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The Kaufman Report

Trade what you see, not what you think.

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Monday September 22, 2008

Closing prices of September 19, 2008

We are revamping our computer system, so this will be an abridged issue.

It might be hard to believe but the S&P 1500 was up 0.57% last week even after it recorded four sessions with a drop or gain of over 4%. It was a week that will be remembered for a long time, culminating in a huge two-day rally caused by an historic bailout by the government of the U.S. financial system.

We don't want to rain on the parade, but we can't be as bullish as many appear to be. Aside from the details of the plan still being worked out, and even with the promise made by the political parties to work together, we need to see some real results in fixing the underlying problems before we join the cheerleaders.

We are breathing a sigh of relief along with everyone else. Unfortunately, this could be like a situation where the patient arrived at the emergency room clinically dead, the best doctors in the world were called in to work on him, each of those doctors contributed his best techniques, and thankfully the patient began to breathe again. Our question is what happens if the patient takes a turn for the worse? Will the doctors have any medicine left?

This bailout could be very rough on the U.S. Dollar, and therefore inflationary. We have pointed out for many months a scary head and shoulders pattern on the monthly chart of the Dollar Index, and the recent rally was a pullback to the neckline. This bailout could be the catalyst for a resumption of a big move lower for the Dollar.

As all this plays out our strategy will be simple. Our motto, stated at the top of the page under the title, is "trade what you see, not what you think." We will continue trading the overbought and oversold levels, while being prepared to react to any range breakouts or trend changes as they occur.

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 68.0% probability that the Fed will *leave rates at 2.00%* when they meet on October 29th. They are pricing in a 32.0% probability that the Fed will *cut 25 basis points to 1.75%* at that meeting.

Options expire October 17th.

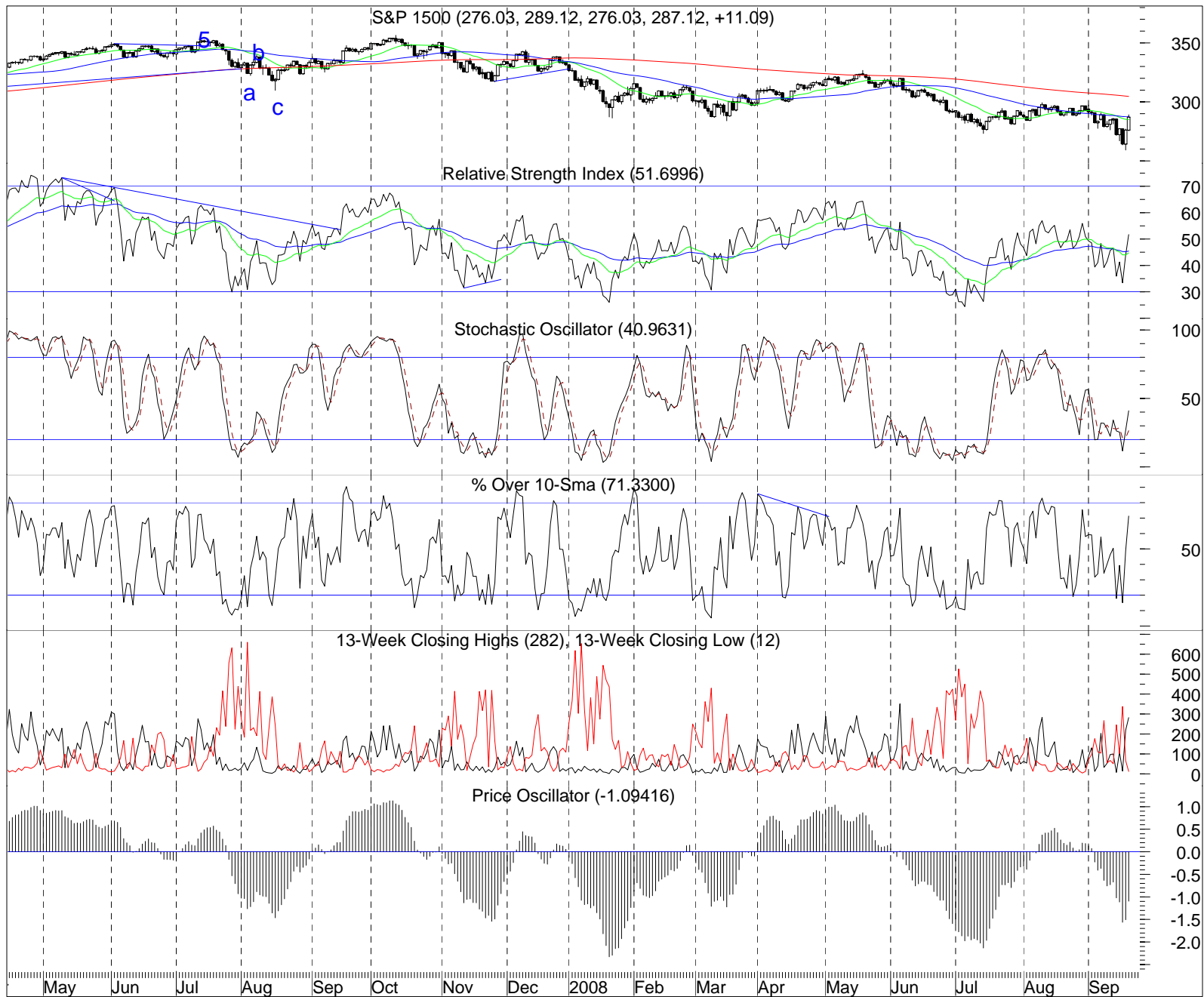
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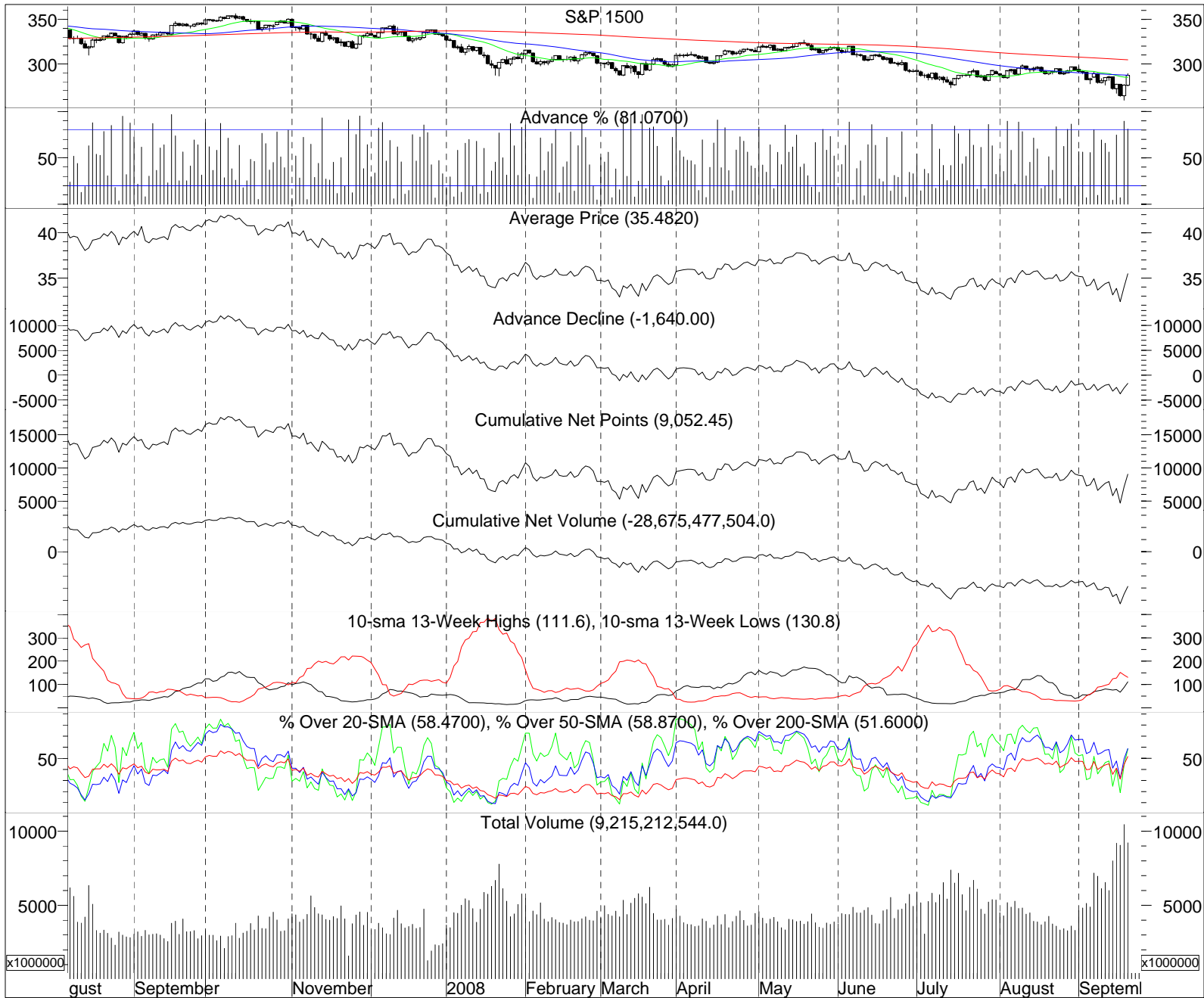


The S&P 1500 rebounded to close on Friday 10.77% above Thursday's low. It is now just under the 50-sma (blue line).



Our oscillators still have room to go higher.

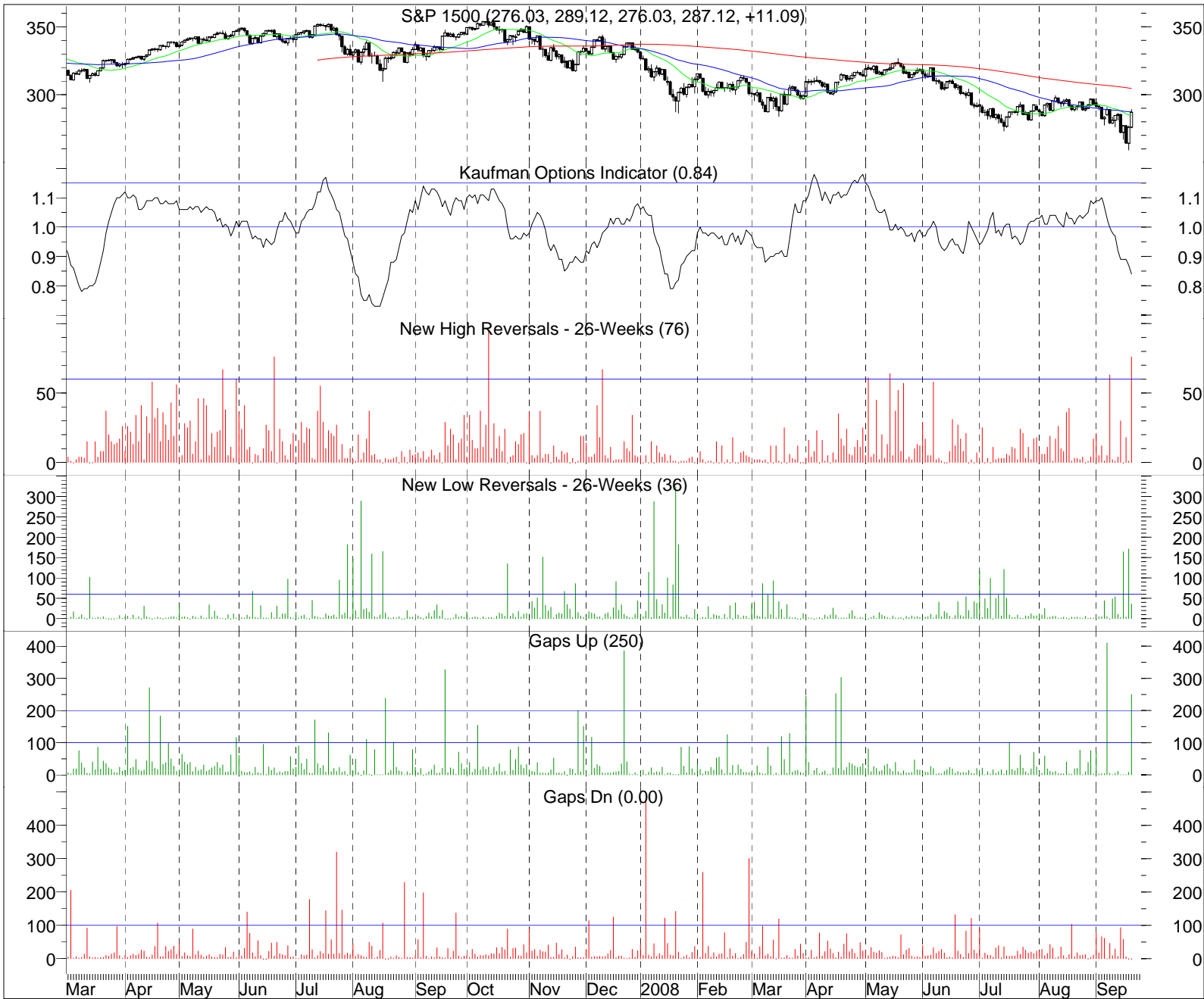
The percent over 10-sma jumped from 15.07% at the close Wednesday to 71.33% currently.



81.07% of stocks traded higher Friday, the second consecutive day over 80%.

51.6% of the S&P 1500 are over their own 200-sma, the most since October 2007.

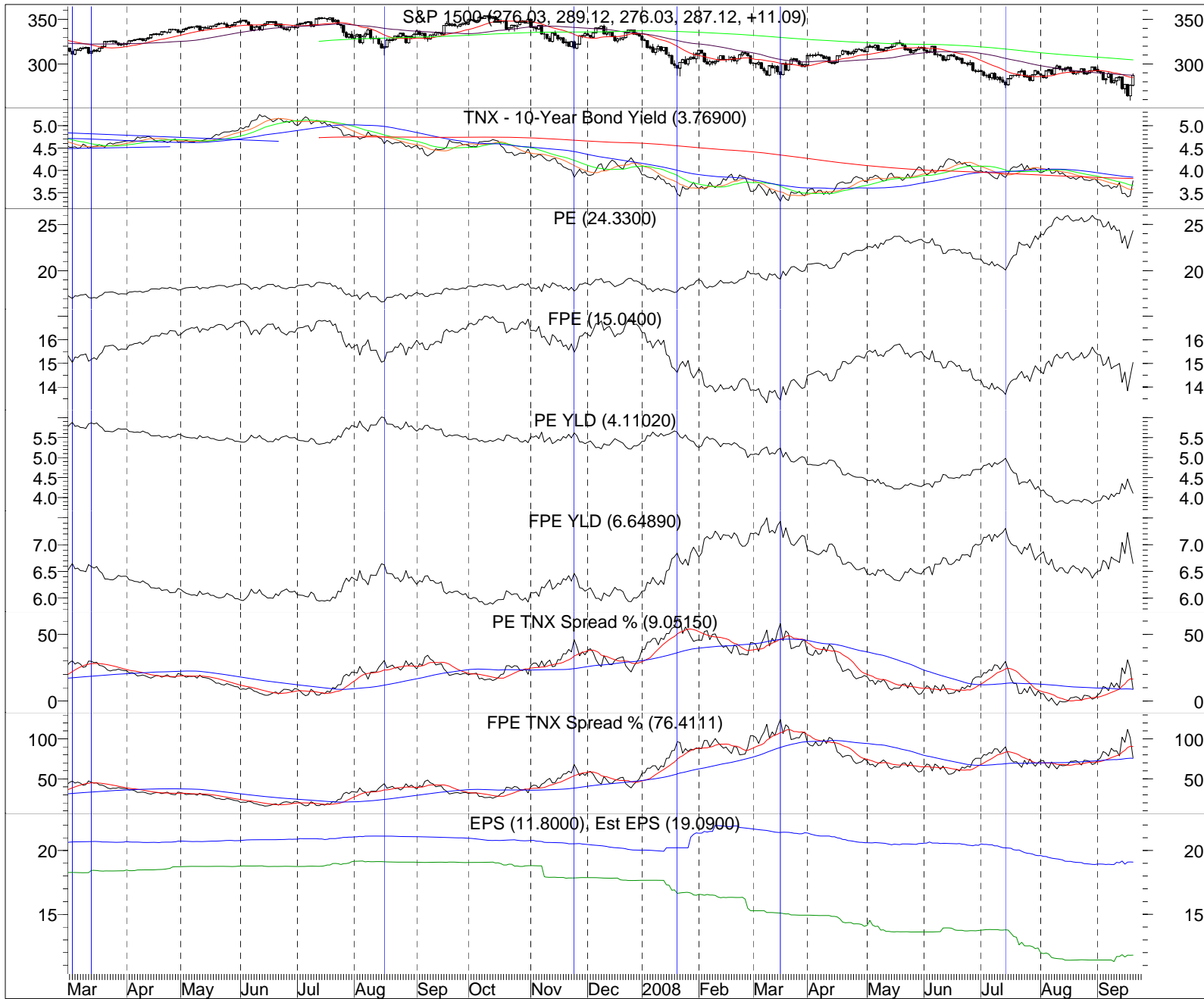
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Our proprietary options indicator is in negative territory, which should prevent pullbacks from being too deep.

76 new high reversals shows a desire to take profits after a huge two-day rally.

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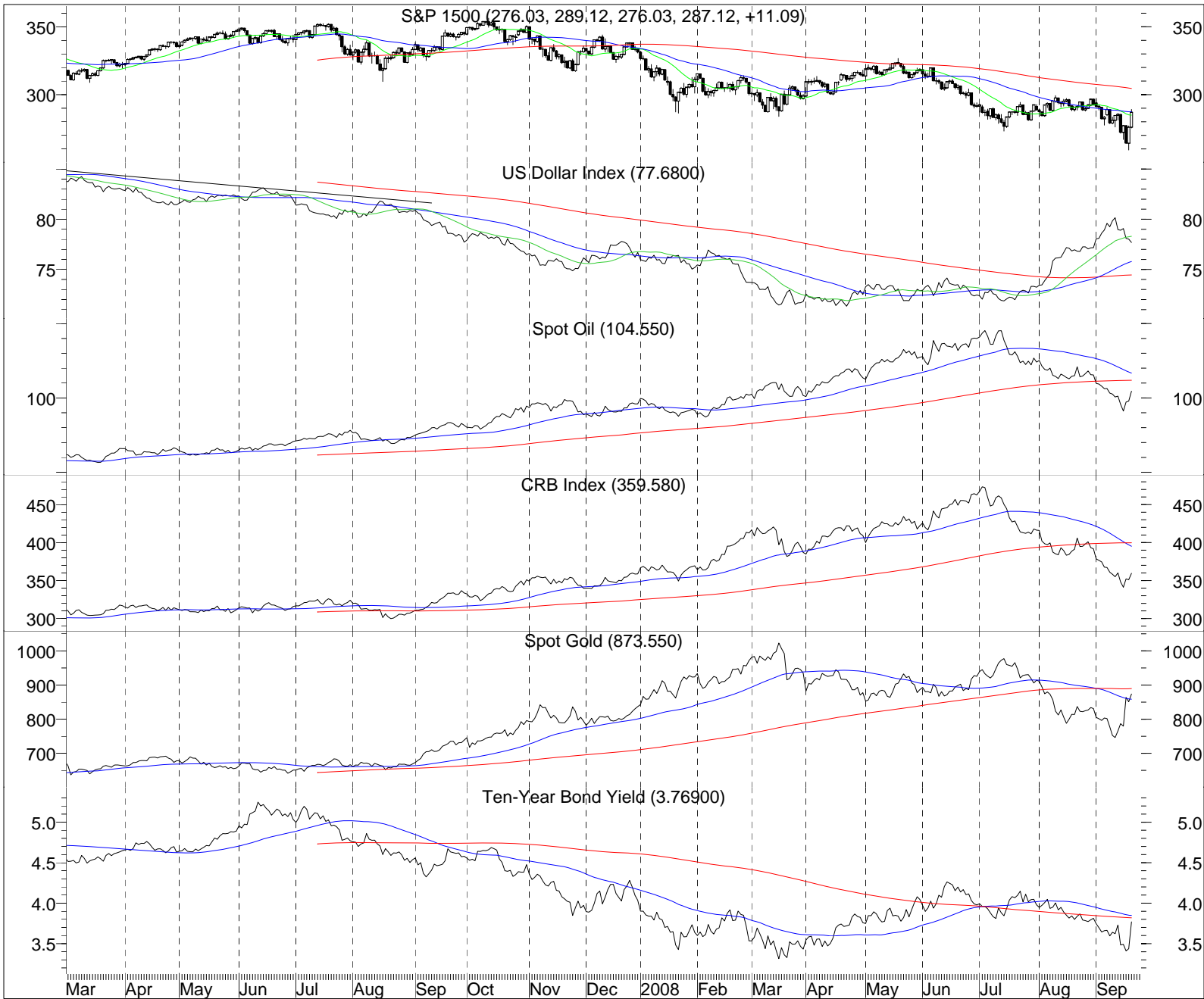


The Kaufman Report - 9/21/2008

Bond yields jumped as the flight to safety was reversed Friday.

After hitting extreme levels spreads have narrowed again to levels where there won't be too much upside in equities in the near-term.

Earnings and projections have been flat lining now that earnings season is over. The slight bump up is due to some companies like FNM and FRE getting kicked out of indexes.



The U.S. Dollar Index is dropping after reaching overbought levels at resistance. It reached the 80 area, which is also the neckline of a scary head and shoulders pattern on the monthly chart (not shown) we have mentioned many times.

Commodities and gold are moving higher as the U.S. Dollar moves lower.