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The Kaufman Report

Trade what you see, not what you think.

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Friday October 10, 2008 **Closing prices of October 9, 2008**

On 9/28 we said there was the possibility of a market crash. Since then, only nine trading sessions later, the S&P 1500 is down a staggering 25.07% to the lowest level since May 2003. Year-to-date the index is down 37.36%, and since the peak last October 11th it is down an inconceivable 48.06%.

Stocks plunged again Thursday sending the S&P 1500 down another 7.6%. After finding intra-day support at the 960 level on the S&P 500, which is the Fibonacci 76.4% retracement level of the entire bull market from 2002 - 2007, stocks broke the 960 level at about 2:50 pm and accelerated downward. This greatly increases the possibility of a 100% retracement of the entire five-year bull market.

Stocks are at historically oversold levels. Valuations based on spreads between equity and earnings yields are at ridiculous levels, but as we have said many times recently *valuations don't matter when liquidations are forced*. A sharp rebound relief rally is due at any time. When it takes place we will be skeptical of it being "the" bottom as long as our options indicator, which we said on Sunday was at a surprising neutral level, is not showing the kind of bearishness seen at prior important bottoms. The only exception to that would be if we somehow see extreme demand for stocks resurface.

The short, 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 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.

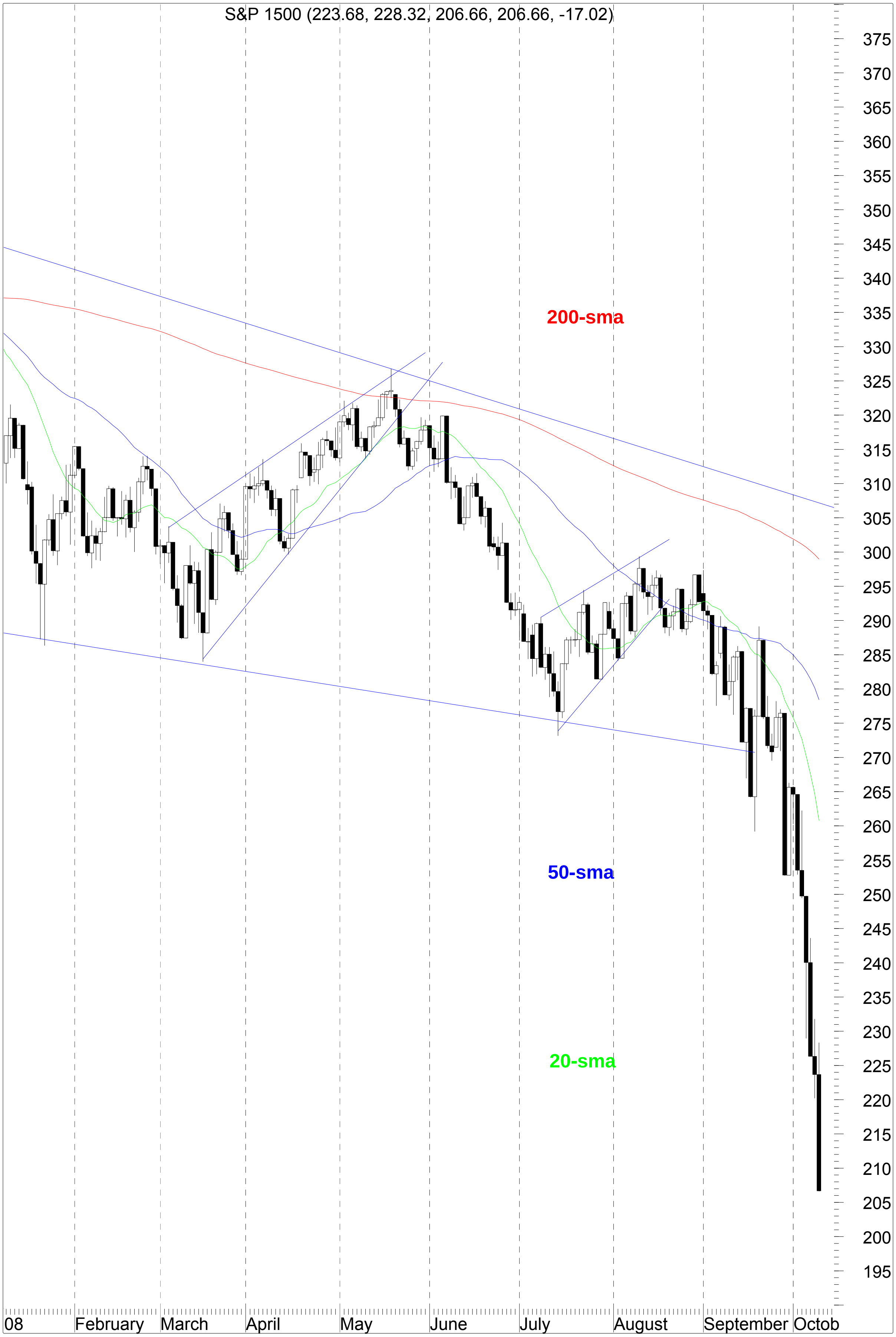
Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $11.937, a drop of 37.76%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $18.695, a drop of only 14.83%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.*

Federal Funds futures are pricing in an 90.0% probability that the Fed will *cut rates 25 basis points to 1.25%,* and a 10.0% probability of *no change* when they meet on October 29th.

The S&P 1500 (206.66) was down 7.609% Thursday. Average price per share was down 7.71%. Volume was 121% of its 10-day average and 126% of its 30-day average. 2.47% of the S&P 1500 stocks were up on the day. Up Dollars was 1/5 of 1% of its 10-day moving average and Down Dollars was 201% of its 10-day moving average.

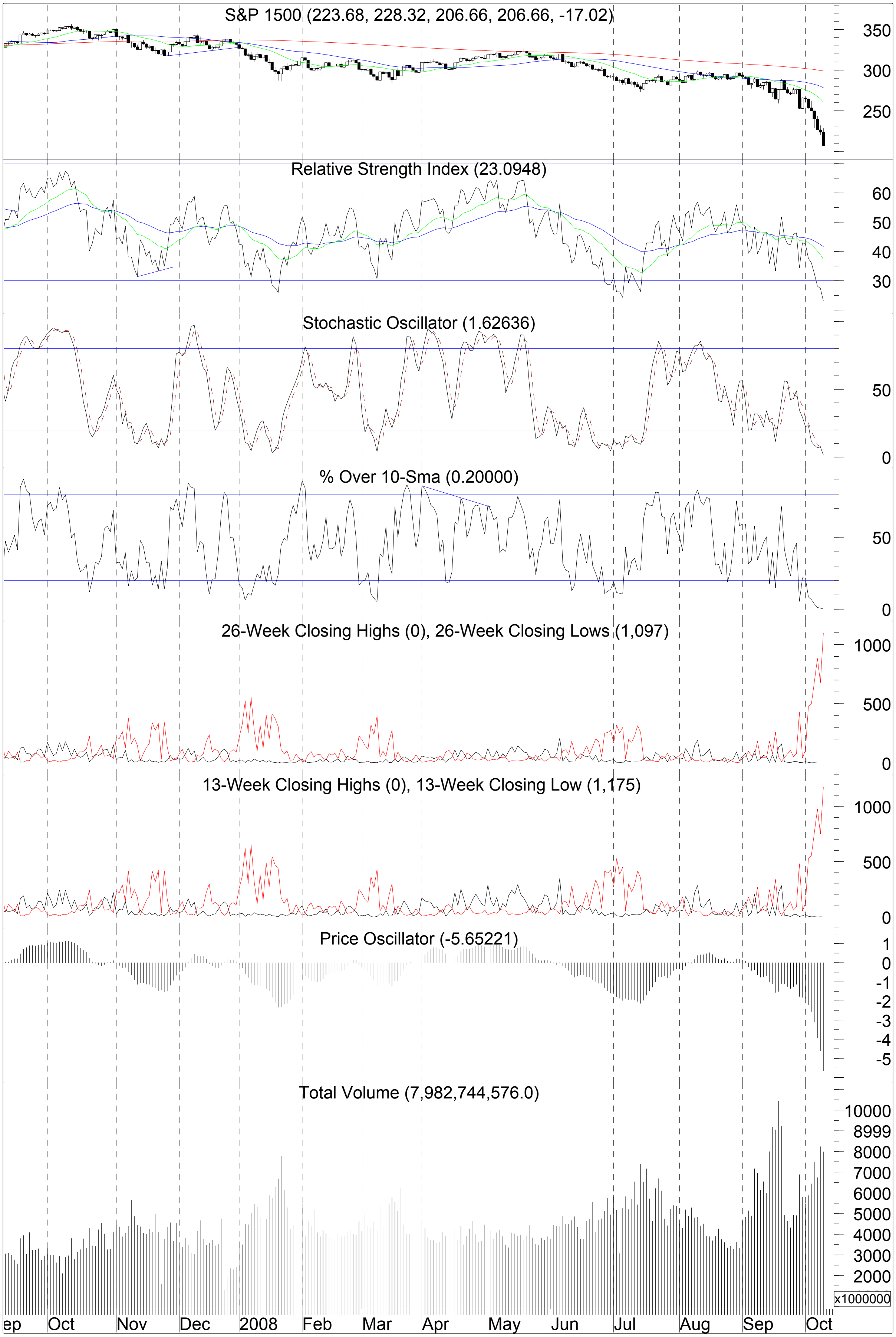
Options expire October 17th. November options expire November 21st.

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



Absolutely insane. The S&P 1500 is down 25.16% since 9/26, over nine sessions. The average price per share is down 26.4% over that period of time.

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



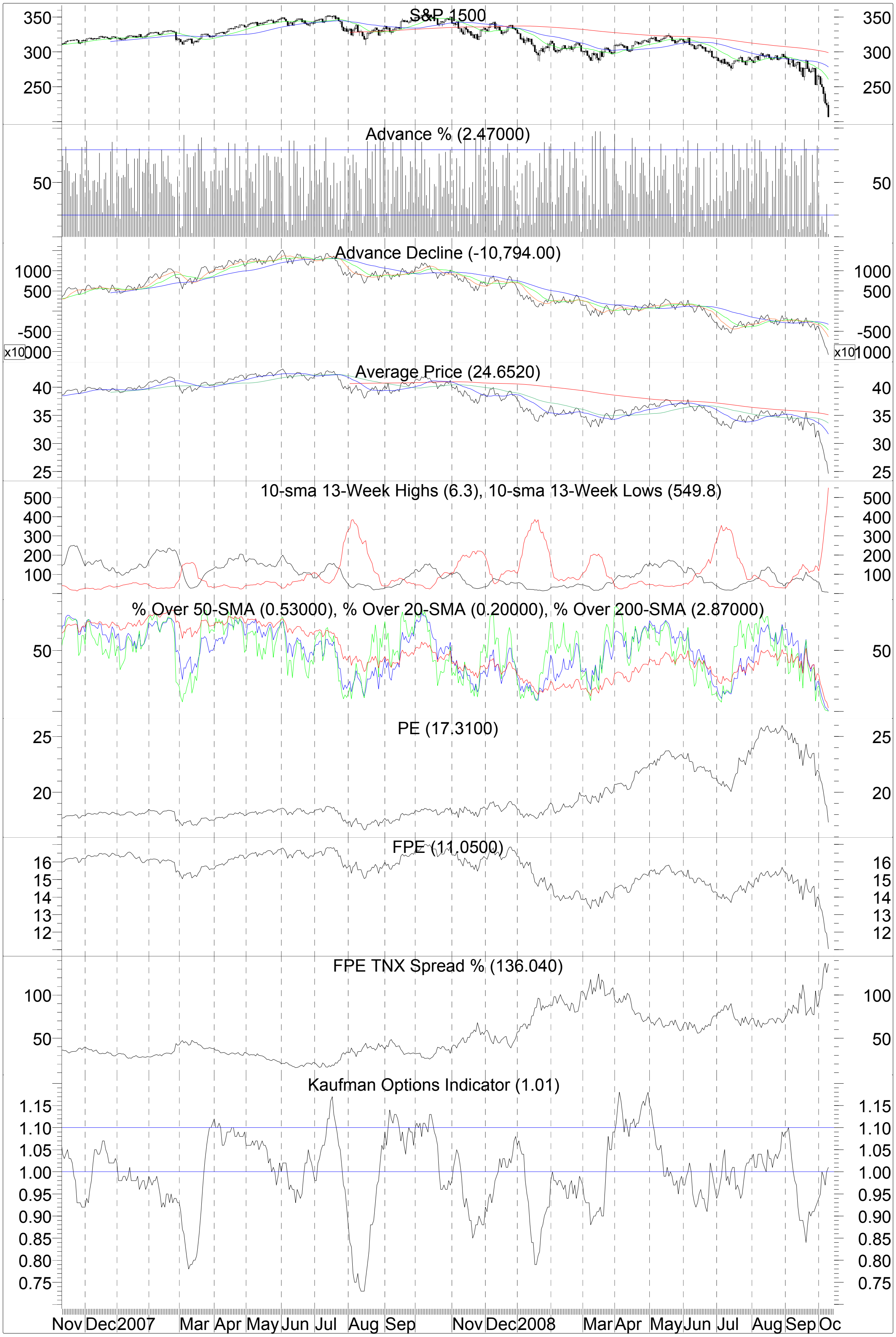
Our oscillators are at deeply oversold levels.

Only 2/10 of one percent of the S&P 1500 are over their own 200-sma.

New lows are at amazing levels.

Our price oscillator is also at extreme oversold levels.

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



Only 2.47% of stocks traded higher Thursday.

Less than 1% of the S&P 1500 are above their own 50-sma, and less than 3% are above their own 200-sma.

Spreads between bond and equity yields remain at very attractive levels, but valuations don't matter when liquidations are forced.

We continue to be concerned about our options indicator, which is not showing fear.