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# The Kaufman Report

Trade what you see, not what you think.

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Friday May 2, 2008

Closing prices of May 1, 2008

The S&P 1500 rallied again Thursday and closed at its highest level since January 10<sup>th</sup>. In doing so it broke through the down trend line from the October highs. It was a broad rally as 83.1% of the S&P 1500 traded higher.

There has been dramatic sector rotation as the U.S. Dollar has rebounded smartly, and maintaining their historic inverse relationship with the Dollar commodities and commodity based stocks have dropped. Former laggards like technology, financials, and Asian stocks have been the best performers the last couple of weeks.

Market internals continue to improve, with 289 stocks in the S&P 1500 closing at 13-week highs, the most since June 4<sup>th</sup>. 74% of the S&P 1500 are trading over their own 50-day moving average, the most since October 10<sup>th</sup>. Average price per share is the highest since January 3<sup>rd</sup>.

Stocks, based on the S&P 1500, broke a five-month losing streak and finished April up 4.947%. Unfortunately, May is the beginning of the worst six-month period of the year, and some of the negatives we outlined on Sunday have not gone away.

Our proprietary options indicator is showing too much bullishness on the part of options buyers. Volume has been low during the recent rally. Current and forecast earnings continue their relentless march downward. Some major indexes are right at resistance levels. Therefore, while the upward momentum is still intact and seasonality (for a short time) is still positive, we are prepared for a pull back at any time. However, it is possible that before too long we will declare the bear market to be over and confirm a new long-term up trend.

Federal Funds futures are pricing in an 80% probability that the Fed will leave rates at 2.00%, and a 20% probability of cutting another 25 basis points to 1.75 when they meet again on June 25<sup>th</sup>.

So far 380 companies have reported first quarter earnings. According to Bloomberg 62.9 % have had positive surprises, 10.8% have been in line, and 26.3% have been negative. The year-over-year average change has been -13.9% on a share-weighted basis, +1.2 % market cap-weighted, and -9.8% non-weighted.

The S&P 1500 (319.02) was up 1.68% Thursday. Average price per share was up 1.77%. Volume was 112% of its 10-day average and 112% of its 30-day average. 83.1% of the S&P 1500 stocks were up on the day. Up Dollars was 269% of its 10-day moving average and Down Dollars was 15% of its 10-day moving average.

Options expire May 16<sup>th</sup>. The FOMC meets June 25<sup>th</sup>.

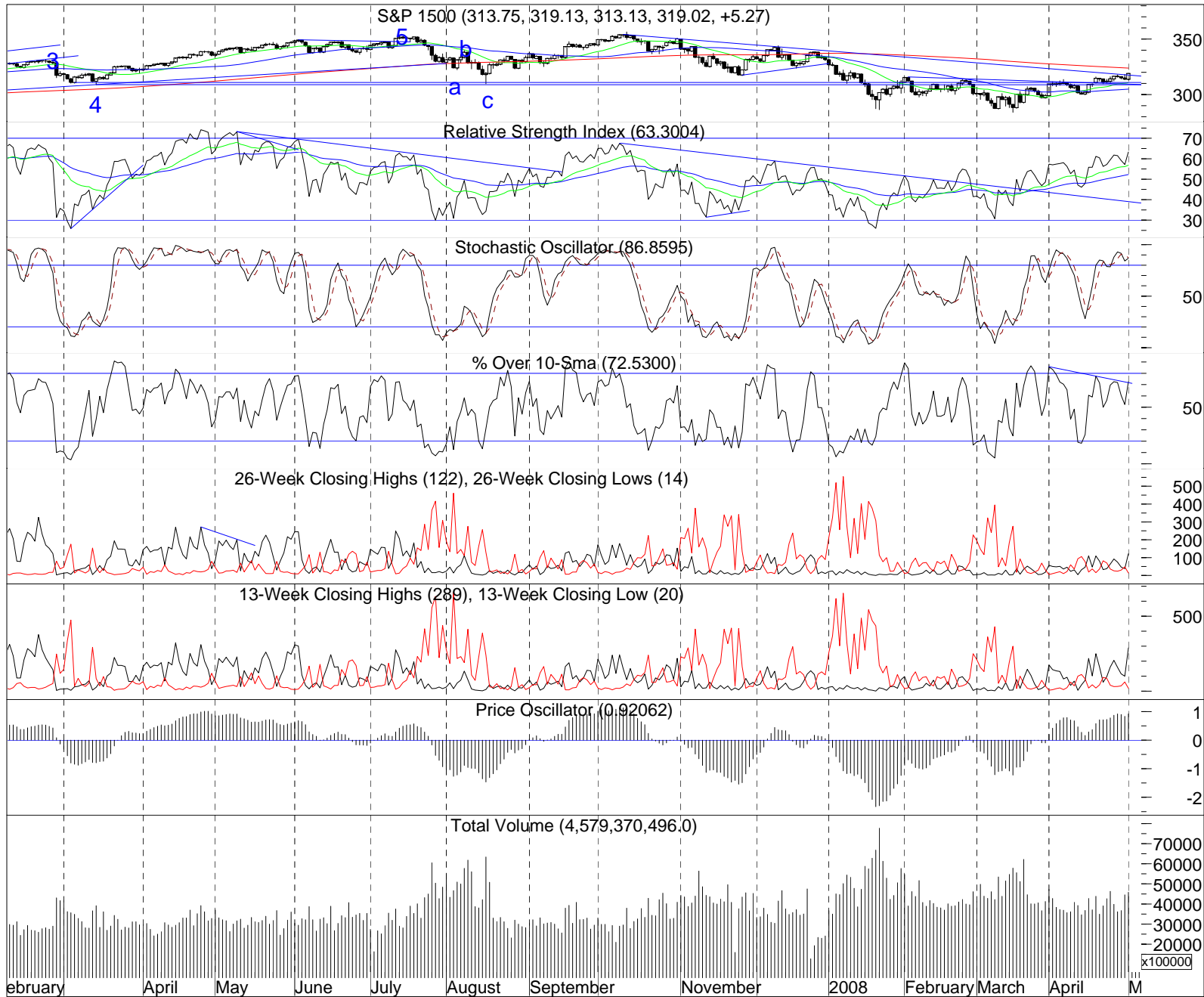
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S&P 1500 Analysis - Wayne S. Kaufman, CMT



The S&P 1500 is breaking through the long-term down trend line as it continues to follow through after breaking out of an inverse head & shoulders pattern.

Our oscillators are at high levels, and there is a negative divergence on the percent over 10-sma.

26-week closing lows are the most since 12/06/07.

289 13-week closing highs is a big breakout and the most since 6/04/07.

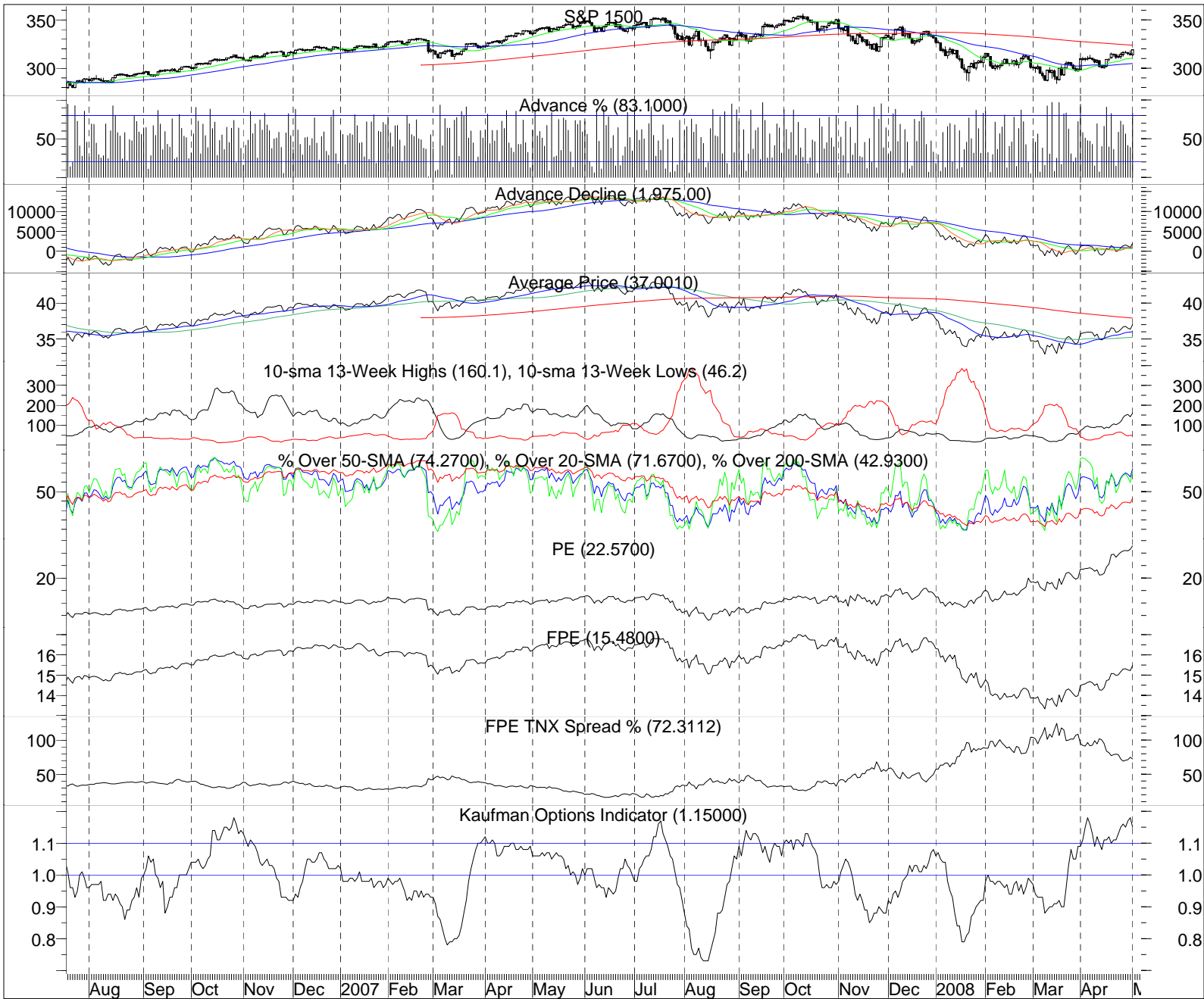
Volume expanded slightly and was above average Thursday.

S&P 1500 (313.75, 319.13, 313.13, 319.02, +5.27)



The S&P 1500 broke above the long-term down trend line as it continues to follow through after breaking out of a reverse head & shoulders pattern. The 200-sma (red) is above at 323.81. The breakout target is the 319 area.

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



83.1% of stocks traded higher Thursday.

The 10-sma of 13-week highs is the highest since June 6, 2007.

Almost 75% of stocks are above their 50-sma, and 43% above their 200-sma, the most since 10/10 and 12/10, respectively.

The P/E continues to be at the highest level since 2004.

The spread between bond and equity yields remains at wide levels where stocks are attractive versus bonds.

Our proprietary options indicator shows too much bullishness among options buyers and leaves stocks vulnerable to a pull back.