

Wednesday September 24, 2008

Closing prices of September 23, 2008

Stocks traded down for the second session in a row Tuesday following Thursday and Friday's upside explosion. The S&P 1500 was down 1.519%, with the average stock down 1.33%. This broke a string of four consecutive sessions where the average price per share traded up or down 4% or more.

On Sunday we said "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."

Today's Senate hearing did nothing to inspire confidence in either the plan itself or the ability of our legislators to act quickly and decisively.

Even if the bailout is put into effect the way Bernanke and Paulson want, 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?

The 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 at the 80 area. This bailout could be the catalyst for a resumption of a big move lower for the Dollar. Of course, this is what everyone thinks will happen, and that gives us pause. We are reminded that after 9/11 it was universally believed the price of oil would skyrocket, and the exact opposite happened as oil prices plunged.

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 in the markets, while being prepared to react to any range breakouts or trend changes as they occur.

**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 58.0% probability that the Fed will cut rates 25 basis points to 1.75% when they meet on October 29<sup>th</sup>. They are pricing in a 42.0% probability that the Fed will leave rates at 2.00% at that meeting.

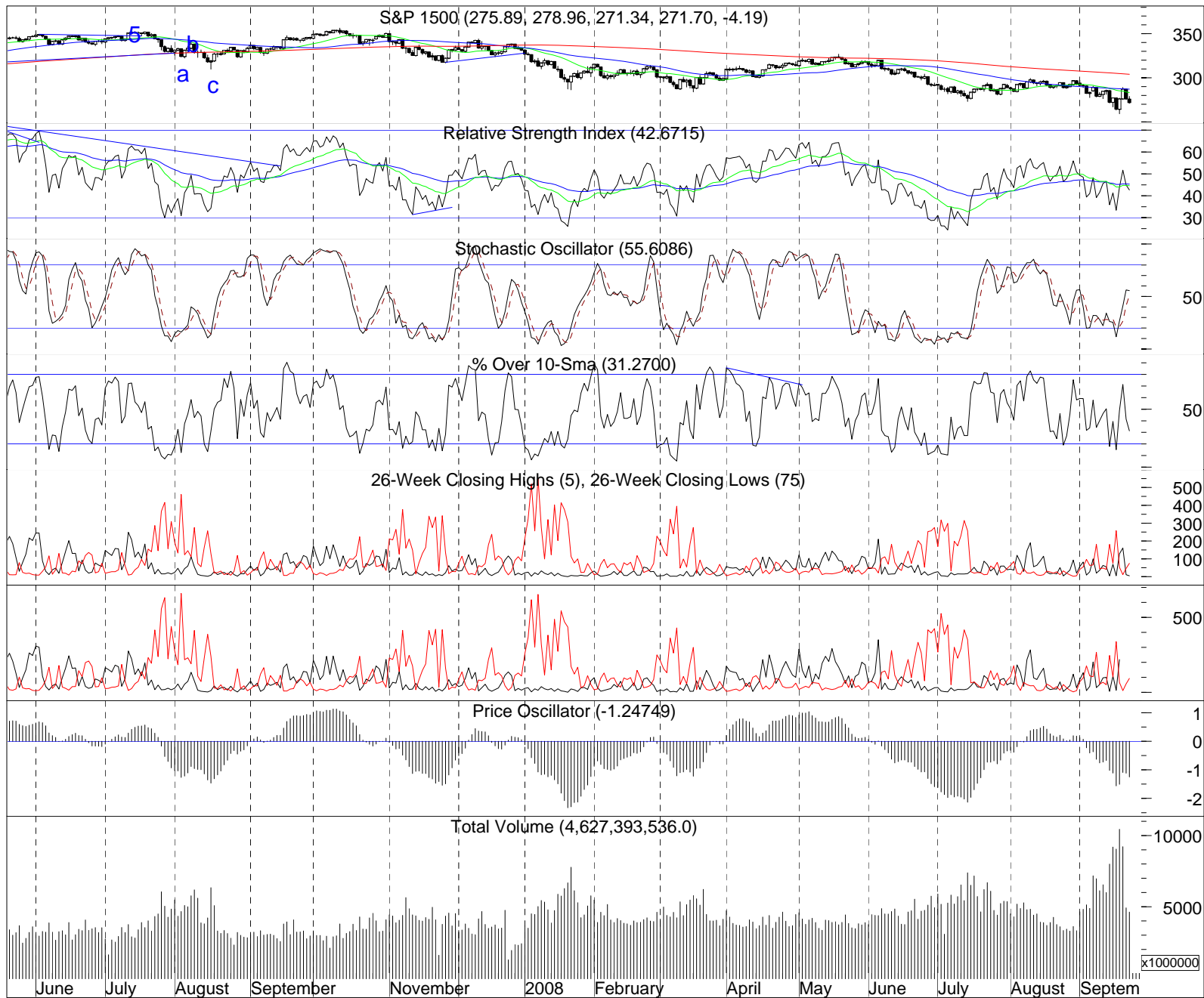
Options expire October 17<sup>th</sup>.

## IMPORTANT DISCLOSURES

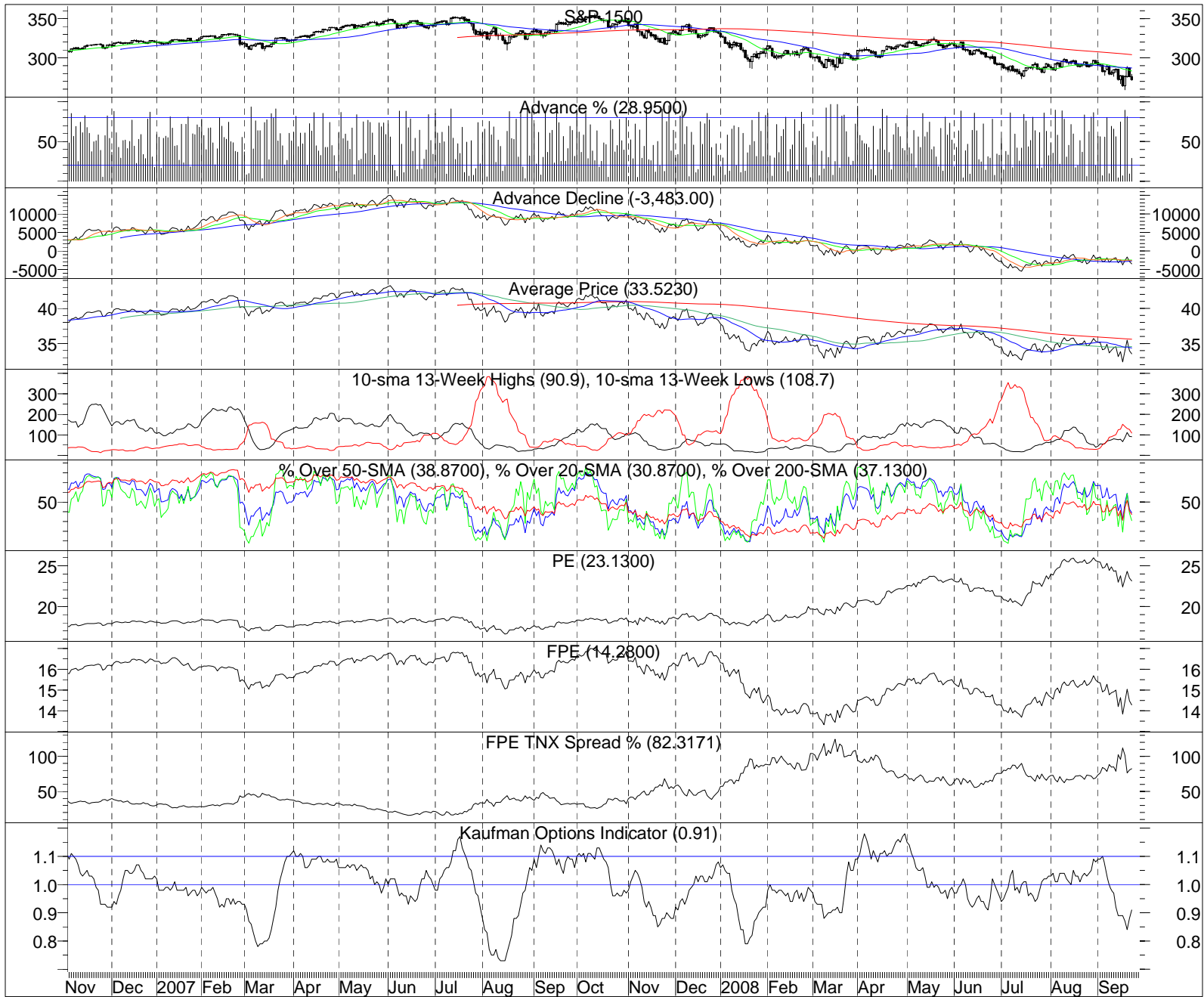
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The Kaufman Report - Wayne S. Kaufman, CMT



28.95% of the S&P 1500 traded higher Tuesday.

Our proprietary options indicator is in negative territory but in an area where anything can happen.