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The Kaufman Report

Trade what you see, not what you think.

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Thursday September 17, 2008 **Closing prices of September 16, 2008**

We have been warning that the last stages of waterfall declines can be extremely damaging, and the 7.6% plunge in the S&P 1500 the last three sessions highlights the point. Many foreign exchanges have been hit even harder, such as the FTSE/Xinhua China 25 Index, down 17.5% over the same span.

Wednesday's session was the fourth 90% panic-selling down day in ten sessions. While there may be some more selling to go, we are looking for capitulation. Some of the reasons are: the three-month T-Bill is at the lowest yield ever; the 5-day moving average of the put/call ratio is 1.234, the highest since March 20th; the earnings yield based on the current P/E ratio is 30.92% above the 10-year bond yield, the highest since April 15th, and the earnings yield of the forward P/E is 111.89% higher than the 10-year bond yield, the highest since March 20th.

Unfortunately, valuations may be meaningless if much of the recent selling is the result of forced liquidations of assets, and that liquidation continues. Markets appear to be in the clutches of a global margin call.

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.

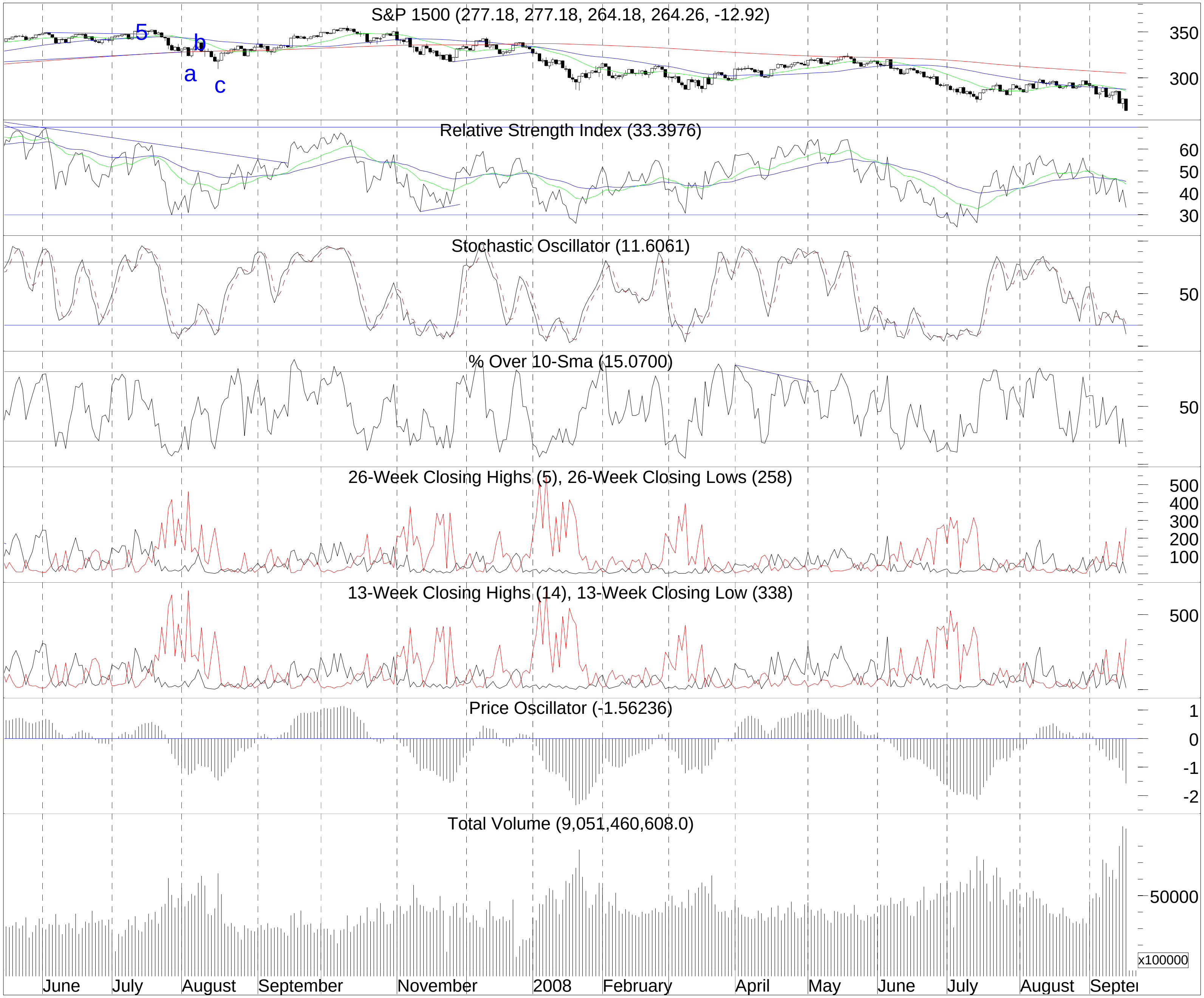
Federal Funds futures are pricing in a 60.0% probability that the Fed will *cut 25 basis points to 1.75%* when they meet on October 29th. They are pricing in a 40% probability that the Fed will *cut 50 basis points to 1.5%* at that meeting.

Options expire September 19th. October options expire October 17th.

IMPORTANT DISCLOSURES

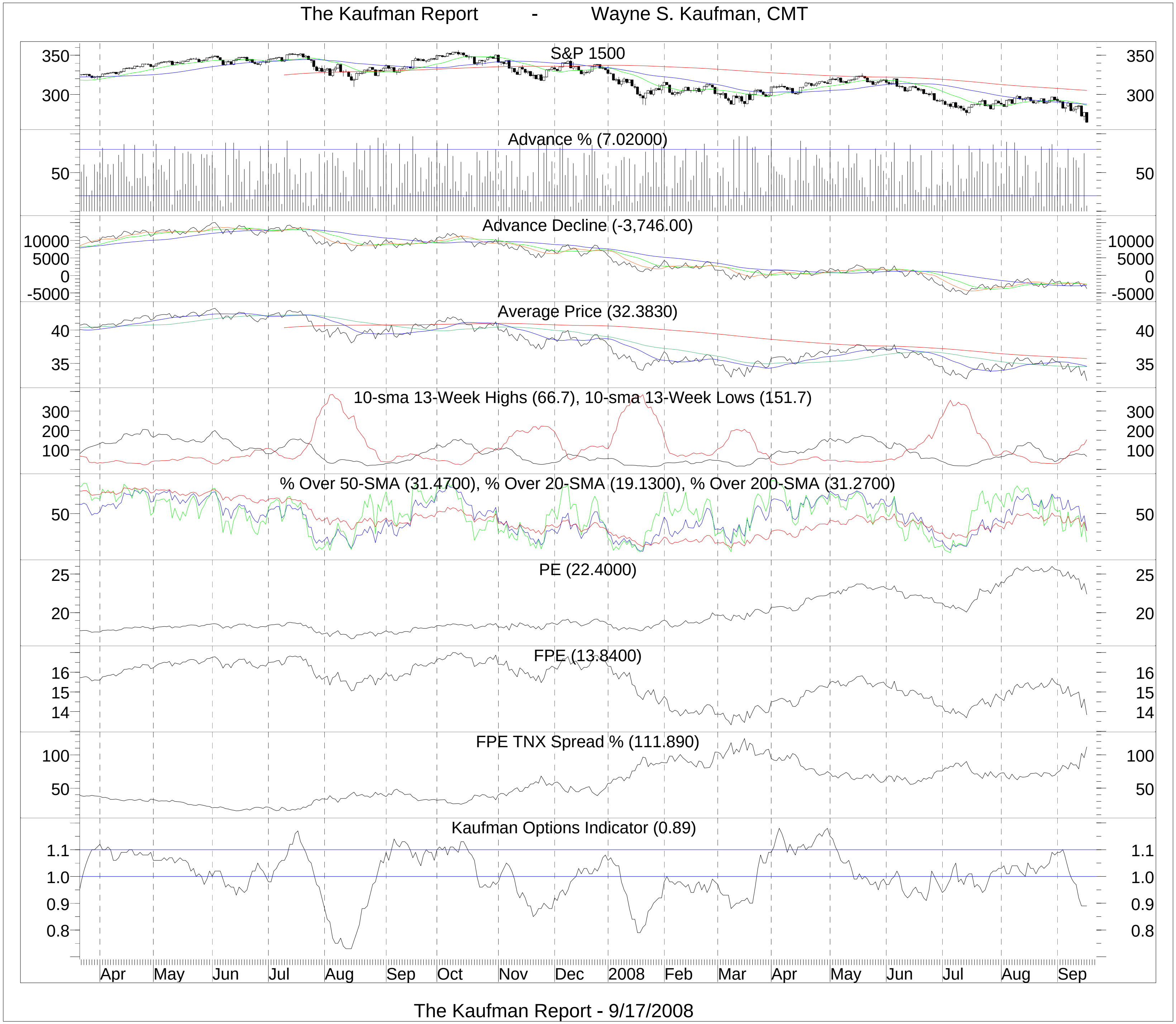
The Kaufman Report - Wayne S. Kaufman, CMT

We have been warning that the last stage of a waterfall decline can be very damaging, and the 7.6% plunge over the last three sessions makes the point. We may still be in the middle of what could be called a crash, but we are looking for capitulation.



Two of our three oscillators are in the oversold zone.

New lows are not as high as they were in July and March.



7.02% of stocks traded higher Wednesday.

Average price per share is still above the July low.

Spreads between earnings and bond yields are at the widest levels since March - April.

Our proprietary options indicator is in negative territory, but not as low as prior bottoms. The 5-day average put/call ratio is the highest since March 20th.