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The Kaufman Report

Trade what you see, not what you think.

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Friday May 23, 2008 **Closing prices of May 22, 2008**

The S&P 1500 staged a mild rally Thursday on decreasing volume after Wednesday's sharp sell off on expanding volume. Seven of the ten S&P sectors advanced. The exceptions were recent leading sectors energy, materials, and industrials.

On Wednesday the bearish rising wedge pattern we have been highlighting was finally resolved with a downside break, which accelerated that afternoon and caused the index to close below its 20-day moving average for the first time since April 14th.

We said yesterday that on intra-day charts the index was oversold at possible price support. On the daily chart it was not yet oversold. Therefore, we said a bounce was possible, but further downside was probable. That downside could find a stopping point at the 310 – 311 area (1370 area S&P 500) which is the 38.2% Fibonacci retracement of the rally from the March low to the May 19th high, and will be in the area of the 50-day moving average. The 50% retracement is the 306 area (1348 area S&P 500).

We expressed concern Sunday regarding the spread between the 10-year bond yield and the earnings yield based on the current P/E. That spread narrowed again Thursday and is barely above the level of last Friday.

There is still an oversold condition on the intra-day charts, and we are in a good period regarding seasonality. Therefore, there is the possibility for a further bounce in the short-term. However, until it is proven that the market can resume its recent short and intermediate-term uptrend with broad participation, we are back to calling this a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short.

Federal Funds futures are pricing in an 88% probability that the Fed will *leave rates at 2.00%,* and a 12% probability of *cutting another 25 basis points to 1.75* when they meet again on June 25th.

The S&P 1500 (316.65) was up 0.282% Thursday. Average price per share was up 0.30%. Volume was 99% of its 10-day average and 97% of its 30-day average. 66.6% of the S&P 1500 stocks were up on the day. Up Dollars was 119% of its 10-day moving average and Down Dollars was 38% of its 10-day moving average.

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

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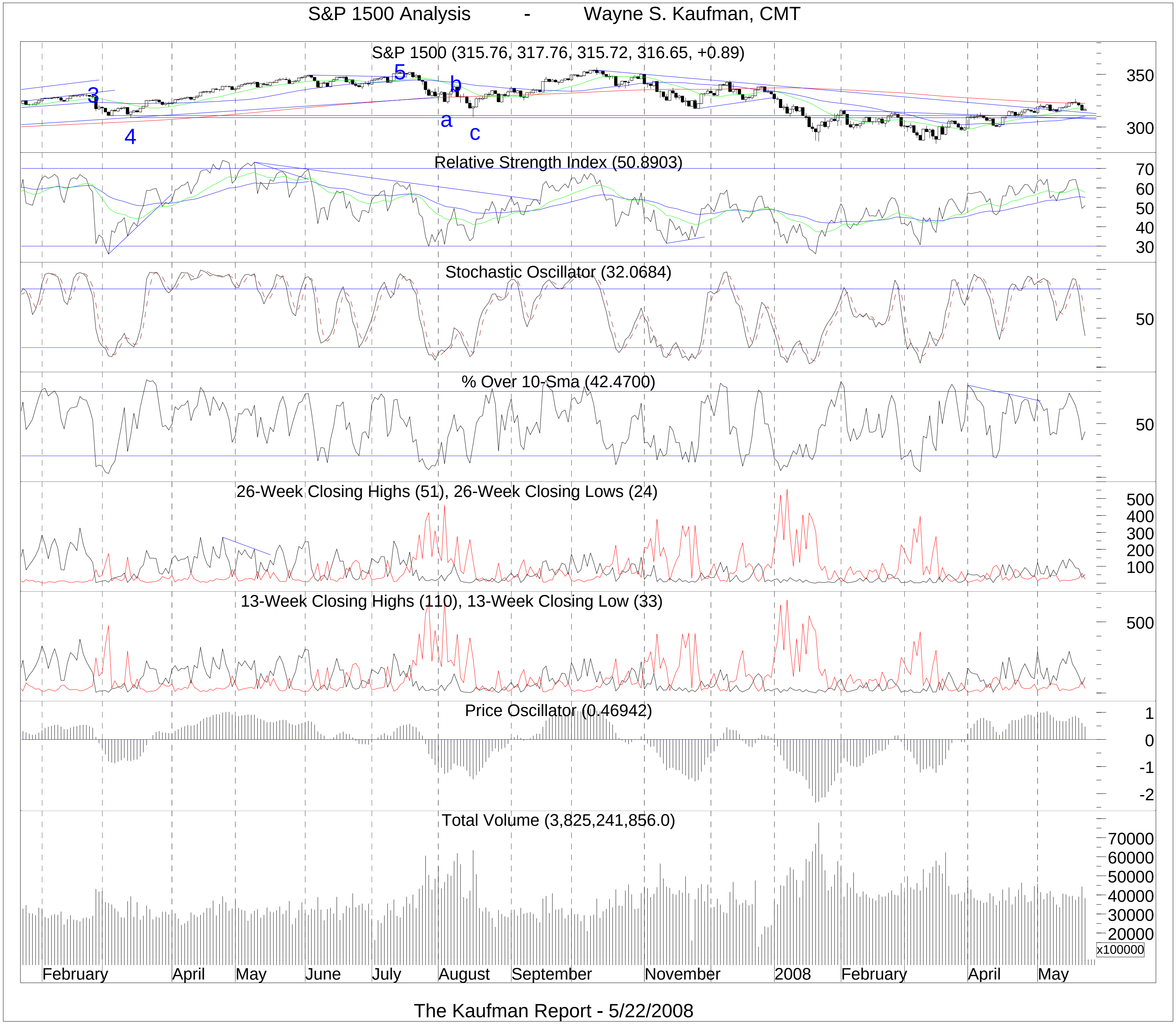


The S&P 1500 bounced from on decreasing volume Thursday after an increasing volume breakout to the downside of a bearish rising wedge.

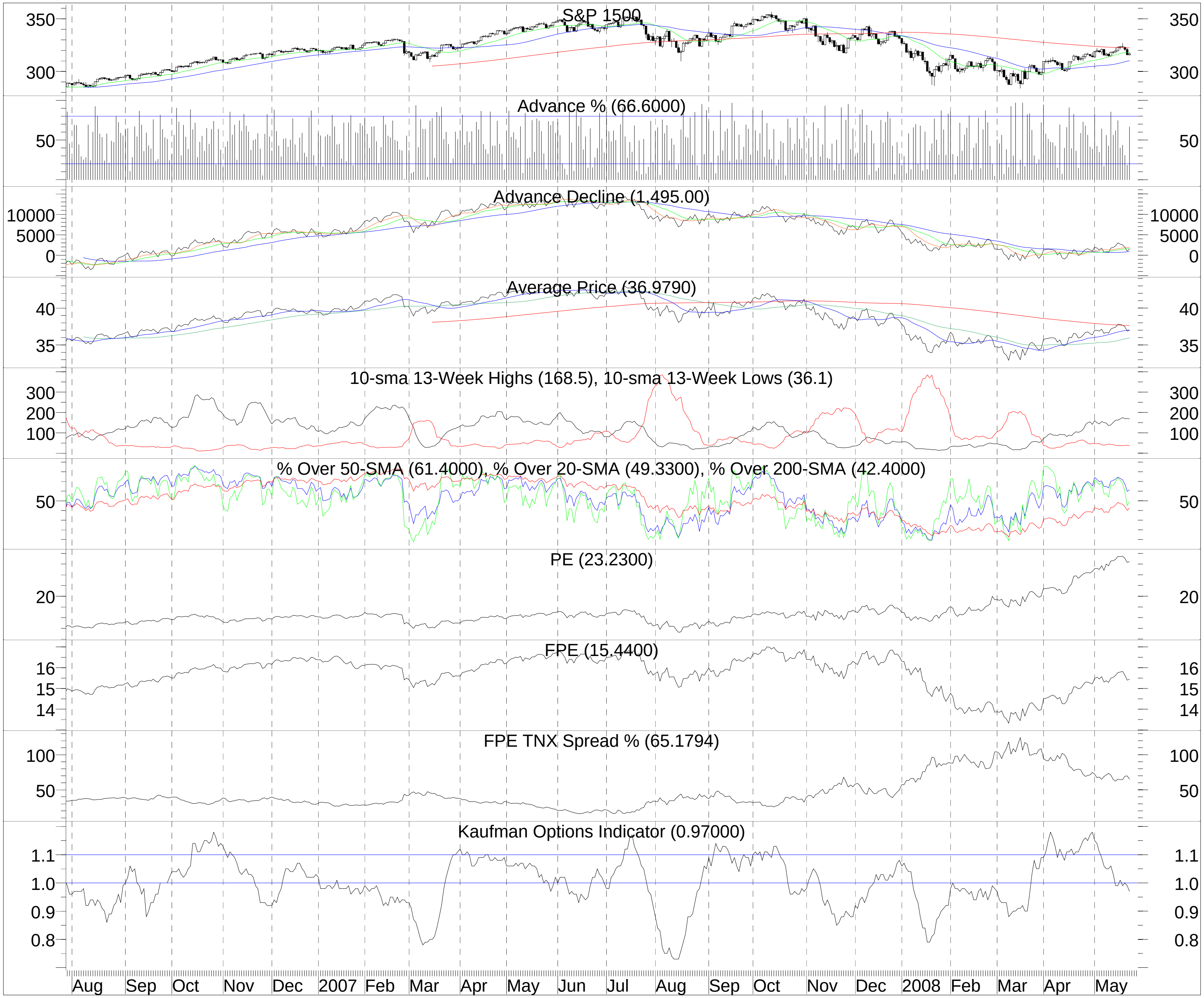
Our oscillators are at low levels, but not oversold.

Volume was contracting during Thursday's tepid rally.

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

The S&P 1500 bounced at a prior resistance level after breaking down out of a bearish rising wedge. The bounce was on low volume.

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



The Kaufman Report - 5/22/2008

66.6% of the S&P 1500 traded higher Thursday.

The spread between the 10-year bond yield and the forward P/E earnings yield is dropping, and the spread based on the current P/E is just above where it was at Friday's close.

Our proprietary options indicator has moved into negative territory.