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 September 11, 2008 **Closing prices of September 10, 2008**

Stocks rallied Wednesday after Tuesday's 90% panic-selling day, managing to hold above the low of Friday. Tuesday's 90% down day was the second in four sessions and so far we haven't seen either the strong buying or the fearful capitulation which would indicate a bottom. The good news is our options indicator has moved into negative territory due to the put/call ratio being over 1.0 for four of the last five sessions. Our own indicator is not at extreme levels yet, and the highest reading of the put/call ratio in those four sessions was Tuesday's 1.11 which is not that high, but increasing pessimism is what is needed in order to put in a meaningful bottom.

We have been highlighting the spreads between 10-year bond yields and the earnings yields of the P/E and forward P/E of the S&P 1500. Stocks bottomed Friday when the earnings yield of the forward P/E became 90% higher than the 10-year bond yield. *<u>This was the exact level of the spread when stocks bottomed on July 15th.</u>* It is currently 84.7% above the 10-year bond yield after hitting 88.28% as of Tuesday night, so that 90% area is so far holding as a support level.

The spread based on current reported earnings is only 10.43%, still well below the 29.62% level of July 15th. This shows the discrepancy in the way reported earnings have plunged versus the slower descent of earnings estimates. *<u>Valuations may be meaningless if much of this selling is the result of forced liquidations of assets.</u>*

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $11.30, a drop of 41.08%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $18.90, a drop of only 13.90%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *<u>If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.</u>*

Time will tell how much lower earnings projections will actually go, but for the time being it is one of many variables where there is a lack of visibility for investors. Some of the other variables with little or no visibility are the slowing global economy, the political landscape, energy and commodities prices, real estate valuations, the ongoing lack of liquidity in the credit markets, even whether or not there is the threat of inflation or deflation.

In the very near-term, with earnings season essentially over, reported and projected earnings could flat line for a little while, which may prevent stocks from plunging too much lower as long as interest rates, which are oversold, don't move up too much. However, we are in a seasonally weak time of the year, there is a triple-witching options expiration coming shortly, bad news continues to dominate, and the last stages of waterfall declines can be extremely damaging. *<u>Therefore, investors still need to be on high alert for further deterioration in equities.</u>*

<u>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.</u>

IMPORTANT DISCLOSURES

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 September 11, 2008 **Closing prices of September 10, 2008**

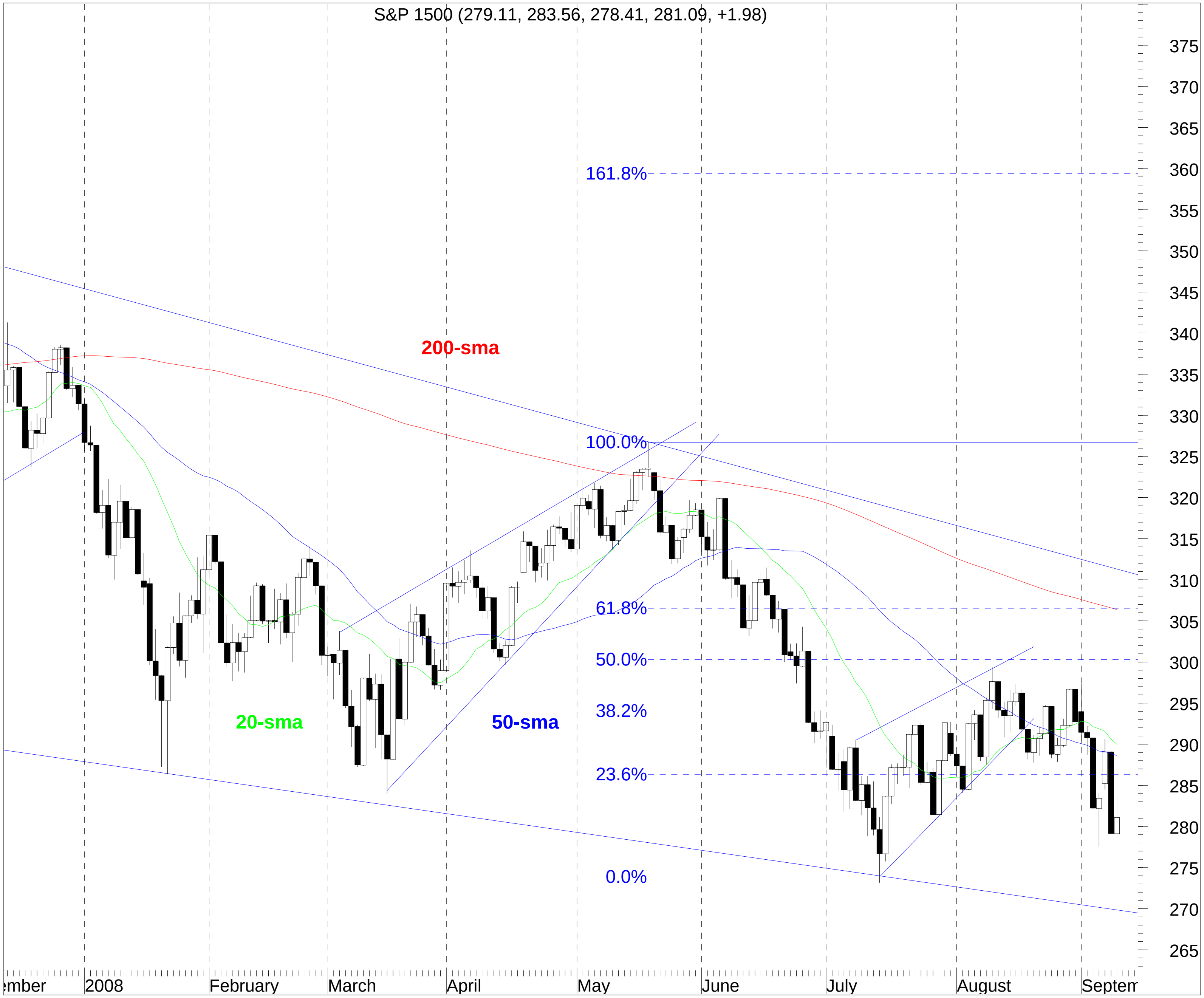
So far 496 companies in the S&P 500 have reported second quarter earnings. According to Bloomberg, 67.4% have had positive surprises, 7.3% have been in line, and 25.3% have been negative. The year-over-year change has been -23.4% on a share-weighted basis, -23.4% market cap-weighted, and -12.4% non-weighted. Ex-financial stocks these numbers are 3.9%, 7.2%, and 4.7%, respectively.

Federal Funds futures are pricing in an 96.0% probability that the Fed will *leave rates at 2.00%,* and an 4.0% probability of *decreasng 25 basis points to 1.75%* when they meet on September 16th. They are pricing in a 92.2% probability that the Fed will *leave rates at 2.00%* at the meeting on October 29th, and a 7.7% probability of *decreasing 25 basis points to 1.75%.*

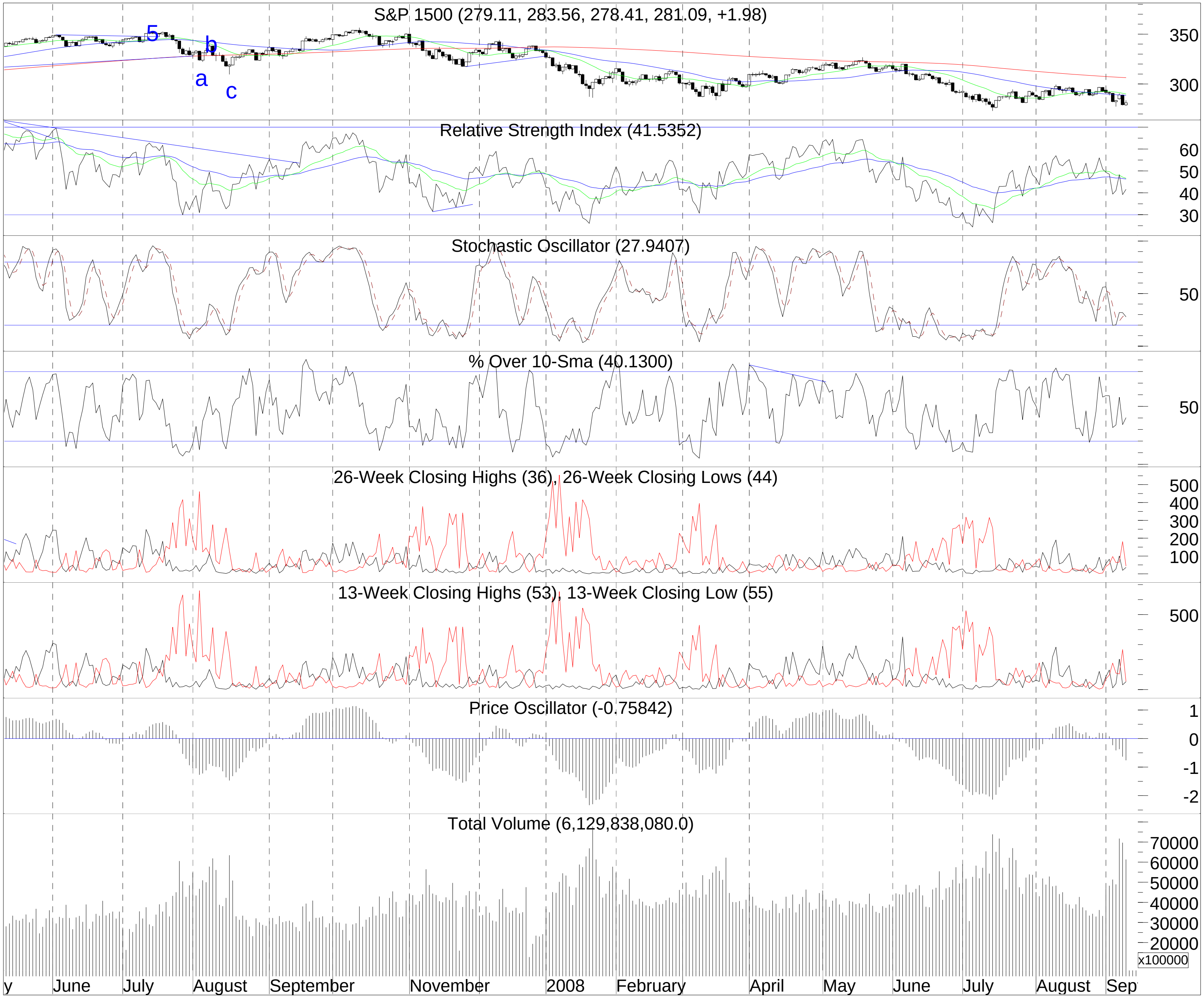
The S&P 1500 (281.09) was up 0.709% Wednesday. Average price per share was up 1.11%. Volume was 123% of its 10-day average and 134% of its 30-day average. 69.28% of the S&P 1500 stocks were up on the day. Up Dollars was 117% of its 10-day moving average and Down Dollars was 19% of its 10-day moving average.

Options expire September 19th.

IMPORTANT DISCLOSURES



The S&P 1500 managed to hold above Friday's low on Wednesday.

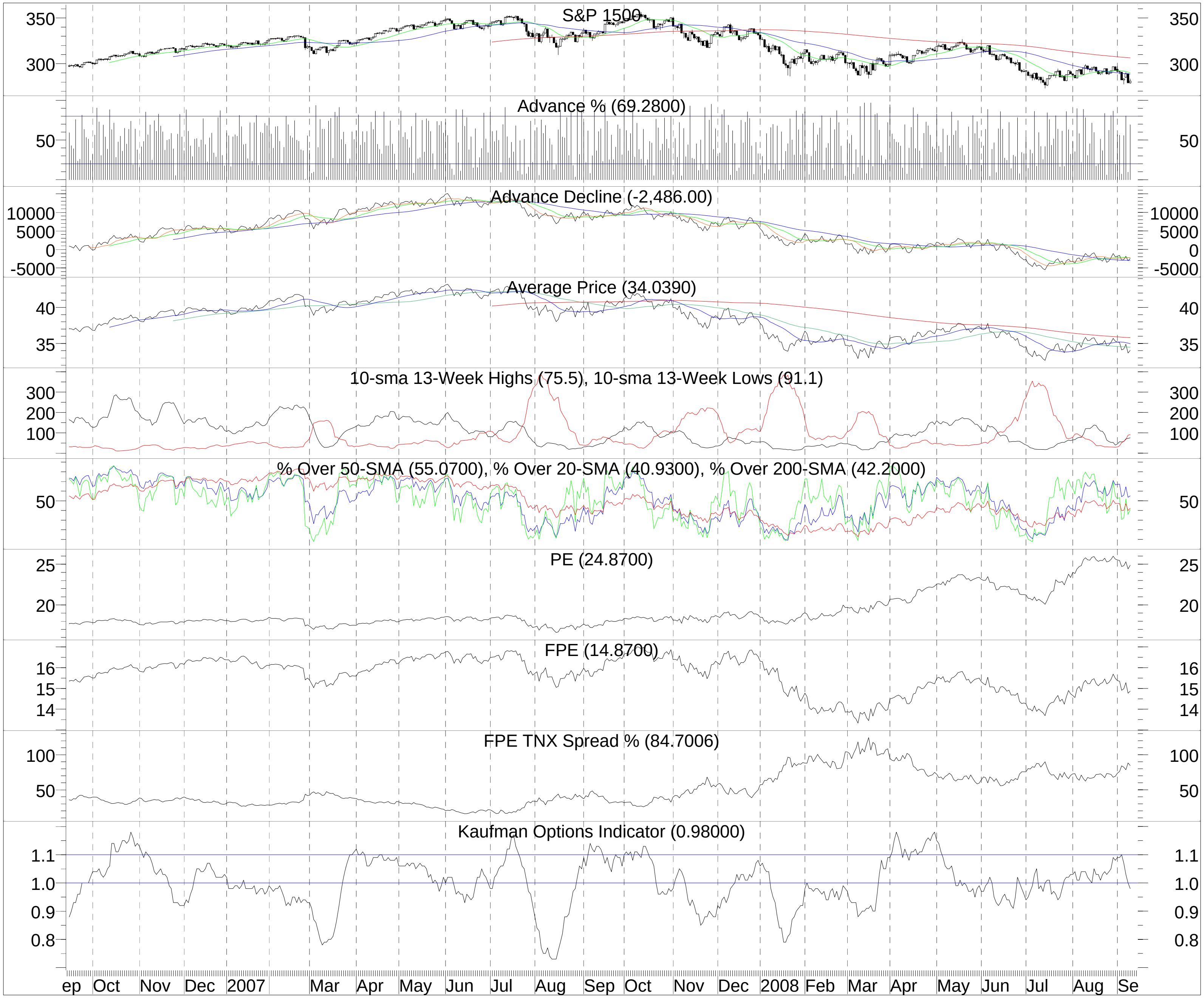


Our oscillators are in low to neutral territory. The RSI is at the 40 area, which is support in up trends. It would be nice if it held.

Our price oscillator, a good indicator of trends, continues its move deeper into negative territory.

Volume decreased during Wednesday's rally.

The Kaufman Report - Wayne S. Kaufman, CMT



The Kaufman Report - 9/10/2008

69.28% of the S&P 1500 traded higher Wednesday.

More stocks are making lows than highs. Both moving averages, new highs and lows, are moving up, which can be a red flag.

55.07% of the S&P 1500 are over their 50-sma due to strength in small-caps.

The P/E remains high, while the forward P/E is attractive. Unfortunately reported and forecast earnings are trending lower.

Our proprietary options indicator has moved into negative territory, which is where it needs to be to put in an important bottom.