

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

Wednesday August 20, 2008

Closing prices of August 19, 2008

We said Sunday that most markets were at important inflection points which would keep traders on their toes. We also said short-term indicators were starting to come down from overbought levels, options buyers had been showing bullishness, volume had been decreasing as stocks moved higher, and those and other factors left stocks vulnerable to a drop.

That drop came Monday and Tuesday as the S&P 1500 lost 2.44% in two days and broke the support line of the bearish rising wedge we have been highlighting. Extreme caution is now advised.

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.

So far 479 companies in the S&P 500 have reported second quarter earnings. According to Bloomberg, 68.3% have had positive surprises, 6.7% have been in line, and 24.9% have been negative. The year-over-year change has been -23.5% on a share-weighted basis, -23.5% market cap-weighted, and -12.4% non-weighted. Ex-financial stocks these numbers are 4.0%, 7.3%, and 5.0%, respectively.

Federal Funds futures are pricing in an 88.0% probability that the Fed will leave rates at 2.00%, and a 12.0% probability of raising 25 basis points to 2.25 when they meet on September 16th.

The S&P 1500 (296.23) was down 0.963% Tuesday. Average price per share was down 1.13%. Volume was 88% of its 10-day average and 75% of its 30-day average. 19.37% of the S&P 1500 stocks were up on the day. Up Dollars was 10% of its 10-day moving average and Down Dollars was 192% of its 10-day moving average.

Options expire September 19th.

IMPORTANT DISCLOSURES

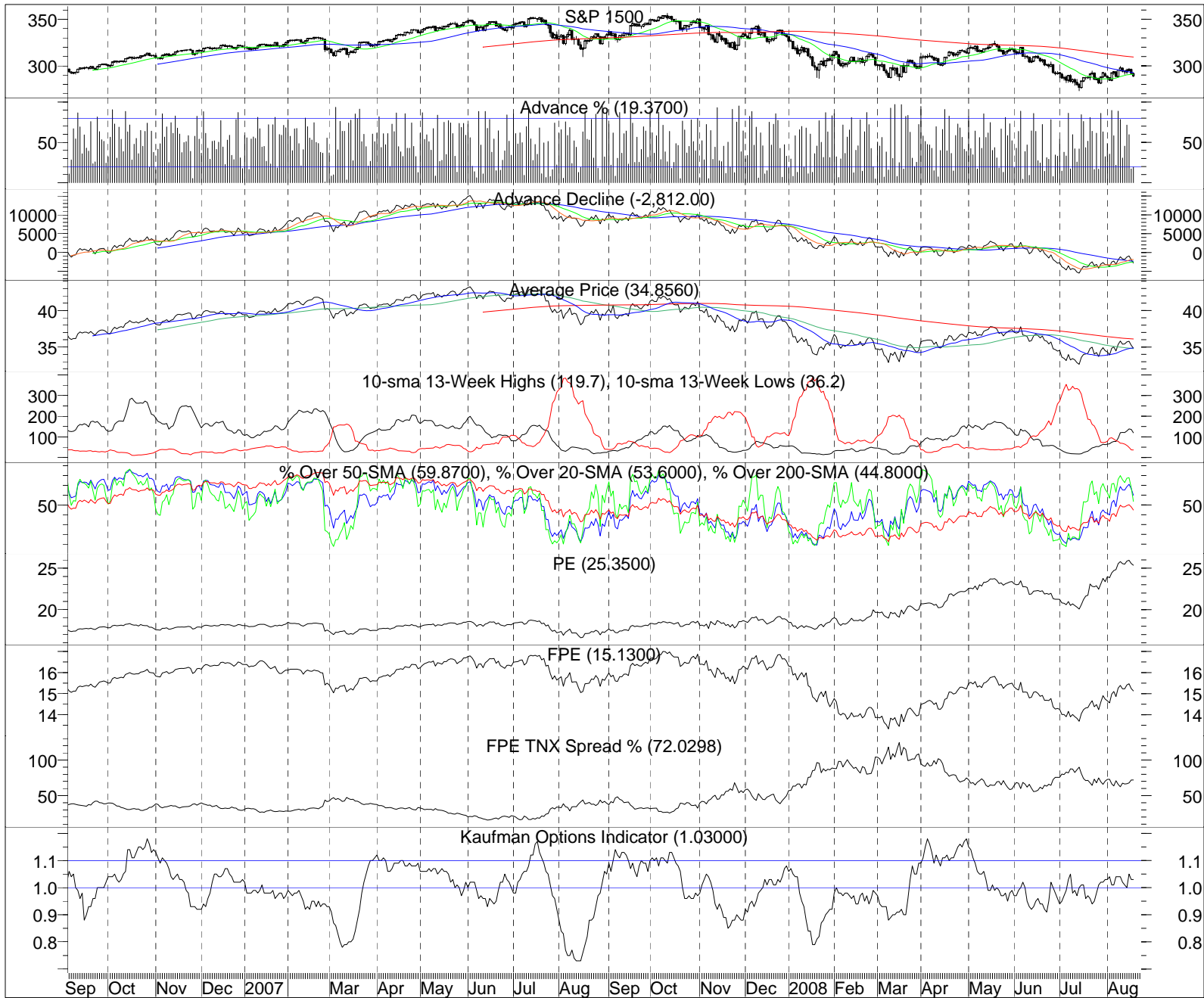
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The S&P 1500 has broken the support line of the bearish rising wedge. It is also below the 20, 50, and 200-sma.

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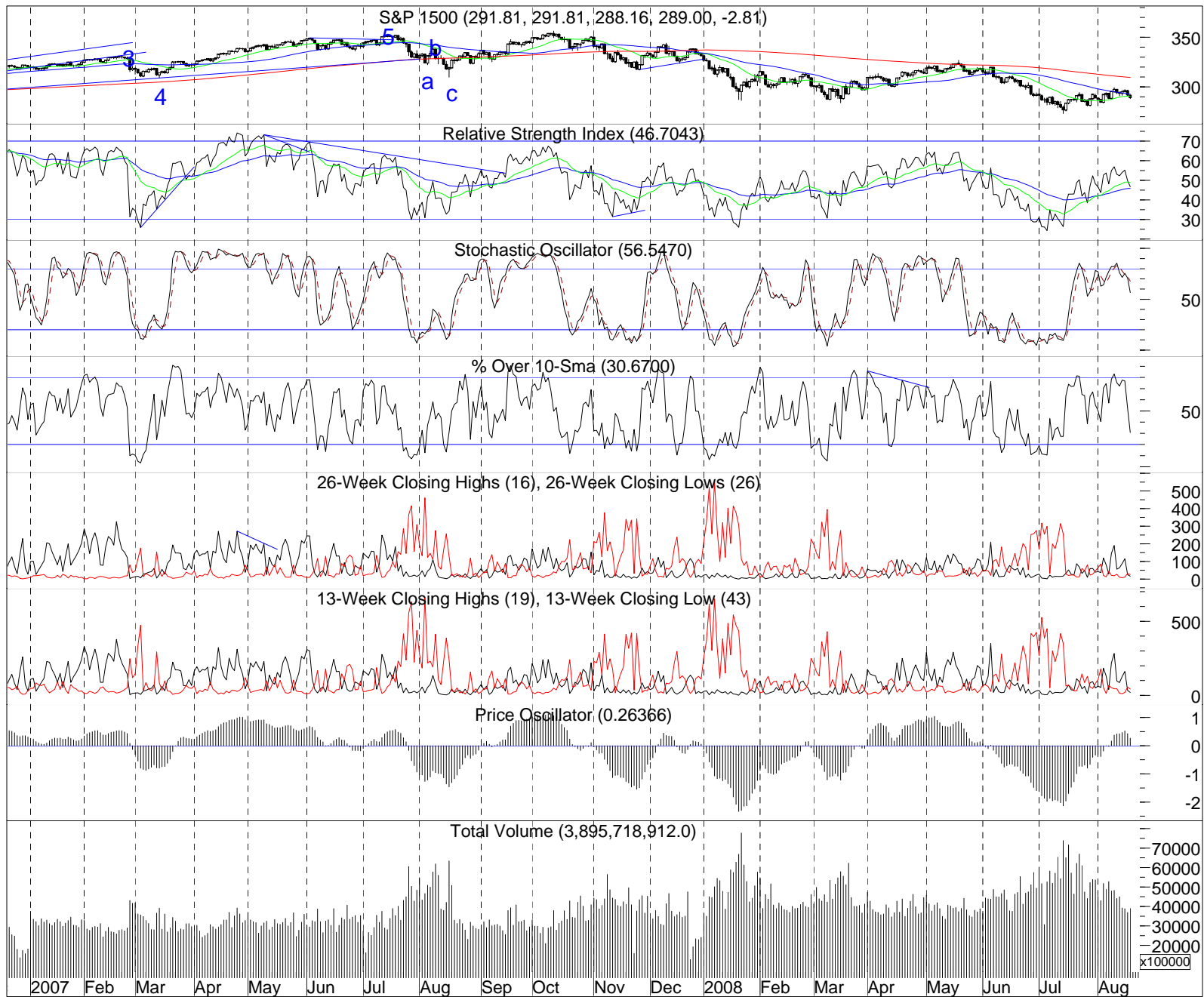


19.37% of stocks traded higher Tuesday.

The P/E ratio is dipping after hitting the highest level since January 2004.

Our proprietary options indicator is still showing bullishness, so stocks are still vulnerable.

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Our oscillators are not yet oversold.

Volume has been anemic.