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The Kaufman Report

Trade what you see, not what you think.

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Closing prices of May 14, 2008

The S&P 1500 rallied again Thursday as investors shrugged off Wednesday's late day selloff. It was another broad rally with 74.6% of stocks advancing. Recent laggards like gaming, homebuilders, and technology stocks have been leading this week.

The recent outperformance by small and mid-cap stocks shows up in their year-to-date performance numbers, with the S&P Midcap 400 Index up 2.67%, the S&P Smallcap 600 Index down 0.635%, and the large-cap dominated S&P 500 down 3.05%. It bodes well for the entire market that the small and mid-cap stocks are doing better because it shows less of the risk aversion that drives money into large-caps. The S&P 1500, which is a combination of these three indexes, is down 2.518% year-to-date.

Market breadth has continued to improve. 48.4% of stocks in the S&P 1500 are above their 200-day moving averages, the most since October 31st, and 75% are above their 50-day moving averages. Thursday recorded the most 13-week closing highs since June 4th, the most 26-week highs since October 31st, and the most 52-week closing highs since December 26th. The index closed at its highest level since January 3rd, and the unweighted average price per share is the highest since December 31st.

Major indexes are now at their 200-day moving averages, although some, like the Dow Transports and the S&P Midcap Index, have far exceeded theirs. With stocks getting overbought at or near resistance levels, we are expecting consolidation or a pull back soon. We don't think any weakness will be extreme or a resumption of the October to March down trend for reasons outlined in our May 5th "Climbing a Wall of Worry?" essay (go to www.kaufmanreport.com for archived reports), and we believe that the huge mountain of cash on the sidelines is looking for entry points. We continue to favor Energy, Basic Materials, Industrials, and certain Technology stocks.

Our strategy for some time has been to buy leading stocks while watching for sector rotation and being prepared for the down trend to resume. We continue to follow that course of action while hoping that after a brief consolidation or pull back stocks will strengthen and successfully challenge the last barriers that prevent us from calling the long-term trend up instead of down.

Federal Funds futures are pricing in an 90% probability that the Fed will leave rates at 2.00%, and a 10% probability of cutting another 25 basis points to 1.75 when they meet again on June 25th.

The S&P 1500 (323.03) was up 1.067% Thursday. Average price per share was up 1.07. Volume was 100% of its 10-day average and 100% of its 30-day average. 74.63% of the S&P 1500 stocks were up on the day. Up Dollars was 182% of its 10-day moving average and Down Dollars was 11% of its 10-day moving average.

Options expire May 16th. The FOMC meets June 25th.

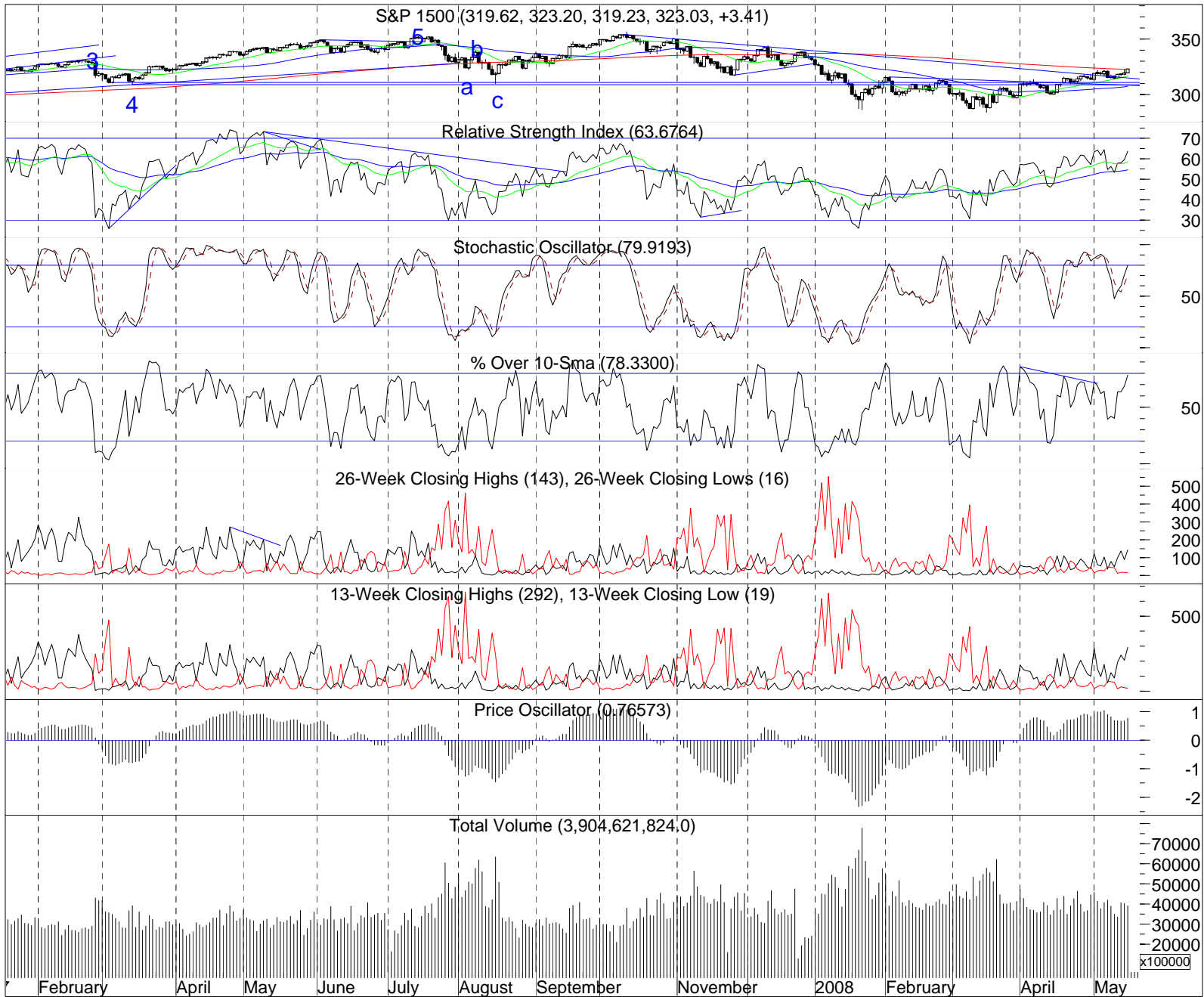
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S&P 1500 Analysis - Wayne S. Kaufman, CMT



The S&P 1500 closed over the 200-sma for the first time since 12/26 and at the highest since 1/3.

Our oscillators are getting overbought.

26-week highs were the most since 10/31.

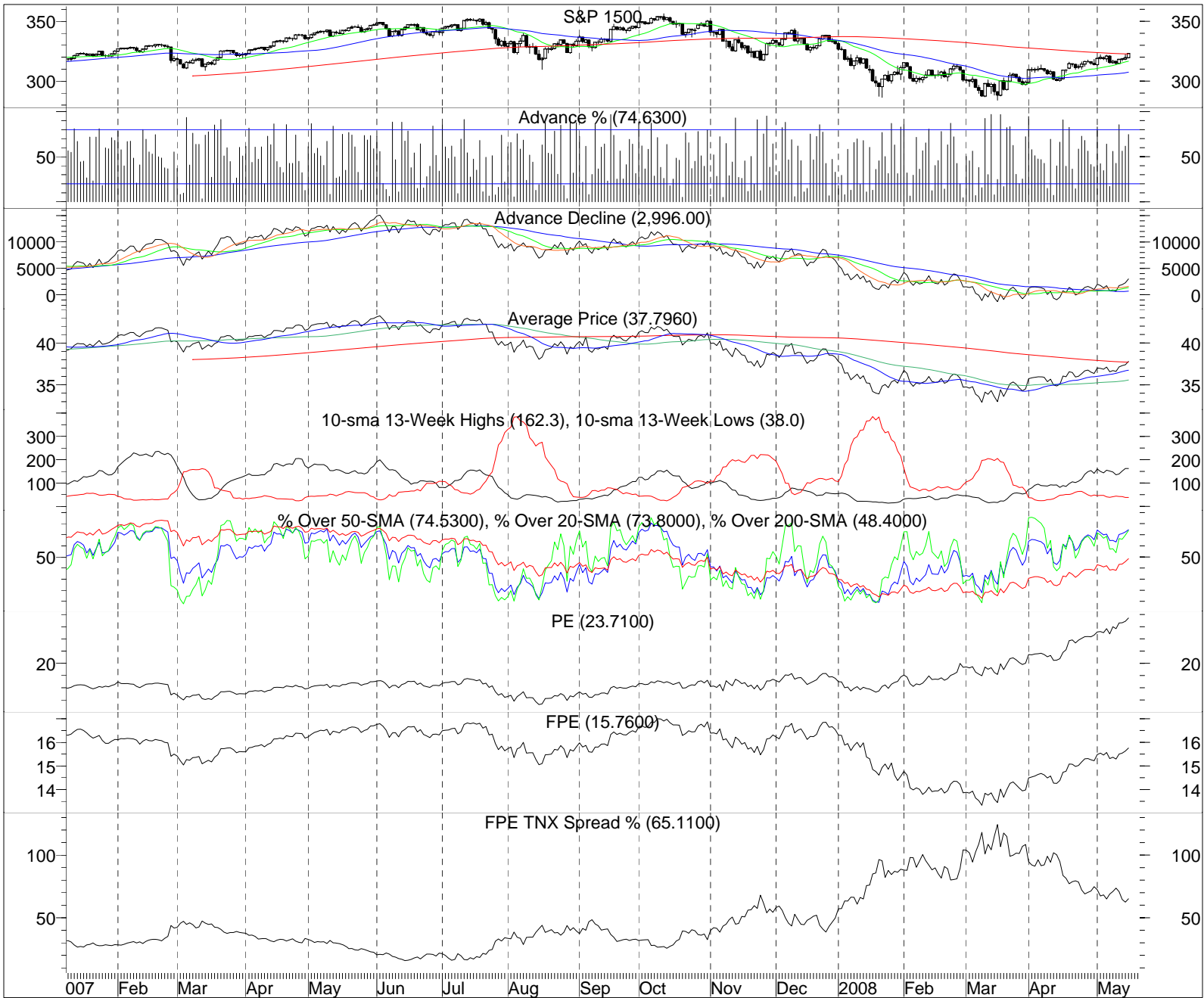
13-week highs were the most since 6/4.

Our price oscillator, a good indicator of trends, remains in positive territory.



The S&P 1500 closed just above the 200-sma. The bearish rising wedge is nearing its apex, so a breakout one way or the other is coming soon.

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



The AD line is finally moving higher.

Average price per share is the highest since 12/31.

The 10-sma of 13-week closing highs is the highest since 6/6/2007.

48.4% of stocks are over their 200-sma, the most since 12/26. 74.5% are over their 50-sma.