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The Kaufman Report

Trade what you see, not what you think.

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Monday June 9, 2008 **Closing prices of June 6, 2008**

Last Sunday we said that with short-term seasonality turning negative, we expected to see some weakness for equities. We also said that it would be a good test of how aggressive sellers would become, and we repeated our belief that pull backs would not be deep. That test is now underway, courtesy of the biggest jump in the unemployment rate in 22 years and a huge spike in the price of crude oil. Weakness in the U.S. Dollar also contributed to a panic-selling 90% down day for equities.

What a difference a day made, as Thursday's big up day was erased by Friday's plunge. In the short-term, our oscillators are getting oversold, but not yet to an extreme. A bounce is possible after a 90% down day, but we feel this decline is not yet over. The S&P 1500 seems headed for the 50% retracement level of the rally off the March lows. That targets the 305 area, which is about 1.65% lower. The corresponding number for the S&P 1500 is the 1348 area.

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, which after an extended decline have shown improvement and on June 4th were above their level of April 25th. Also, as stock prices and bond yields moved lower in tandem on Friday these spreads have widened again to levels that should be supportive to stock prices as long as projected earnings do not begin to move down again.</u>

<u>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 100% probability that the Fed will *<u>leave rates at 2.00%,</u>* and a 0% probability of *<u>cutting another 25 basis points to 1.75</u>* when they meet again on June 25th.

The S&P 1500 (310.14) was down 3.048% Friday. Average price per share was down 3.0%. Volume was 121% of its 10-day average and 123% of its 30-day average. 4.41% of the S&P 1500 stocks were up on the day. Up Dollars was 4/10 of 1% of its 10-day moving average and Down Dollars was 448% of its 10-day moving average. For the week the index was down 2.622% on increasing but below average weekly volume.

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

IMPORTANT DISCLOSURES

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The Kaufman Report - 6/7/2008

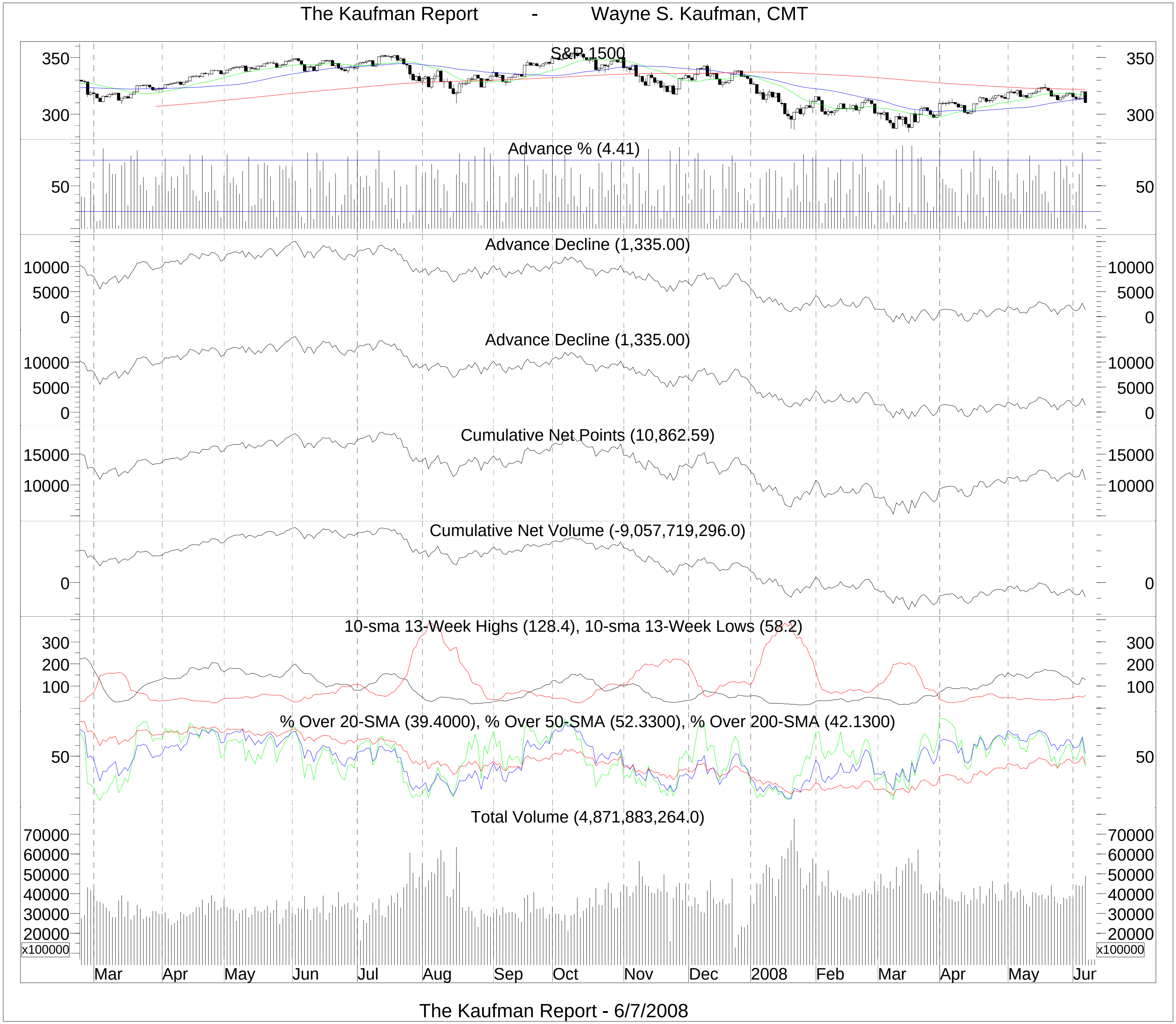
The S&P 1500 plunged Friday in a panic-selling 90% down day, and is now below all the important moving averages.

Our oscillators are getting oversold, but are not yet at an extreme.

One day after a big spike in new highs, new lows started to jump up.

Our price oscillator, a good indicator of trends, has entered negative territory.

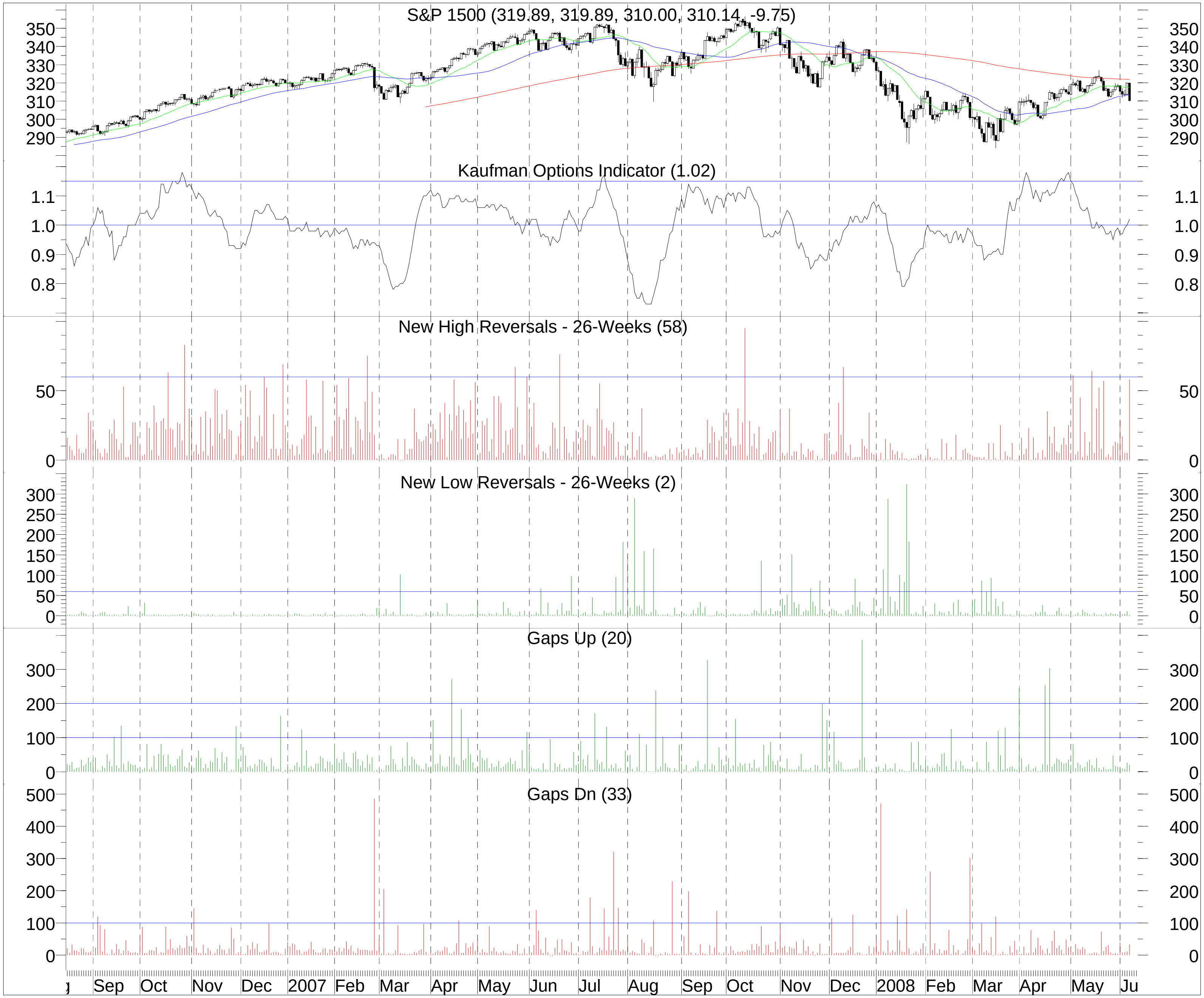
After breaking down out of the bearish rising wedge the S&P 1500 seems to be headed towards the 50% Fibonacci retracement level of the rally off the March lows. That targets the 305 area. That also equates to a measured move based on the move down from the 5/19 top to the 5/23 bottom. The corresponding number for the S&P 500 is the 1348 area.



Only 4.41% of stocks traded higher Friday.

52.33% of stocks are still trading over their own 50-sma. This is due to strength in small and mid-caps.

Volume expanded on Friday.



Our proprietary options indicator is showing slight bullishness. We would prefer to see bearishness.

There were 58 new high reversals Friday, showing investors increased desire to take profits.

Our statistics of supply (red) versus demand (green) shows negative crossovers in the 10 and 20-day time frames.

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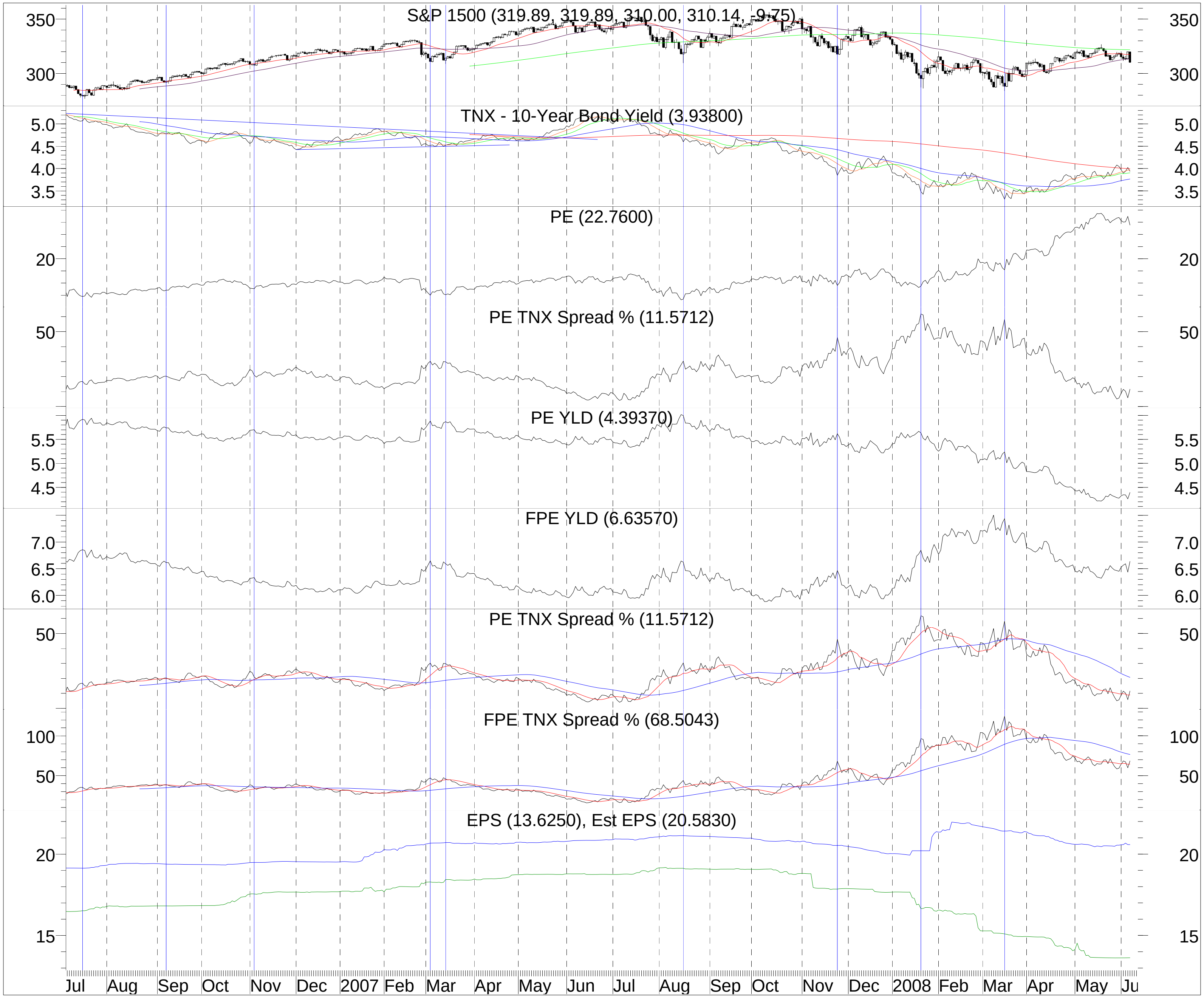

The Kaufman Report - 6/7/2008

After reaching the highest level in four years the P/E ratio is dropping as stocks move lower.

Spreads between bond and earnings yields are widening again as stocks and bond yields drop in tandem.

Current and projected earnings have been moving sideways after a protracted slide lower.

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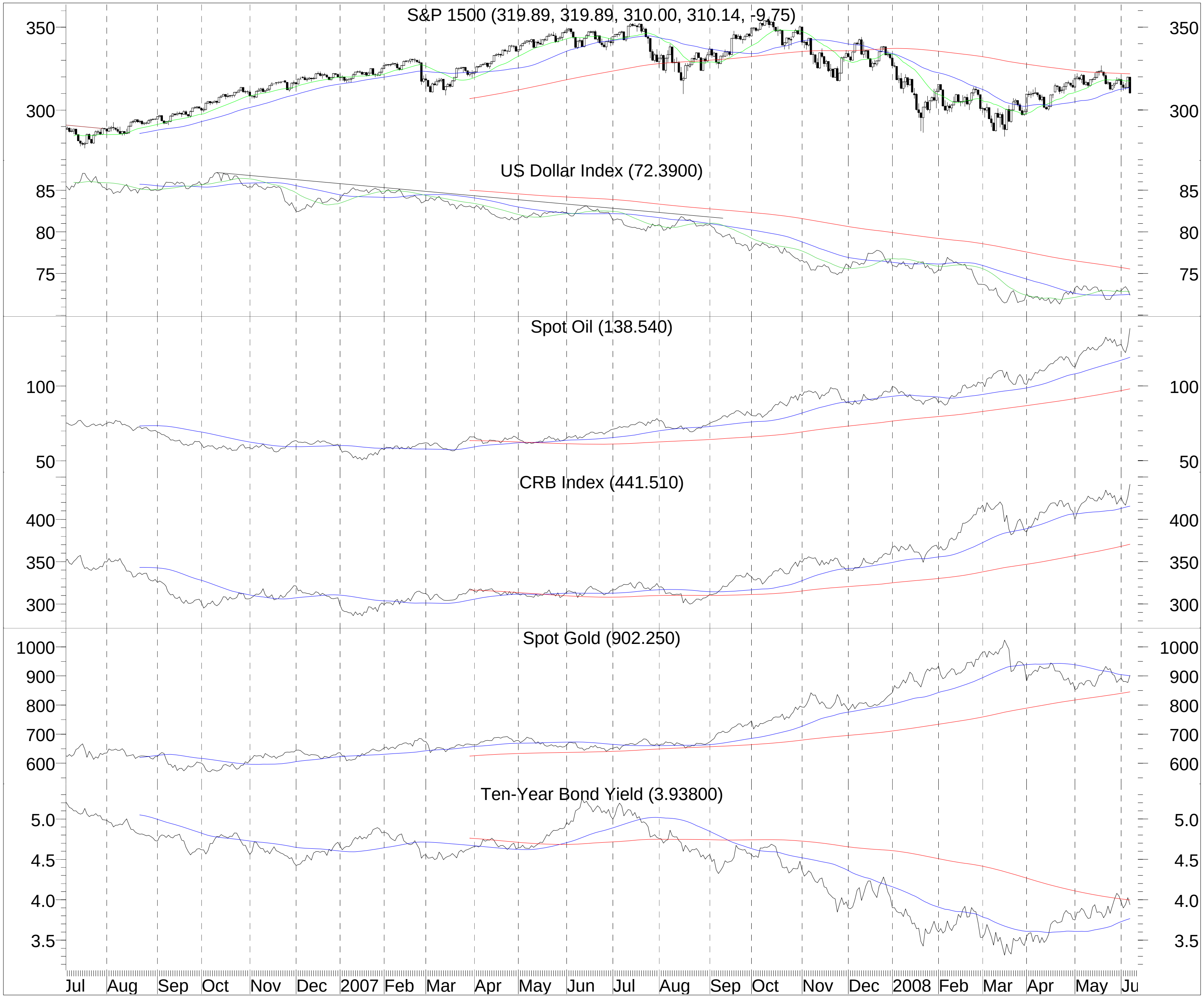

The U.S. Dollar Index is back below the 20 and 50-sma. There is support in the 72 area.

Crude oil broke out dramatically Friday and appears to be headed higher.

The commodities index is breaking out.

Gold is attempting to put in a bottom.