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The Kaufman Report

Trade what you see, not what you think.

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Closing prices of July 23, 2008

The S&P 1500 rallied again Wednesday after breaking through the 20-day moving average Tuesday. It reached the 38.2% Fibonacci retracement level of the May – July plunge before pulling back a little. The 50% Fibonacci level is at the 300 area, which if it is reached will be stronger resistance, with the 50-day moving average also coming into play at that point.

Some short-term indicators are overbought, so a pullback is possible at any point.

We are still of the opinion that until proven otherwise this is a bear market rally.

So far 192 companies in the S&P 500 have reported second quarter earnings. According to Bloomberg, 74.5% have had positive surprises, 4.2% have been in line, and 21.4% have been negative. The year-over-year change has been -27.5% on a share-weighted basis, -29.2% market cap-weighted, and -16.2% non-weighted.

The short-term trend is up, but the intermediate and long-term trends are down, and we reiterate that this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short. 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 92.8% probability that the Fed will leave rates at 2.00%, and a 7.2% probability of raising 25 basis points to 2.25 when they meet on August 5th.

The S&P 1500 (292.32) was up 0.385% Wednesday. Average price per share was up 0.46%. Volume was 108% of its 10-day average and 127% of its 30-day average. 63.7% of the S&P 1500 stocks were up on the day. Up Dollars was 122% of its 10-day moving average and Down Dollars was 71% of its 10-day moving average.

Options expire August 15th.

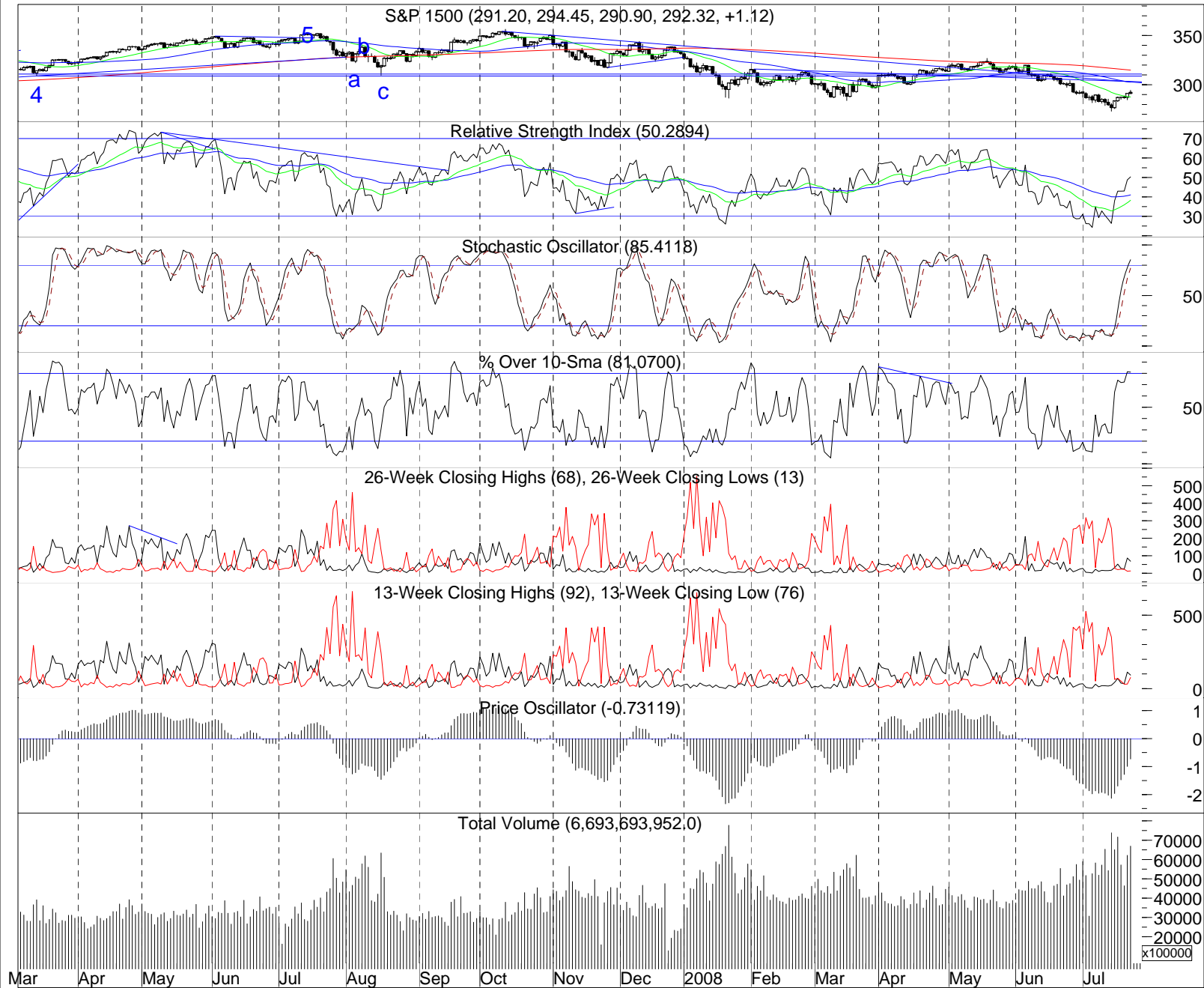
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The S&P 1500 retraced the recent downtrend to the 38.2% level, where it pulled back. Much greater resistance will be met at the 50% level, where the 50-day moving average (blue) will also come into play.



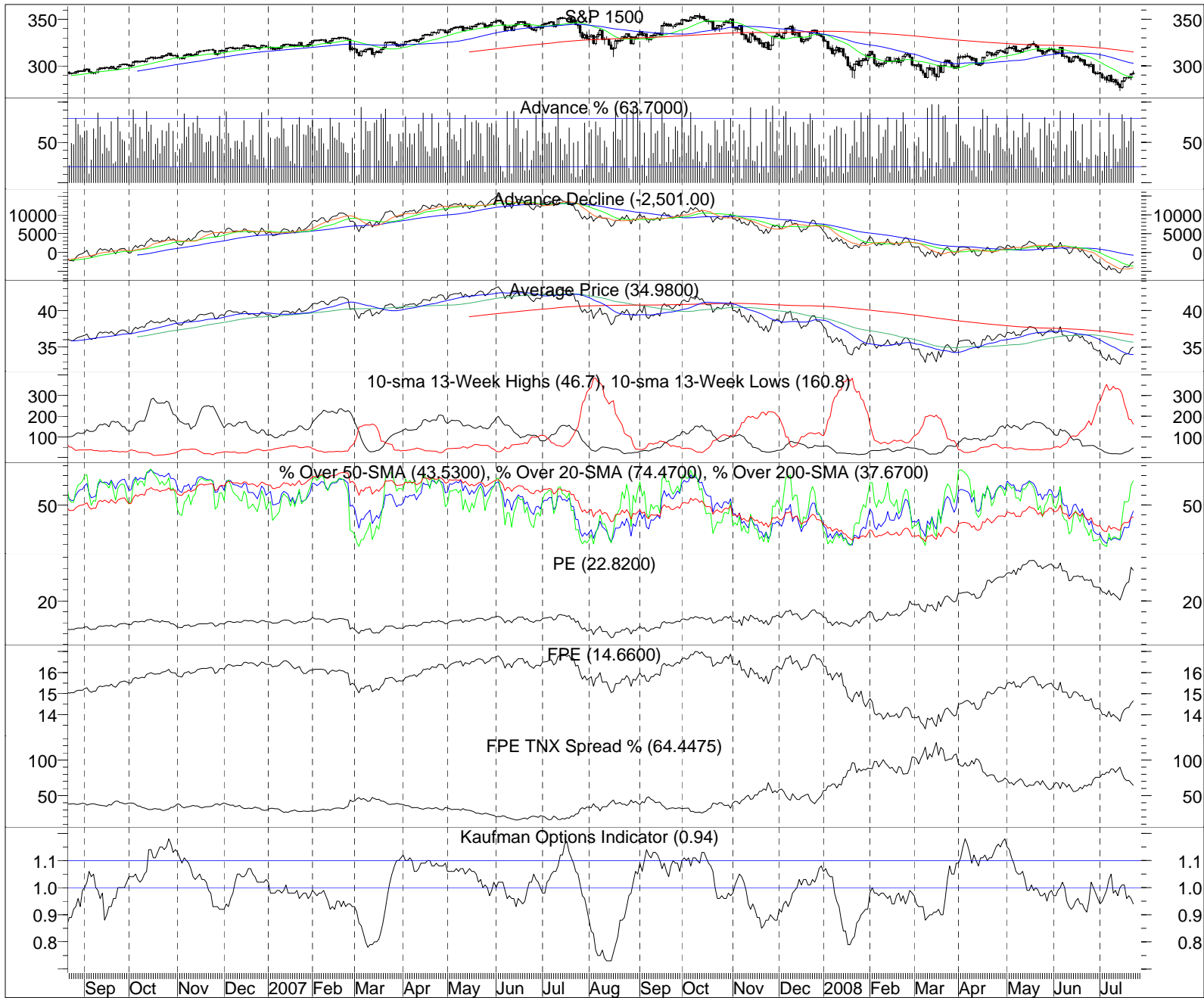
Two of our three oscillators are in the overbought zone, so a pullback can occur at any time.

New highs have been greater than new lows.

Our price oscillator is still negative.

Volume expanded again Wednesday.

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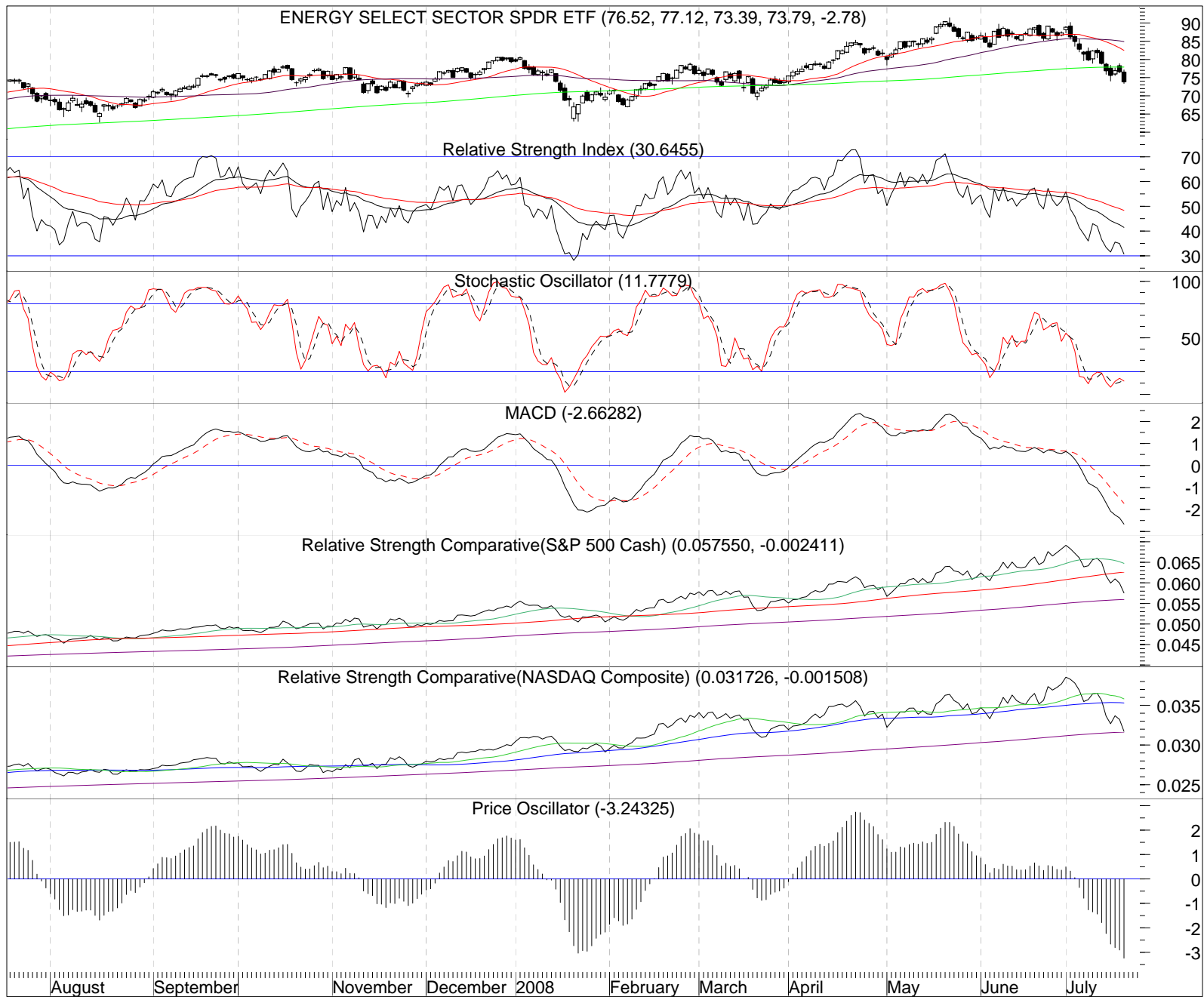


63.7% of the S&P 1500 traded higher Wednesday.

The percentage of stocks over their 20-sma is the highest since April 8th.

The P/E ratio is nearing the level where it topped in May.

Our proprietary options indicator is in negative territory, but never got to levels that have marked important bottoms.



The energy sector is oversold. It is now underperforming the S&P 500 and Nasdaq Comp for 20 and 50-day periods, and just hanging on as far as the 200-day period.