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The Kaufman Report

Trade what you see, not what you think.

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Wednesday May 14, 2008

Closing prices of May 13, 2008

On Monday the S&P 1500 bounced off the support levels we discussed in Sunday's report. Stocks rallied again on Tuesday although the index itself didn't show much progress with only a miniscule 0.044% gain. This is because the S&P 1500 is cap-weighted, and the small and mid-caps outperformed the large-caps. So while the index was only up 0.044%, the unweighted average price per share was up 0.43%.

Tuesday's outperformance by the small and mid-caps also shows up in their year-to-date performance numbers, with the S&P Midcap 400 Index up 1.268%, the S&P Smallcap 600 Index down 1.683%, and the S&P 500 down 4.48%. It should bode well for the entire market that the mid-cap and small-cap stocks are doing better because it shows less of the risk aversion that drives money into large-caps. The S&P 1500, which is comprised of these three indexes, is down 3.903% year-to-date.

Market breadth has continued to improve. 43.6% of stocks in the S&P 1500 are above their 200-day moving averages, the most since October 31st, and 71% are above their 50-day moving averages. Tuesday saw the most 52-week closing highs since December 26th, and the most 26-week highs since October 31st. May 1st recorded the most 13-week closing highs since June 4th.

We are expecting more consolidation or a pull back, but we don't think any weakness will be a resumption of the October to March down trend for reasons outlined in our May 5th "Climbing a Wall of Worry?" essay, and we believe that the huge amount of cash on the sidelines is looking for entry points. We continue to favor Energy, Basic Materials, Industrials, and certain Technology stocks.

Our strategy for some time has been to buy leading stocks while watching for sector rotation and being prepared for the down trend to resume. We continue to follow that course of action while hoping that after a brief consolidation or pull back stocks will strengthen and successfully challenge the last barriers that prevent us from calling the long-term trend up instead of down.

Federal Funds futures are pricing in an 94% probability that the Fed will leave rates at 2.00%, and a 6% probability of cutting another 25 basis points to 1.75 when they meet again on June 25th.

The S&P 1500 (318.44) was up 0.044% Tuesday. Average price per share was up 0.43%, showing small and mid-caps outperforming. Volume was 102% of its 10-day average and 104% of its 30-day average. 56.16% of the S&P 1500 stocks were up on the day. Up Dollars was 72% of its 10-day moving average and Down Dollars was 51% of its 10-day moving average.

Options expire May 16th. The FOMC meets June 25th.

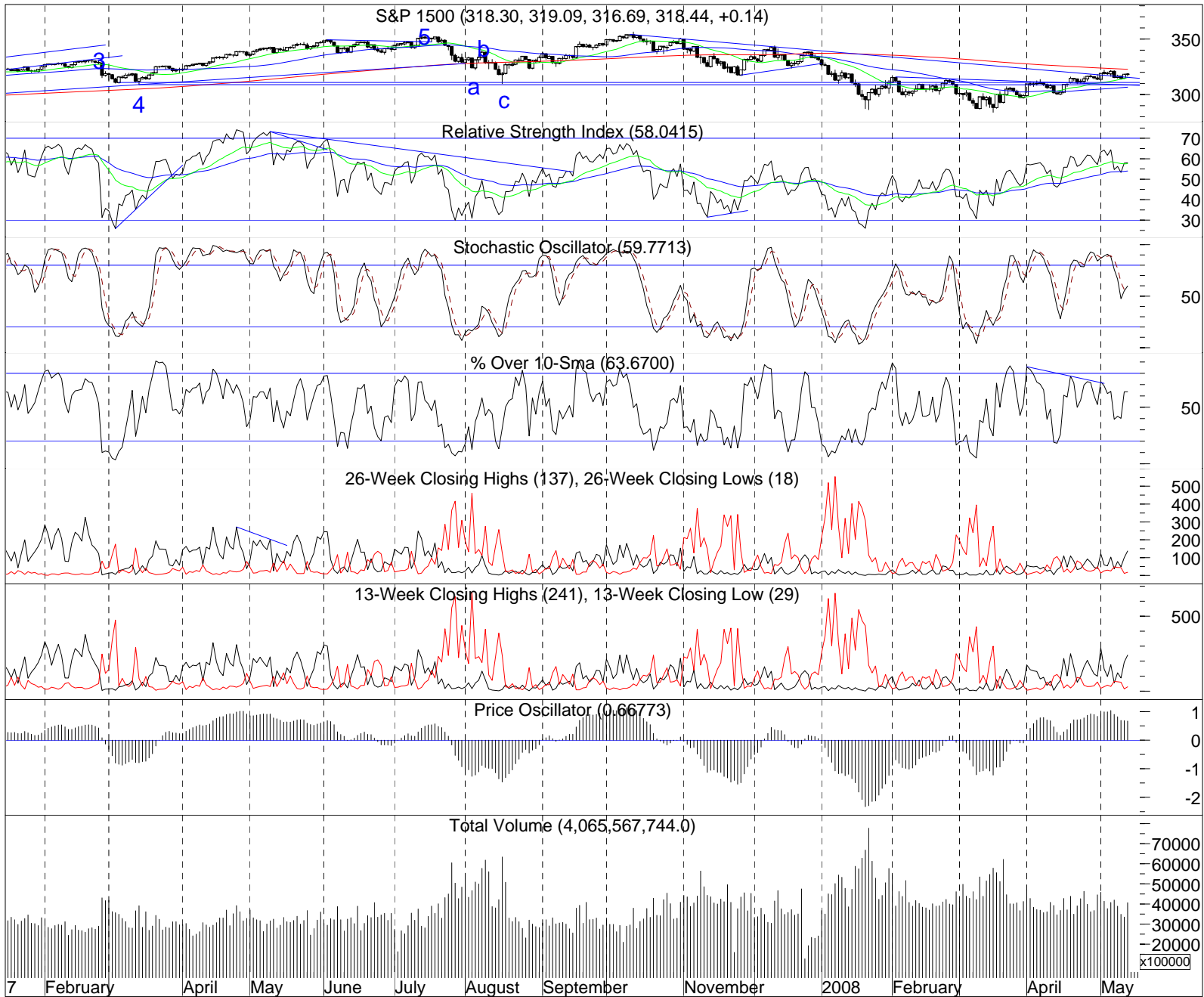
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S&P 1500 Analysis - Wayne S. Kaufman, CMT



The S&P 1500 found support at the 20-sma after last week's pull back. A doji like candle was printed showing indecision.

Our oscillators are in neutral territory.

26-week closing highs were the most since 10/31 Tuesday. 52-week highs (not shown) were the most since 12/26.

Volume was increasing Tuesday.

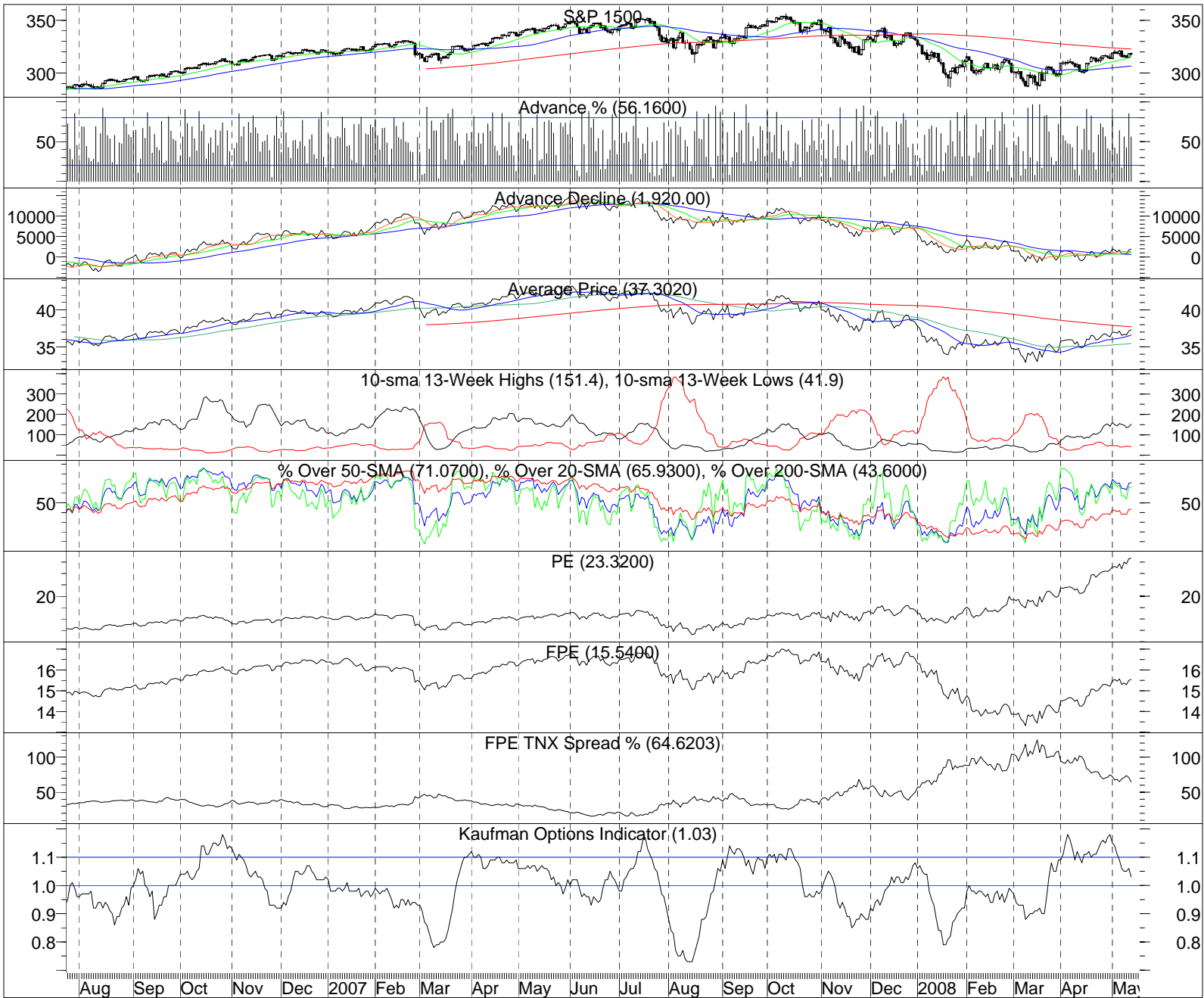
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 1500 (318.30, 319.09, 316.69, 318.44, +0.14)



The S&P 1500 bounced off the 20-sma and the support line of the bearish rising wedge. The 200-sma is above (red) at 322.78.

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



Average price per share is the highest since 1/3.

The percent over 200-sma is the highest since 10/31/2007.

The P/E ratio continues to move higher. The forward P/E ratio is also moving up as earnings and forecasts continue to move lower.

Our proprietary options indicator is just above neutral.