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# The Kaufman Report

Trade what you see, not what you think.

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Thursday April 17, 2008

Closing prices of April 16, 2008

A good earnings report from Intel along with a benign CPI report helped ignite a broad rally Wednesday after oversold stocks held support levels Monday and Tuesday. It was almost a panic-buying 90% up day with up volume falling just short at 87%, while advancing stocks and up points were 91% and 97% of their totals, respectively.

We said on Sunday that support on the S&P 1500 would be at 298.99, and on Tuesday the index came within less than one point of that, bottoming at 299.79.

Wednesday's rally had every S&P sector trading higher on the day, with only Consumer Staples and Health Care being up less than 1%. The rally was on increasing volume and built on the recent positives in the intermediate-term trend we have been pointing out. The S&P 1500 20-day moving average has crossed over the 50-day and is above it for the first time since November 9<sup>th</sup>. There is the highest percentage of stocks (32.8%) in the index over their own 200-day moving averages since December 26<sup>th</sup>. We had the most 52-week closing highs since December 26<sup>th</sup>, and the most 13-week closing highs since October 31<sup>st</sup>. The Transportation Index, which is a major component of Dow Theory, followed through on its recent reverse head & shoulders breakout and closed at its highest level since August 8<sup>th</sup> in spite of another all-time high in crude oil.

In the short-term stocks are not yet overbought, but they are at the resistance zone, options expire Friday, and we are in the heart of earnings season. Unfortunately earnings and projections continue to march inexorably lower. Therefore, there may be an increased desire for short-term traders to take profits soon.

In the long-term, the trend remains down, and this remains a bifurcated, risky, opportunistic traders market with adept traders able to enter long and short. Whipsaw risk is very high. Investors need to be alert for sector rotation and not be afraid to move out of lagging stocks and sectors and into leading ones.

Federal Funds futures are pricing in an 76% probability that the Fed will cut rates another 25 basis points to 2.00%, and a 24% probability of a 50 basis point cut to 1.75% when they meet again on April 30<sup>th</sup>.

The S&P 1500 (309.09) was up 2.344% Wednesday. Average price per share was up 2.81%. Volume was 113% of its 10-day average and 97% of its 30-day average. 90.83% of the S&P 1500 stocks were up on the day. Up Dollars was 468% of its 10-day moving average and Down Dollars was 1.5% of its 10-day moving average.

Options expire April 18<sup>th</sup> (that's Friday!). The FOMC meets April 30<sup>th</sup>.

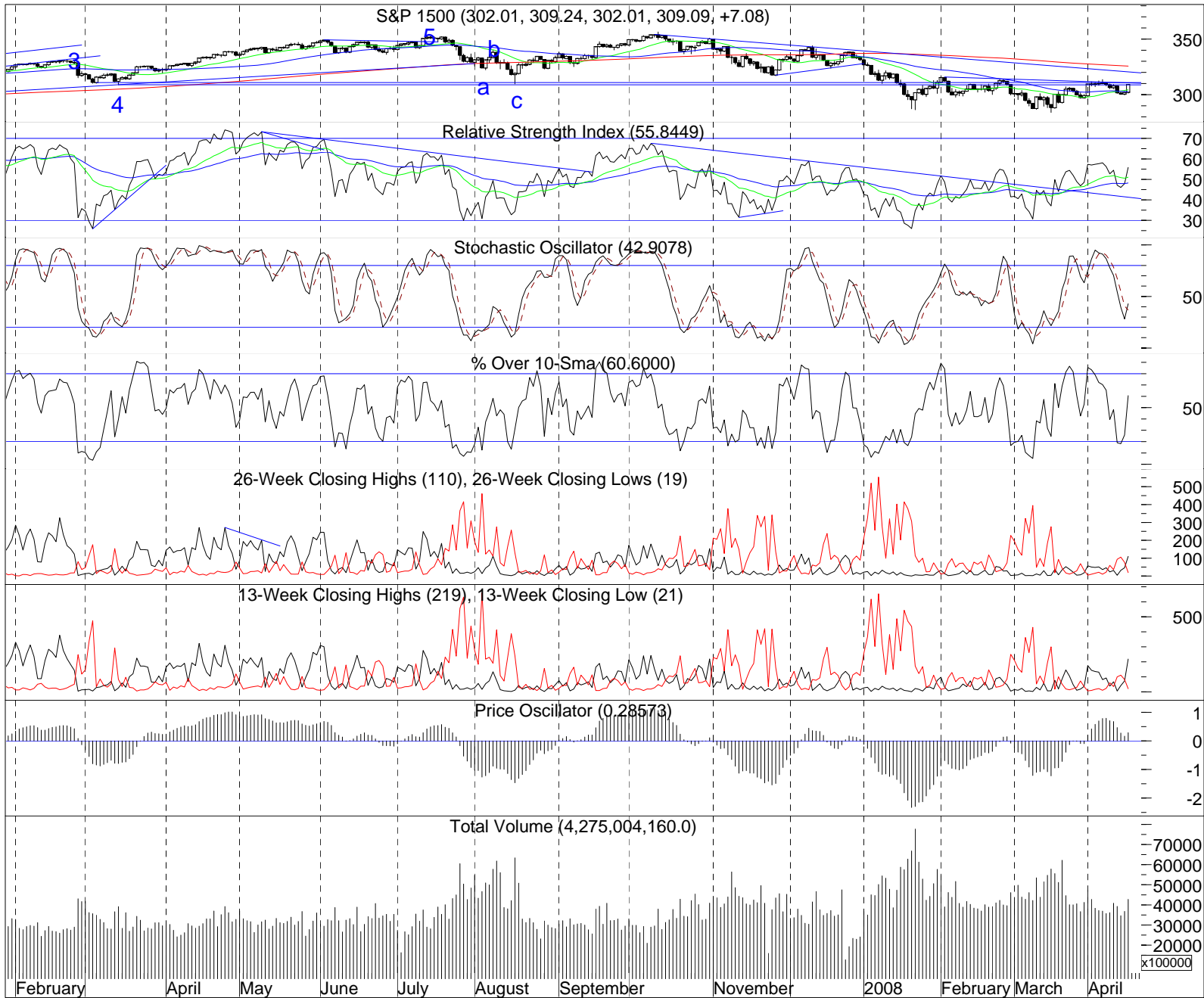
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S&P 1500 Analysis - Wayne S. Kaufman, CMT



The S&P 1500 rallied off of support levels and is now back to the bottom of the resistance zone.

The RSI found support at the 45 area, where it sometimes does before rallying further.

The stochastic has a positive crossover from a low level.

New highs broke out to the highest levels in a while.

Our price oscillator, a good indicator of trends, is positive for the longest period since October.

Volume expanded Wednesday, but was still below its 30-day average.

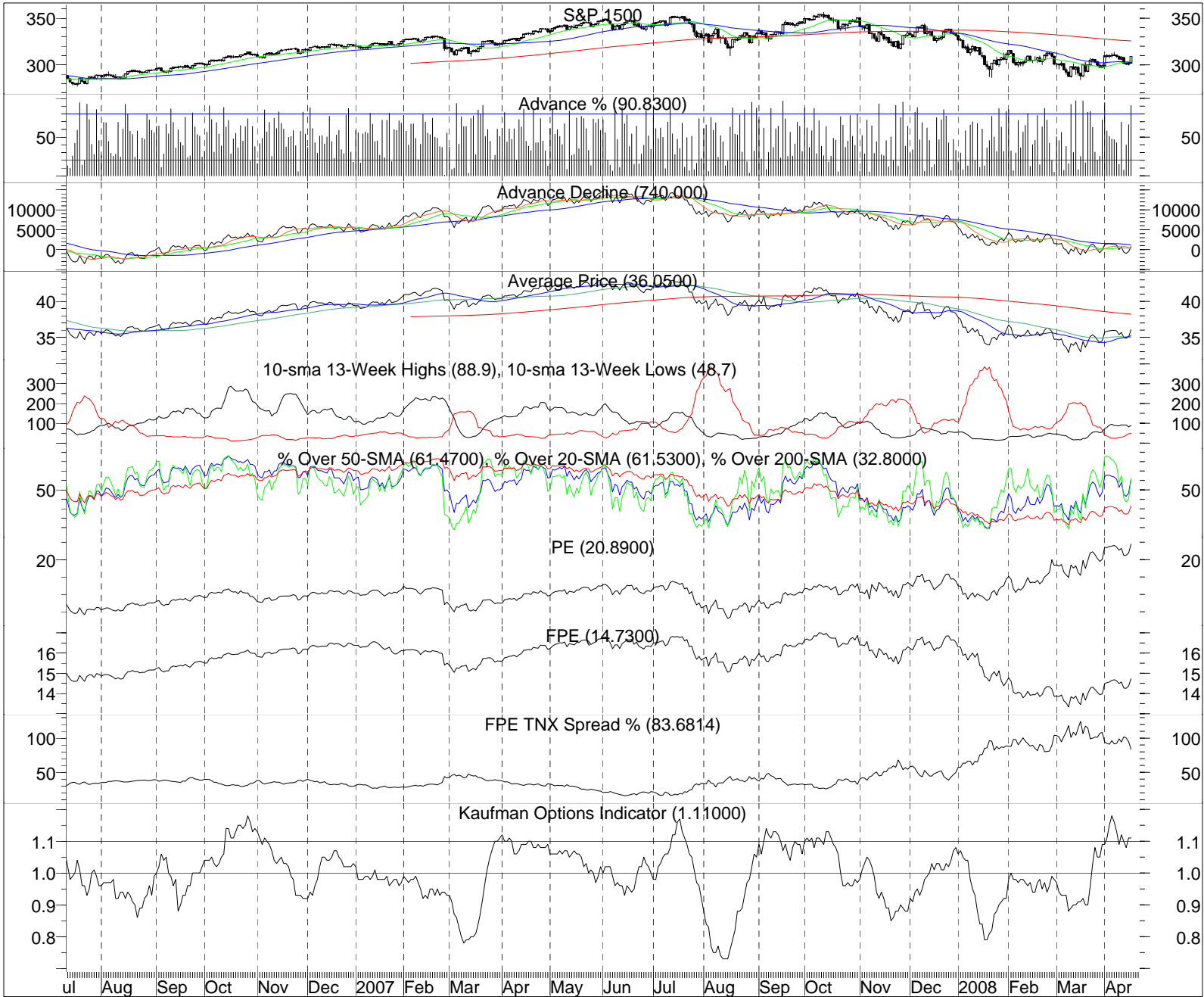
S&P 1500 Analysis - Wayne S. Kaufman, CMT

S&P 1500 (302.01, 309.24, 302.01, 309.09, +7.08)



The S&P 1500 is back at the bottom of the resistance zone and has formed a reverse head & shoulders pattern.

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



The P/E ratio is making new highs.

The forward P/E is at its highest levels since early February.

Dow Jones Transports - Wayne S. Kaufman, CMT



We said Sunday it was common for a breakout to fall back to its neckline. The index did just that, and then followed through to close at the highest since 8/8/07.

NASDAQ 100 (1,817.59, 1,849.45, 1,815.80, 1,846.89, +52.16)



The Nasdaq 100 is following classic technical patterns. It retraced 38.2% of the plunge from the October high to the March low. Then it pulled back to the 50-sma (blue line). Wednesday it gapped up above the 20-sma (green line).