John Thomas Financial
14 Wall Street, 5th Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Friday May 30, 2008 **Closing prices of May 29, 2008**

The S&P 1500 continued bouncing higher off nearly oversold levels Thursday in a session marked by sector rotation. It ran into resistance at the 20-day moving average, with the 200-day moving average lurking just above.

On May 21st the bearish rising wedge pattern we had 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 at the time the move down 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. The 50% retracement is the 306 area (1348 area S&P 500).

Since breaking down out of the rising bearish wedge volume has been below average. Four of the five trading days since the trend line break have been up days, with the one down day having the lowest volume of the five. So, other than the actual day of the break, sellers have not been aggressive.

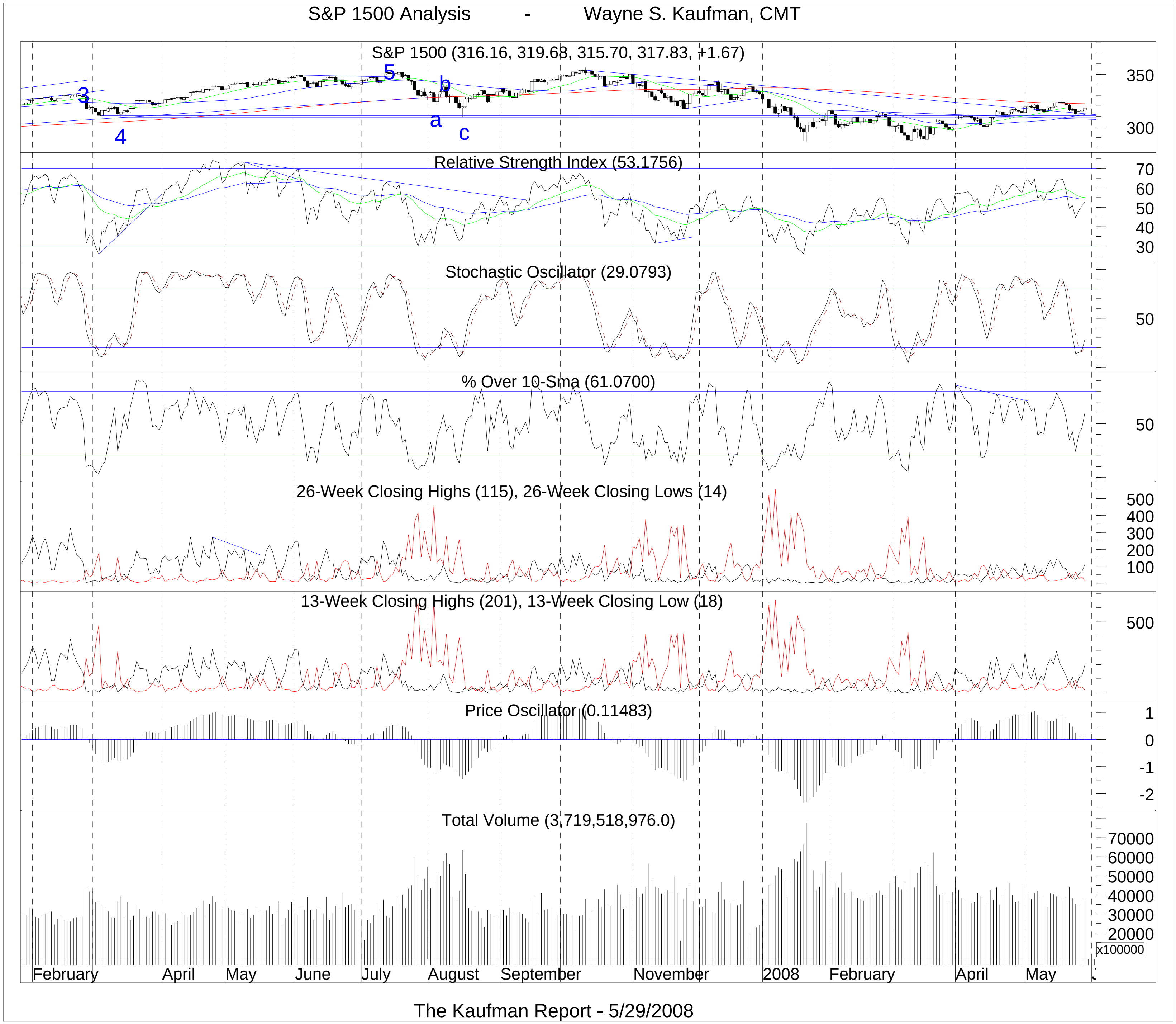
We remain concerned about spreads between earnings yields and bond yields. The spread between the earnings yield based on the current P/E has narrowed to the smallest level since July 13, 2007, which was an important top just ahead of a sharp drop in equities. The spread based on the forward P/E is the smallest since January 3, 2008.

Sentiment, based on our proprietary options indicator, is slightly negative. We are in a period where seasonality is positive until early June. Therefore, we do not believe there is a lot of down side in the near-term, and there may be some more to go in the current bounce. 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 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 (317.83) was up 0.528% Thursday. Average price per share was up 0.49%. Volume was 97% of its 10-day average and 95% of its 30-day average. 73.13% of the S&P 1500 stocks were up on the day. Up Dollars was 188% of its 10-day moving average and Down Dollars was 22% of its 10-day moving average.

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



The S&P 1500 continued its bounce from near oversold levels and bounced up to resistance at the 20-sma (green). The 200-sma (red) is not far above at 322.10.

Our oscillators are not yet overbought.

Our price oscillator is still positive, but just barely.

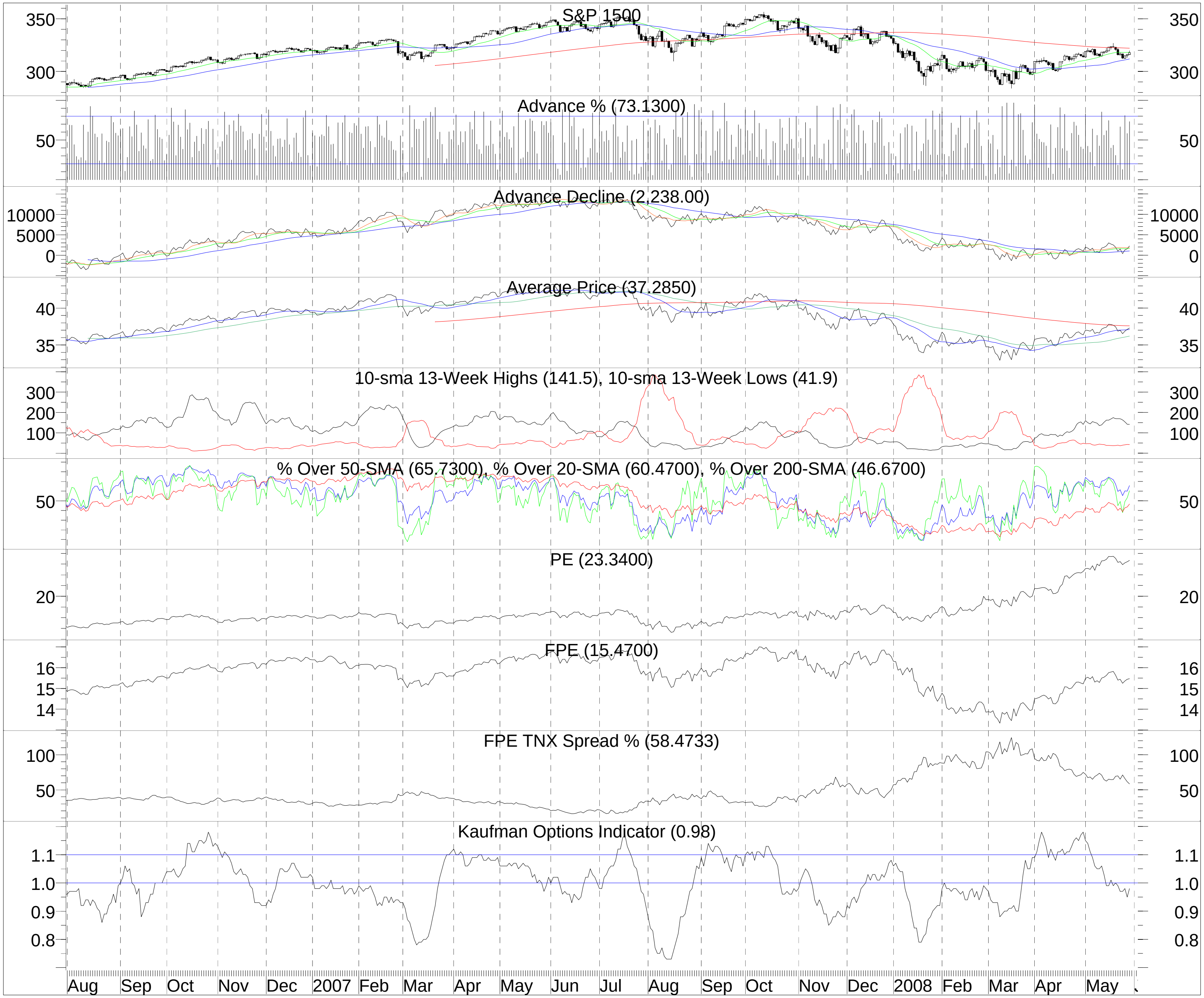
Volume was increasing but below average Thursday.

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

The Kaufman Report - 5/29/2008

The S&P 1500 ran into resistance at the 20-sma (green). The 200-sma is not far above (red).

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



The P/E ratio remains at high levels.

The spread between the 10-year bond yield and the forward earnings yield keeps coming down. The spread based on current P/E (not shown) is the lowest since 7/13/2007.