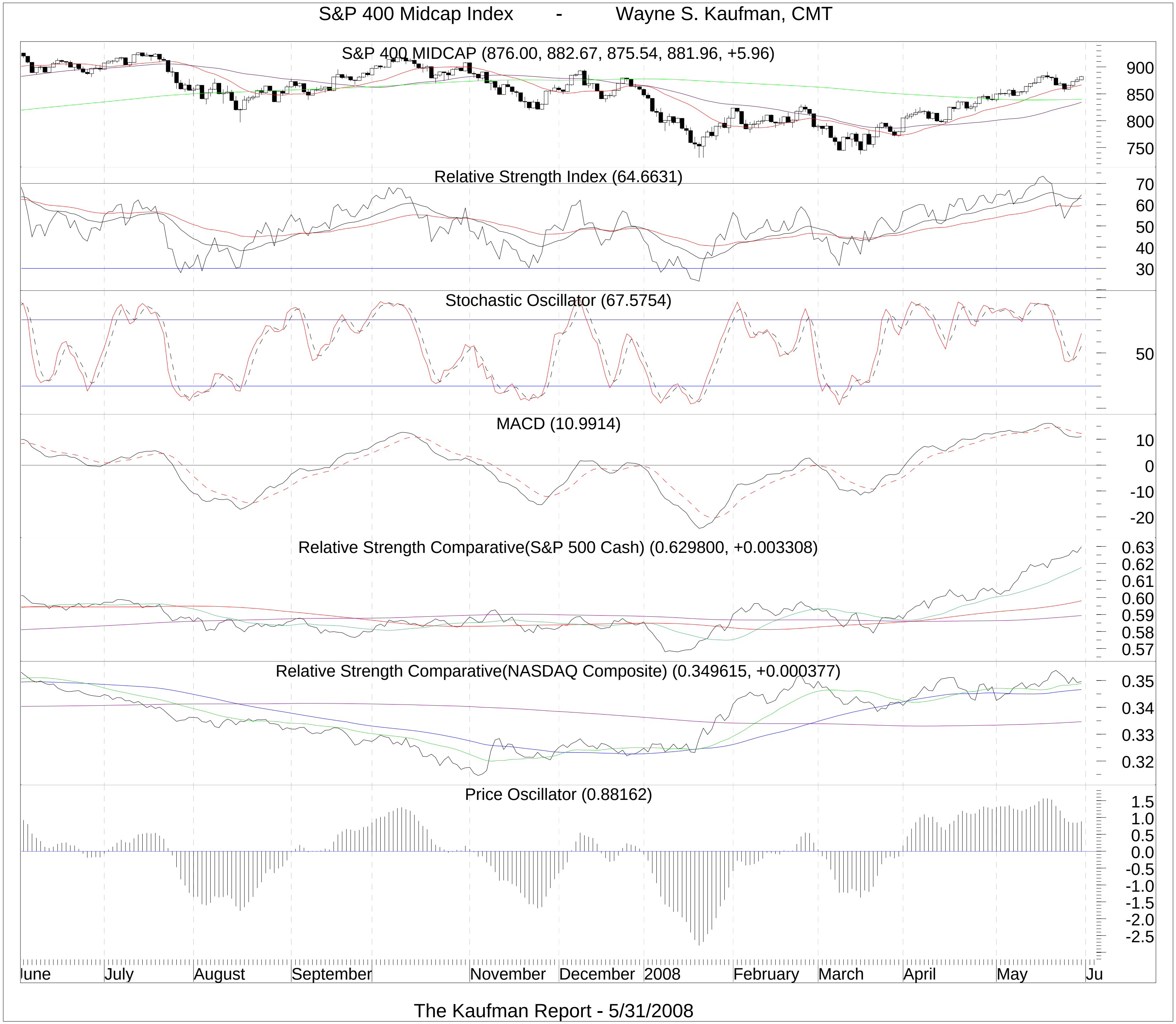
The commodities index also looks to be levelling off, and may pull back more.

Gold has very strong support at the 846 area.



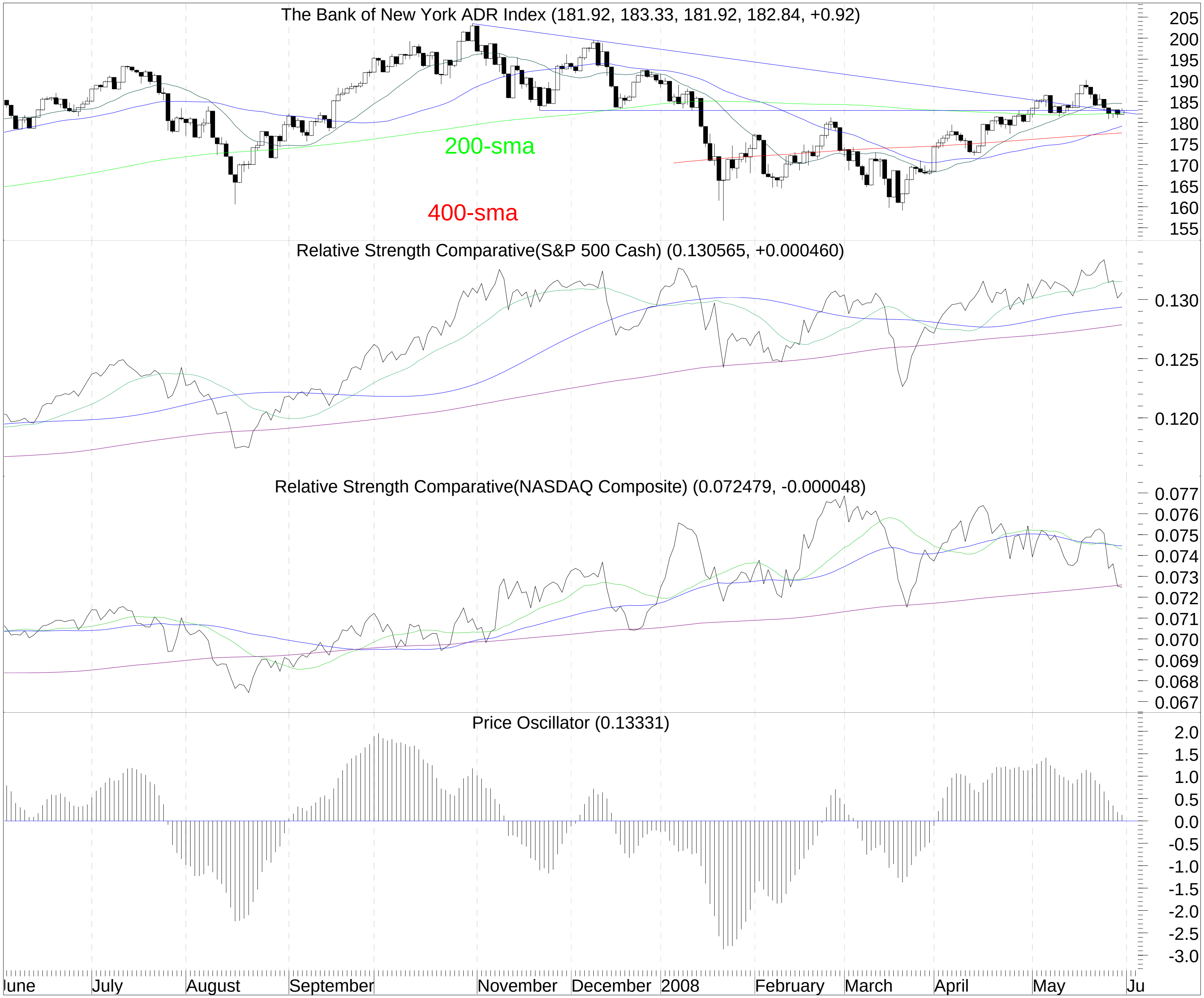
The Nasdaq 100 remains above its 200-sma.

The Nasdaq 100 has been outperforming the S&P 500 and the Nasdaq Composite.



The S&P 400 Midcap Index remains above its 200-sma and is outperforming the S&P 500 and the Nasdaq Composite for all time frames.

ADR Index - Wayne S. Kaufman, CMT



The ADR Index is under-performing the S&P 500 on a 20-day basis, but is still outperforming on a 50 and 200-day basis. It is underperforming the Nasdaq Composite for all three time periods.