

Wednesday June 4, 2008

Closing prices of June 3, 2008

It was a roller coaster day Tuesday as an early rally was met by sellers around noon, pushing the S&P 1500 below its 50-day moving average. Late-day buying pushed the closing price back above the 50-day moving average, but with short-term indicators not yet completely oversold more downside is possible.

We said Sunday that as we enter June the fundamental news flow would probably remain weak, and with short-term seasonality turning negative we expected to see some weakness for equities. We are seeing weakness and as we said Sunday 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 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, which after an extended decline are above their level of three weeks ago for the first time since February.

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 98% probability that the Fed will leave rates at 2.00%, and a 2% probability of cutting another 25 basis points to 1.75 when they meet again on June 25th.

The S&P 1500 (313.58) was down 0.517% Tuesday. Average price per share was down 0.24%. Volume was 115% of its 10-day average and 113% of its 30-day average. 42.18% of the S&P 1500 stocks were up on the day. Up Dollars was 53% of its 10-day moving average and Down Dollars was 80% of its 10-day moving average.

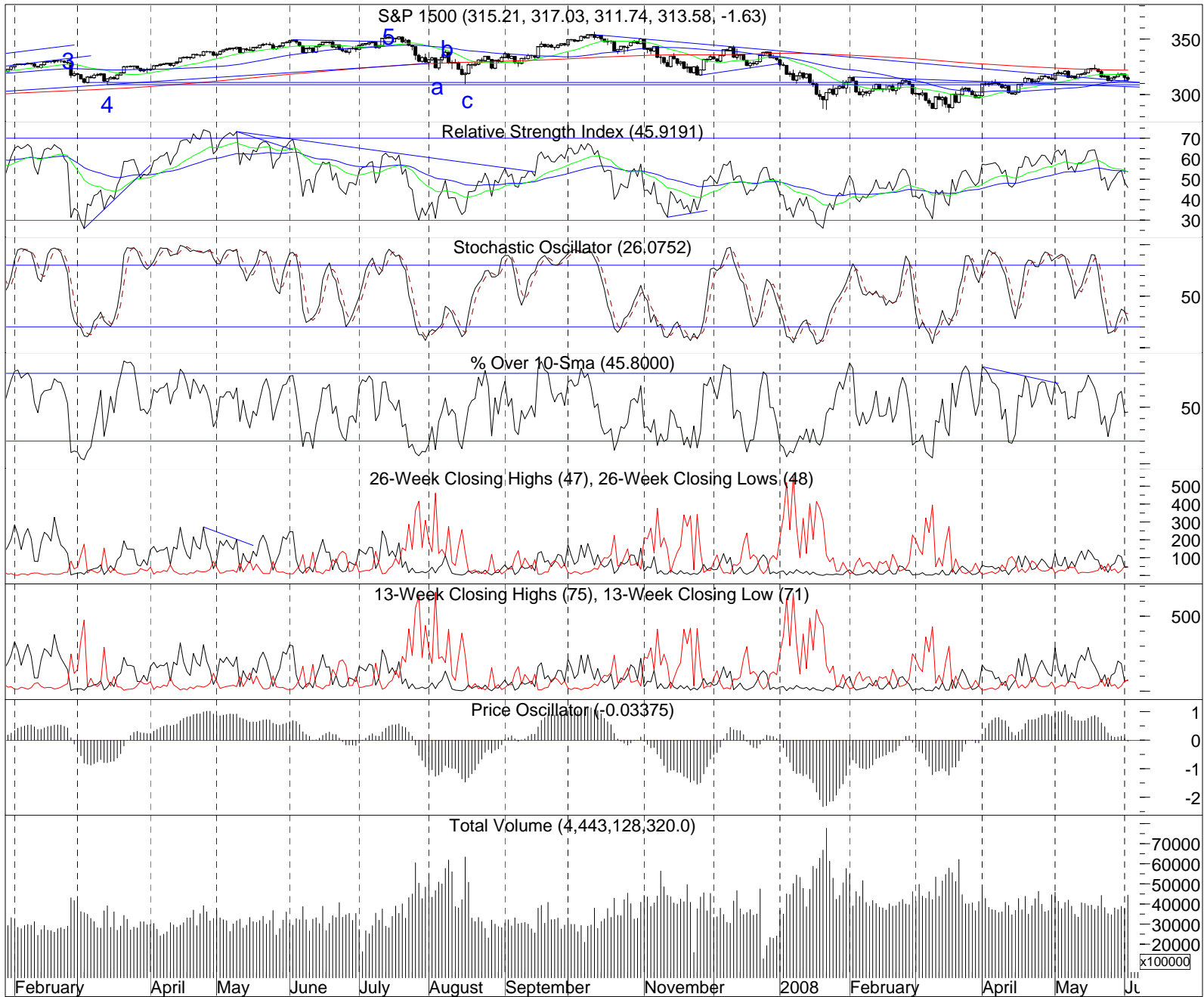
Options expire June 20th. The FOMC meets June 25th.

IMPORTANT DISCLOSURES

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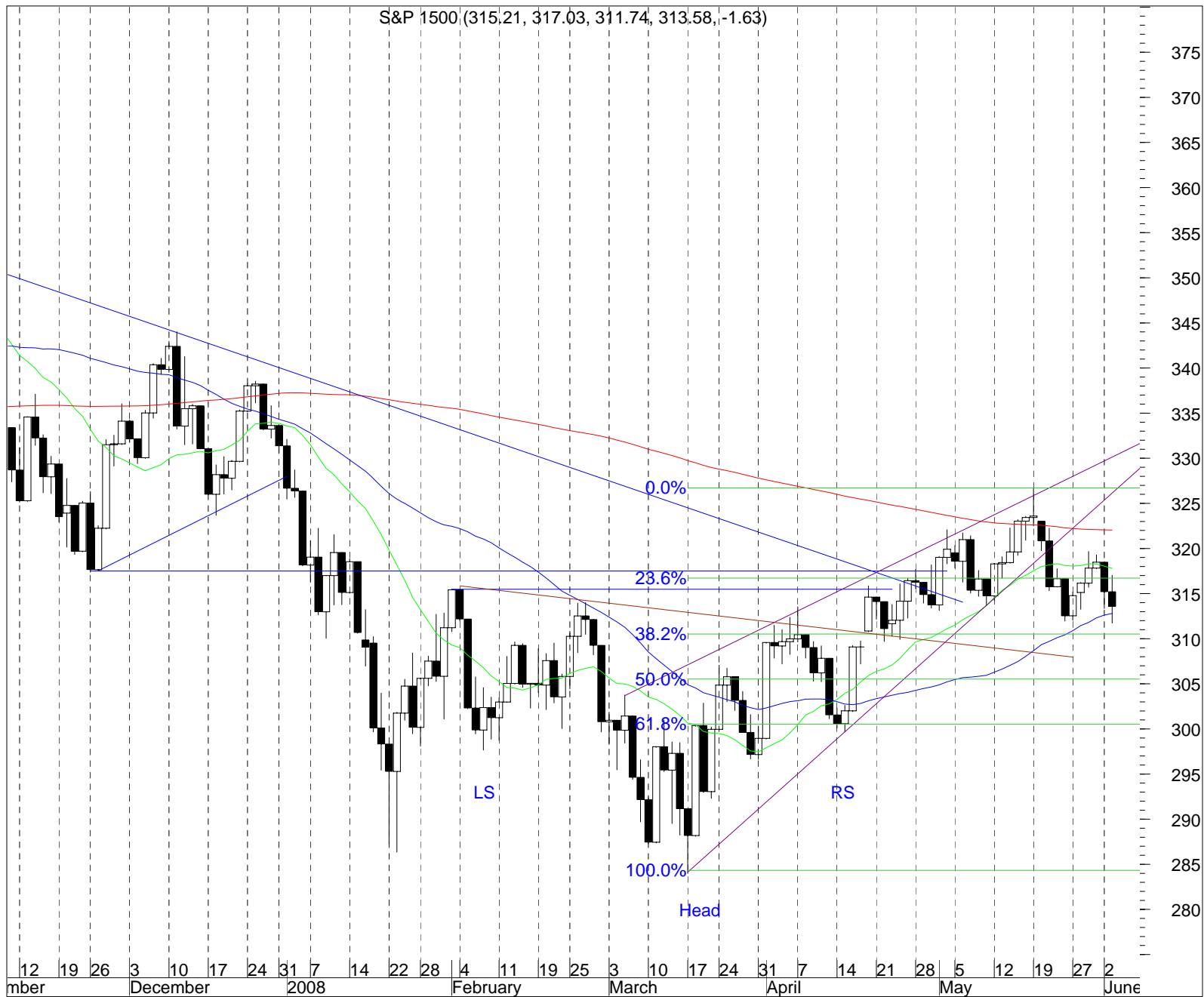


Our oscillators are not yet oversold.

Our price oscillator has turned fractionally negative.

Volume expanded during Tuesday's sell off.

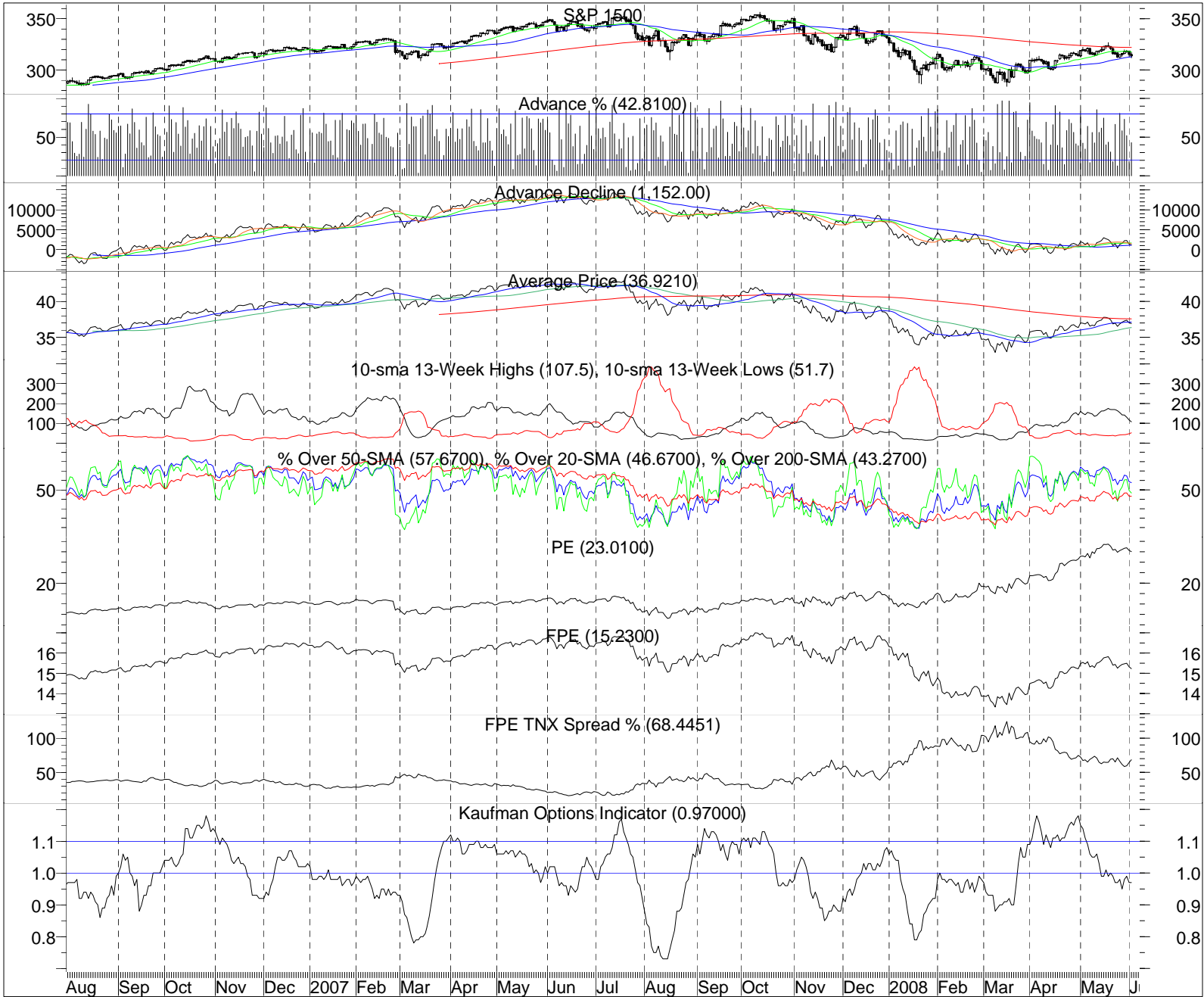
S&P 1500 (315.21, 317.03, 311.74, 313.58, -1.63)



The S&P 1500 pierced the 50-sma but closed above it.

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 mber December 2008 February March April May June

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42.18% of stocks traded higher Tuesday.

The spread between the 10-year bond yield and the forward earnings yield is widening again.

Our options indicator remains slightly negative.