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

Friday June 27, 2008 **Closing prices of June 26, 2008**

Bad news in the form of record oil prices, projections of more writedowns in the credit markets, and weaker than expected earnings forecasts by tech leader Research In Motion and others were the catalysts for another panic-selling 90% down day for stocks. This was the third 90% down day since June 6th. <u>We have stressed numerous times since the second 90% down day on June 11th that a market that does not respond to oversold conditions is dangerous</u>.

We have been waiting for a tradable bounce for the last week, and hoped that Wednesday's rally might be the start. We were looking for confirmation of the start of a rally to be an upside breakout from the falling wedge pattern which had developed. The breakout occurred Thursday, but unfortunately it was to the downside.

On the June 11th 90% down day the S&P 1500 breached the 50% retracement level of the March to May rally, and we said at that time that the chances of a 100% retracement had increased. With this breakdown from the falling wedge the index is not far from that 100% retracement. <u>The Dow Jones Industrials traded at their lowest level since September 12, 2006.</u>

As we entered June we said we expected weakness for equities due to the breakdown of the bearish rising wedge on May 21st, negative seasonality, and a lack of fundamental news flow. We also said it would be a good test of how aggressive sellers would become. The selling has been more intense than we expected, and the S&P 1500 is now down 8.12% for the month.

We continue to look for an oversold bounce due to short-term indicators being in the oversold zone. However, caution is advised because the final stages of waterfall declines can be painful.

<u>The current short, 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.</u>

Federal Funds futures are pricing in a 75.3% probability that the Fed will *<u>leave rates at 2.00%,</u>* and a 24.7% probability of *<u>raising 25 basis points to 2.25</u>* when they meet on August 5th.

The S&P 1500 (292.63) was down 2.887% Thursday. Average price per share was down 2.60%. Volume was 113% of its 10-day average and 120% of its 30-day average. 7.57% of the S&P 1500 stocks were up on the day. Up Dollars was 1% of its 10-day moving average and Down Dollars was 326% of its 10-day moving average.

Options expire July 18th.

IMPORTANT DISCLOSURES

We got our breakout from the falling wedge pattern, and unfortunately it was to the downside. Now a 100% retracement of the March - May rally is not far away.

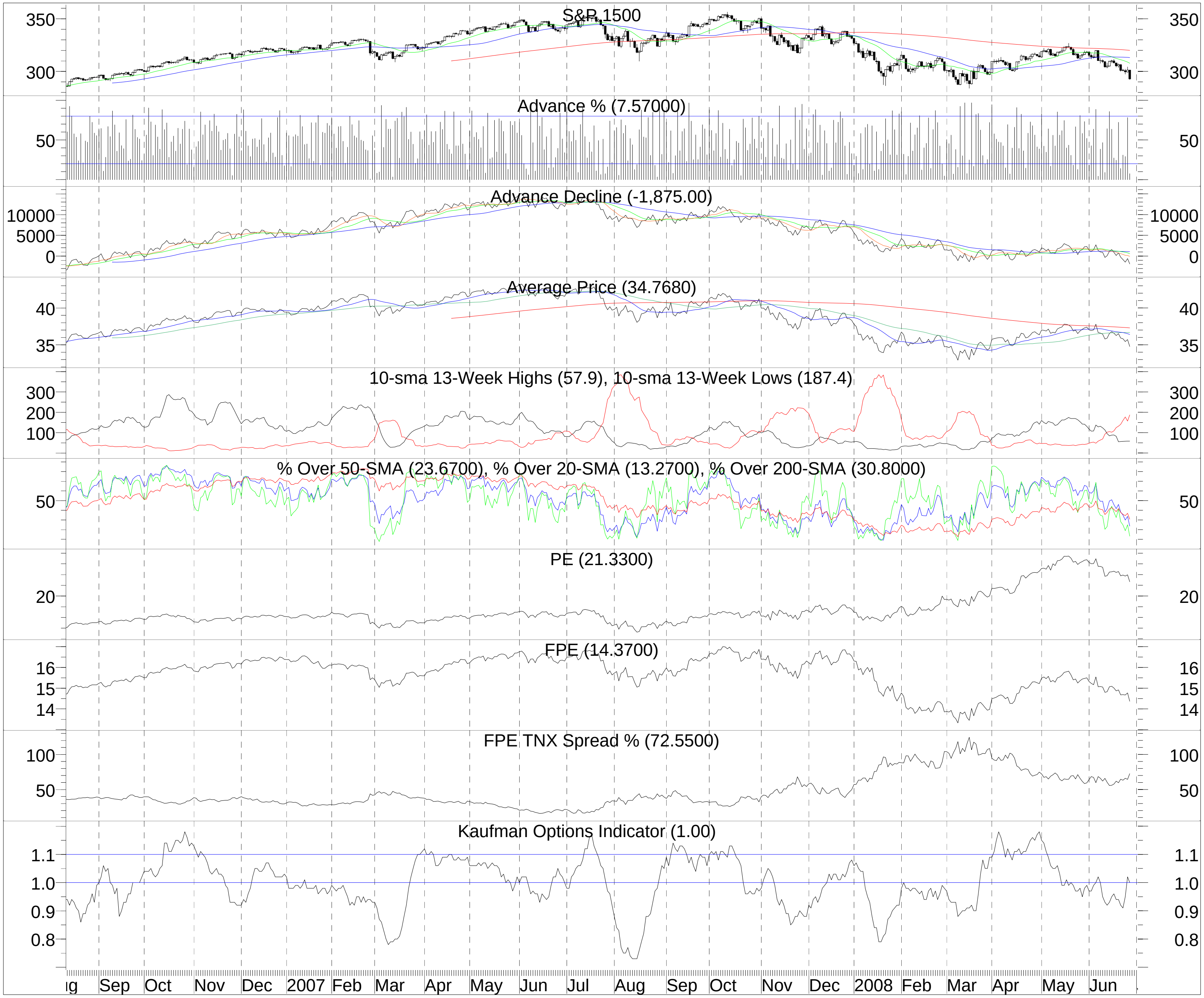
The Kaufman Report - Wayne S. Kaufman, CMT

Our oscillators are all in the oversold zone.

New lows are expanding.

Our price oscillator is nearing extreme negative levels.

Volume expanded Thursday.



7.57% of stocks traded higher Thursday.

The AD line made another low Thursday.

Only 13.27% of stocks are above their 20-sma.

The spread between the forward P/E yield and bonds is the widest since 5/9/2008.

Our proprietary options indicator is neutral. We prefer to see fear.