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# The Kaufman Report

Trade what you see, not what you think.

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Thursday November 6, 2008

Closing prices of November 5, 2008

Stocks plunged Wednesday in a 90% panic-selling down day that erased the gains of Tuesday and then some. Every S&P sector was down at least 3.1%, with Financials leading the way lower with a low of 8.78%. The S&P 1500 is still above the 20-day moving average, but short-term indicators are still at high levels leaving them a lot of room to drop.

We have been hopeful that the recent price action would prove to have been a successful retest of the lows of October 10<sup>th</sup>, giving us at least a multi-week rally. Unfortunately sellers, who have been reluctant for the last week or so, reappeared dramatically Wednesday. We said that until proven otherwise, we viewed the recent rally as being of the bear market variety. Investors now need to be on high alert for signs of further deterioration which could lead to another retest of the lows of October 10<sup>th</sup>.

## IMPORTANT DISCLOSURES

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Thursday November 6, 2008

Closing prices of November 5, 2008

The S&P 1500 (215.48) was down 5.26% Wednesday. Average price per share was down 5.08%. Volume was 89% of its 10-day average and 82% of its 30-day average. 5.91% of the S&P 1500 stocks were up on the day, with up volume at 5.9% and up points at 2.1%. Up Dollars was 6/10 of 1% of total dollars, and was 1/5 of 1% of its 10-day moving average while Down Dollars was 354% of its 10-day moving average. The index is down 1.84% month-to-date, down 34.97% year-to-date, and 39.54% from the peak of 356.38 on 10/11/07. Average price per share is down 42.22% from the peak of \$43.23 on 6/4/2007.

The Put/Call Ratio was 0.94. The Kaufman Options Indicator was 0.99.

The spread between the reported earnings yield and 10-year bond yield is 31.92% and 122.99% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$10.50, a drop of 45.26%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$17.75, a drop of only 19.13%. 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.*

415 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.9 % have had positive surprises, 10.9% have been in line, and 30.2% have been negative. The year-over-year change has been -9.6% on a share-weighted basis, +6.6% market cap-weighted, and +1.7% non-weighted. *Ex-financial stocks these numbers are 16.3%, 26.1%, and 21.9%, respectively.*

Federal Funds futures are pricing in an 91.8% probability that the Fed will *cut rates 50 basis points to 0.50%*, and an 8.2% probability of *cutting 25 basis points to 0.75%* when they meet on December 16<sup>th</sup>. They are pricing in an 82.8% probability that the Fed will *cut rates 25 basis points to 0.75%* on January 28<sup>th</sup>, and a 16.4% probability of *cutting 50 basis points to 0.50%*.

*The short-term trend is up, while the intermediate and long-term trends are down. We reiterate that this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short, but the longer-term downtrends 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.*

Options expire November 21<sup>st</sup>. December options expire the 19<sup>th</sup>.

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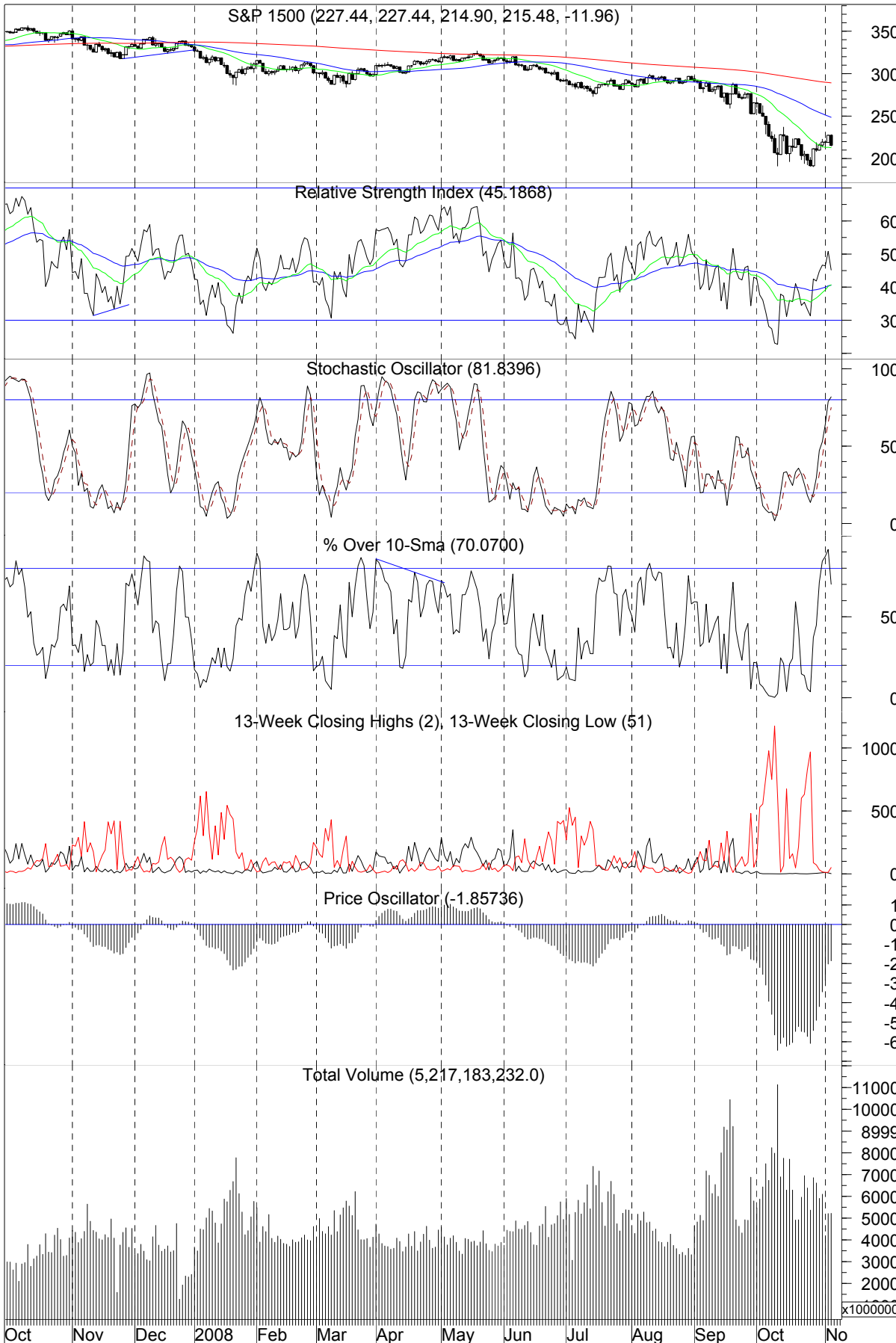
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 1500 (227.44, 227.44, 214.90, 215.48, -11.96)



A 90% panic selling day erased Tuesday's rally and then some, leaving the S&P 1500 just over the 20-sma (green).

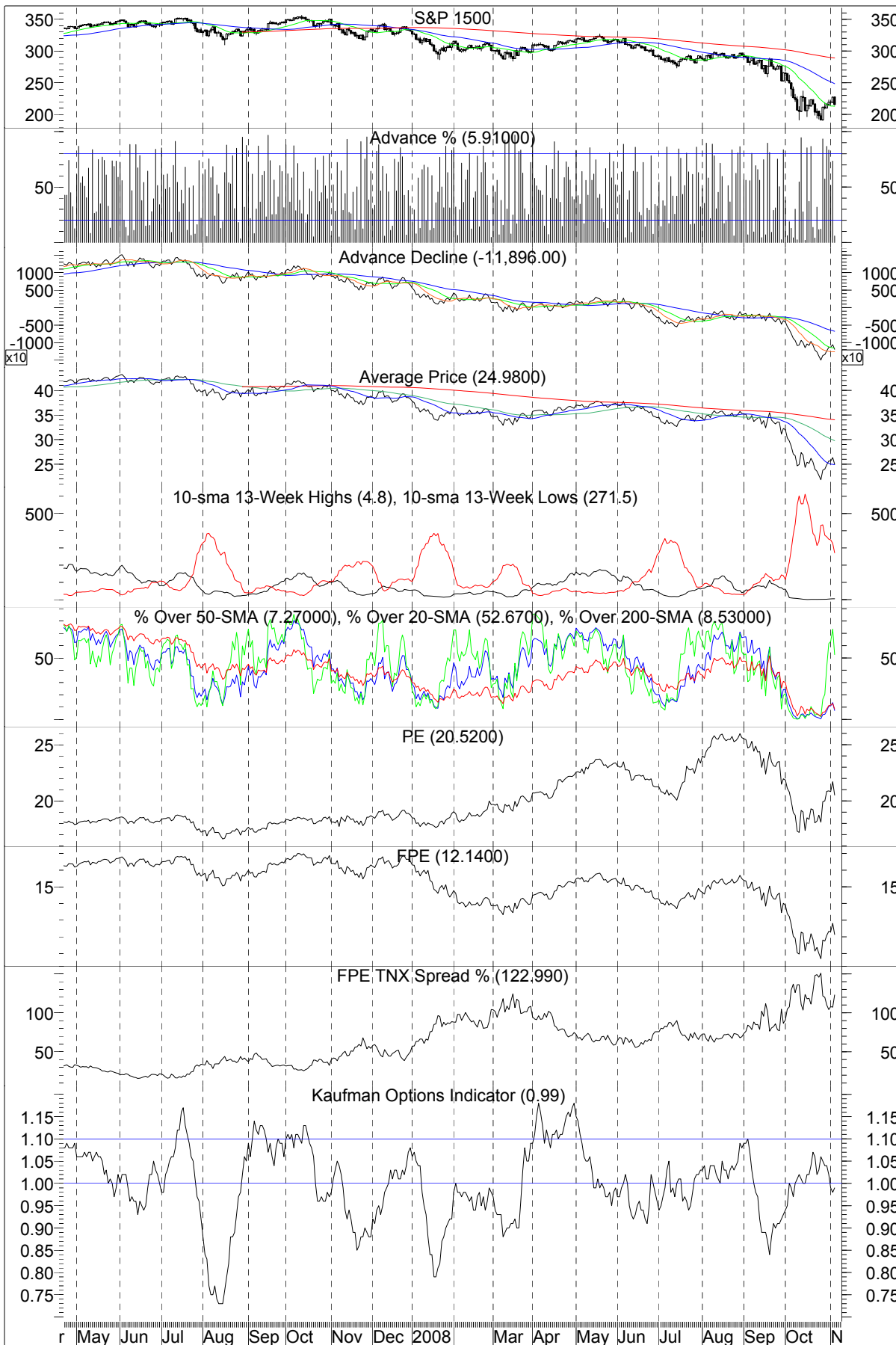
S&P 1500 Analysis - Wayne S. Kaufman, CMT



The stochastic and the percent over 10-sma are still at high levels, leaving them a lot of room to move lower.

Volume Wednesday was about the same as Tuesday.

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



5.91% of stocks traded higher Wednesday.

Our proprietary options indicator is just under neutral.