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

Thursday November 20, 2008 **Closing prices of November 19, 2008**

Stocks plunged again Thursday as the S&P 1500 fell to new intra-day and closing lows, hitting the lowest levels since 3/13/03. We have been saying that we expected to see a retest of the 2002 lows, and the S&P 1500 is now only 6.74% away from the low of 10/10/02. All ten S&P sectors were down at least 3.18%, led by Financials and Materials, down 11.57% and 7.44%, respectively.

We have also warned that markets that do not respond to oversold conditions are dangerous, and that the last stages of waterfall declines can be very painful. The problem is that in spite of extreme oversold conditions and many measures of valuation having reached extreme levels, buyers are staying away. Until that changes there is no chance for a meaningful rally.

The S&P 1500 (181.69) was down 6.258% Wednesday. Average price per share was down 6.99%. Volume was 115% of its 10-day average and 104% of its 30-day average. 1.94% of the S&P 1500 stocks were up on the day, with up volume at 1.36% and up points at 1/3 of 1%. Up Dollars was 0.0% of total dollars, and was 0.0% of its 10-day moving average while Down Dollars was 227% of its 10-day moving average. The index is down 17.23% month-to-date, down 31.69% quarter-to-date, down 45.17% year-to-date, and down 49.02% from the peak of 356.38 on 10/11/07. Average price per share of $20.48 is down 52.63% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 1.411. The Kaufman Options Indicator was 0.95. The spread between the reported earnings yield and 10-year bond yield is 71.95% and 179.52% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $10.60, a drop of 44.68%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $17.23, a drop of only 21.50%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.*

475 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 57.9% have had positive surprises, 9.5% have been in line, and 32.6% have been negative. The year-over-year change has been -18.5% on a share-weighted basis, +5.3% market cap-weighted, and -1.8% non-weighted. Ex-financial stocks these numbers are 10.7%, 24.1%, and 17.5%, respectively.

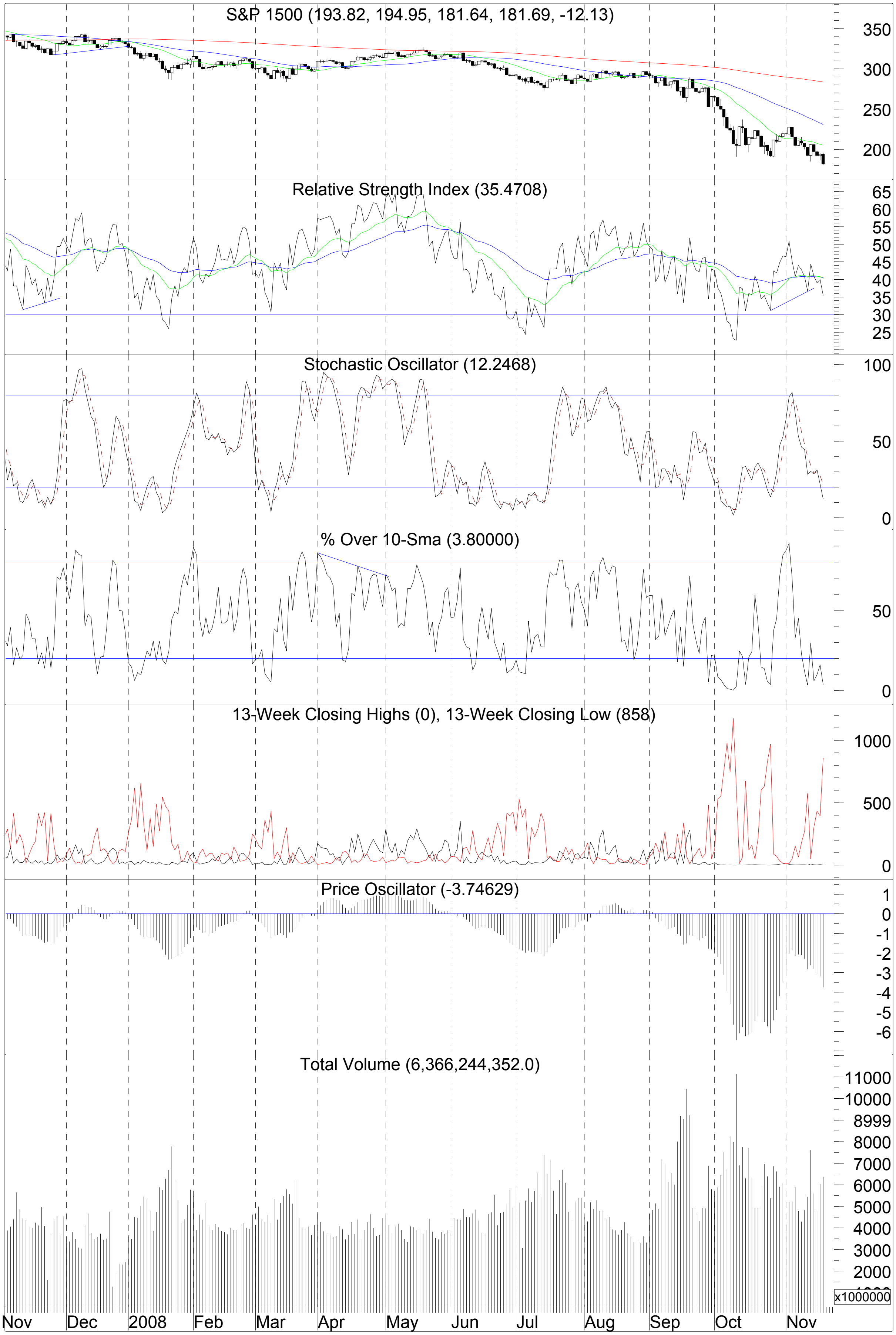
Federal Funds futures are pricing in an 82.0% probability that the Fed will *cut rates 50 basis points to 0.50%,* and an 18.0% probability of *cutting75 basis points to 0.25%* when they meet on December 16th. They are pricing in a 69.2% probability that the Fed will *cut rates 50 basis points to 0.50%* on January 28th, and a 16.4% probability of *cutting 25 basis points to 0.75%.*

The short, intermediate and long-term trends are down. We reiterate that this continues to be an opportunistic trader's market, with adept traders able to take advantage long or short, but the primary downtrend must be respected. Investors need to be alert to sector rotation and should not hesitate to move out of lagging sectors and stocks and into leaders.

IMPORTANT DISCLOSURES

The S&P 1500 plunged to the lowest level since 3/13/03. In doing so it closed below the close of 10/27. We have been saying we expected a retest of the 2002 lows at some point, and we are not that far away. On 10/10/02 it hit 169.45, which was a marginal new low from 171.62 on 7/24/02. After a 24% rally it traded back down to 173.90 on 3/12/03 before starting a huge rally.

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



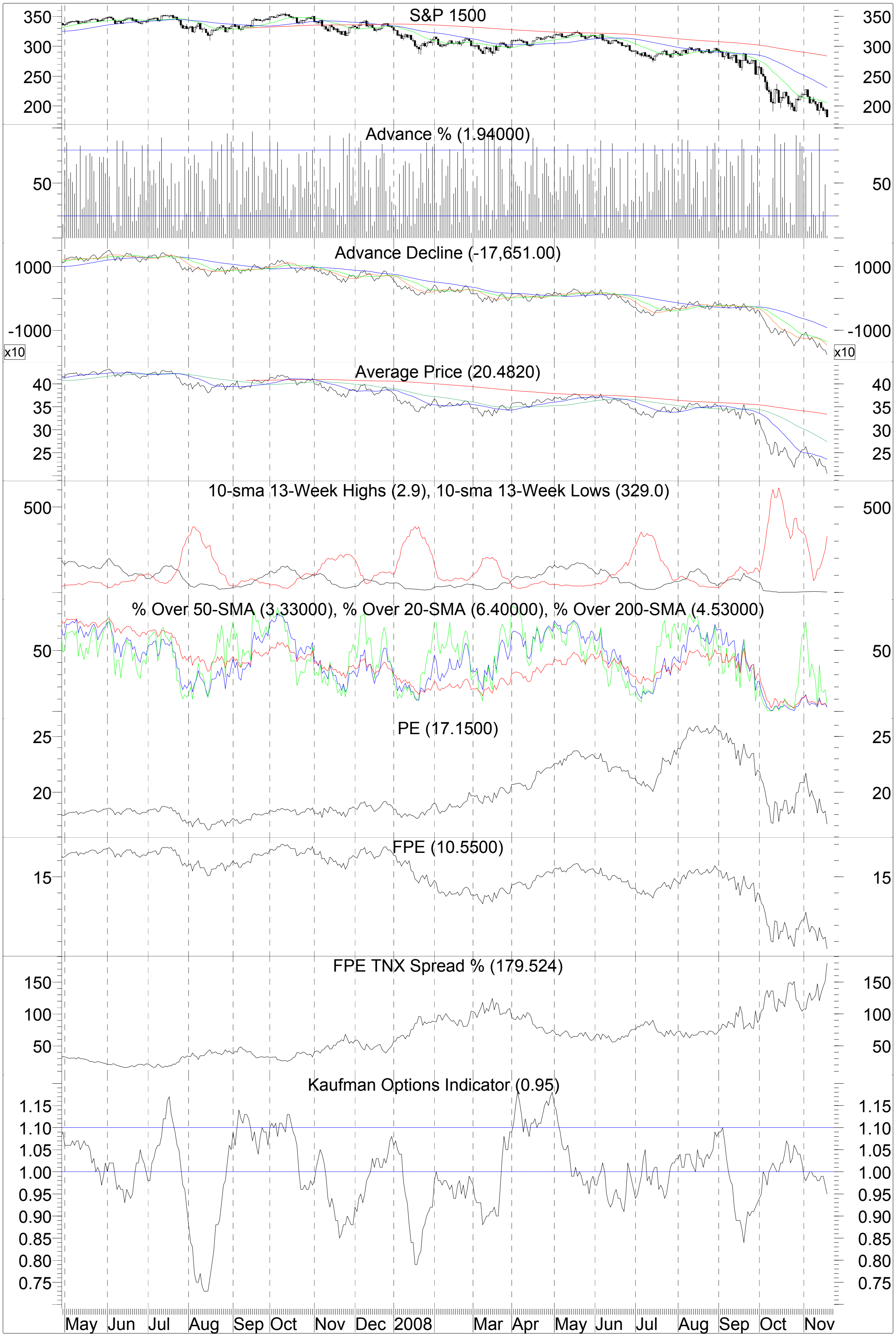
Our oscillators are at oversold levels, but oversold conditions have not mattered in this market. We've warned for months that markets that don't respond to oversold conditions are dangerous, but at this point it's starting to seem absurd.

New closing lows jumped up dramatically Wednesday.

Our price oscillator is moving deeper into negative territory.

Volume expanded Wednesday.

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



1.94% of stocks traded higher Wednesday.

All of our indicators of market internals are making new lows.

P/E ratios are back at their recent lows

Spreads between equity and bond yields are at levels we have never seen.

Our options indicator is showing more pessimism, although not yet the levels seen at important bottoms.

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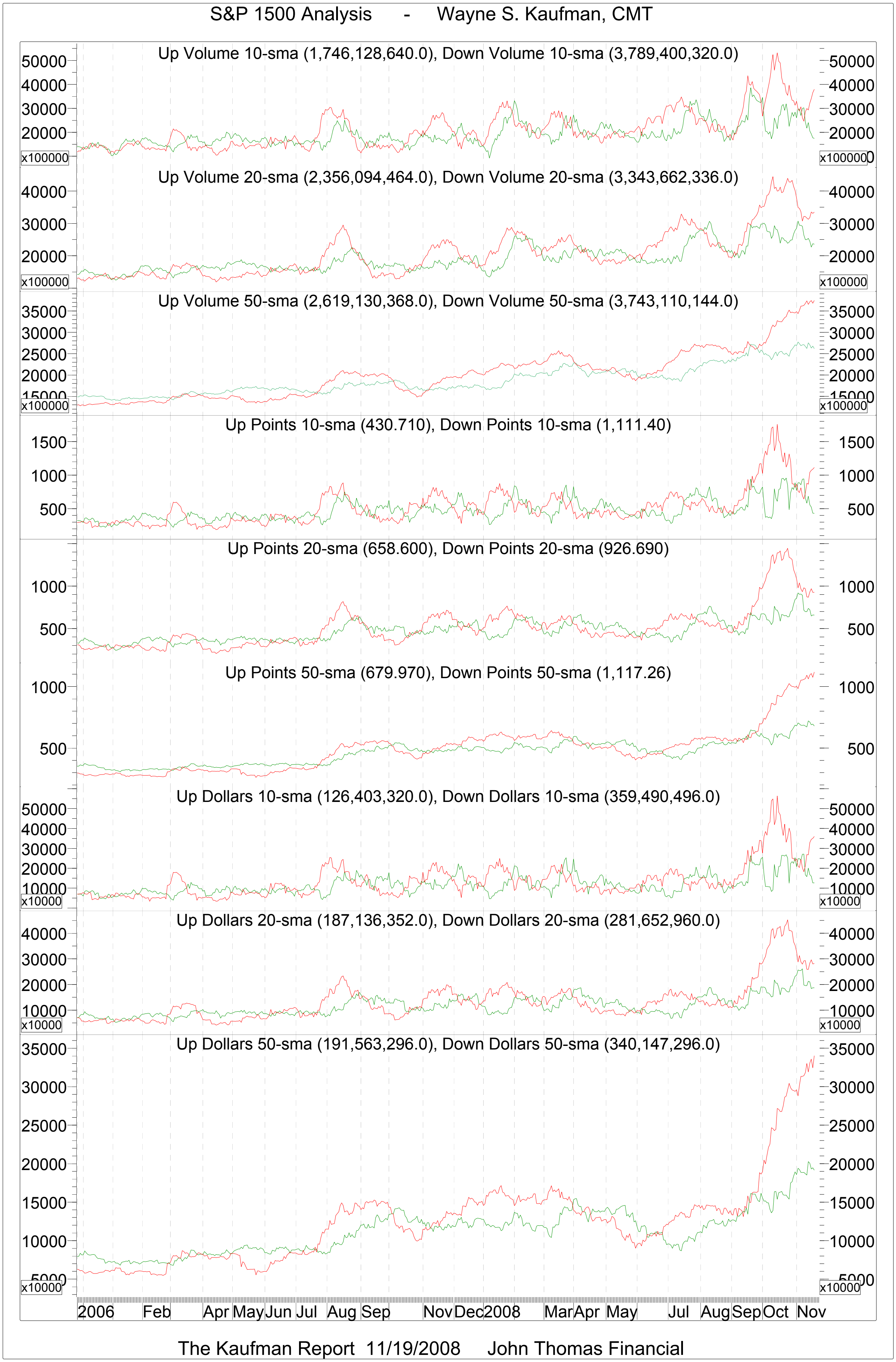

A glance at our statistics of supply (red lines) versus demand (green lines) for the 10-day periods shows that while supply has increased it is not at the levels it hit in October, while demand has fallen to those levels. Until buyers start to show up, a strong rally won't be in the cards no matter how oversold stocks get.