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The Kaufman Report

Trade what you see, not what you think.

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Friday November 7, 2008 **Closing prices of November 6, 2008**

Stocks plunged again Thursday, fractionally missing a second 90% panic-selling down day in a row. Every S&P sector was down again, led by Financials and Industrials. The S&P 1500 plunged through its 20-day moving average and the 50% retracement level of the recent sideways trading range. This greatly increases the odds of a retest of the October lows.

In the very short-term a bounce is likely after a two day drop of 9.94%. Spreads between bond and earnings yields are back at extremely wide levels, and the put/call ratio hit 1.33, a level indicating fear.

We had been hopeful that the recent rally would prove to have been started after a successful retest of the lows of October 10th, giving us at least a multi-week rally. We said during the recent rally that until proven otherwise we viewed it as being of the bear market variety. Unfortunately sellers, who had been reluctant during the rally, reappeared dramatically Wednesday and continued with no letup through Thursday. Investors now need to be on high alert for signs of further deterioration which could lead to another retest of the lows of October 10th, or even a move below it. Stocks may be ready to make another leg down, and the last stages of waterfall declines can be very painful.

<u>The short, intermediate and long-term trends are down. We reiterate that this continues to be an 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.</u>

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The S&P 1500 (204.84) was down 4.938% Thursday. Average price per share was down 4.34%. Volume was 102% of its 10-day average and 92% of its 30-day average. 10.31% of the S&P 1500 stocks were up on the day, with up volume at 5.2% and up points at 3.47%. Up Dollars was 1/6% of total dollars, and was 1/3 of 1% of its 10-day moving average while Down Dollars was 240% of its 10-day moving average. The index is down 6.69% month-to-date, down 38.19% year-to-date, and 42.52% from the peak of 356.38 on 10/11/07. Average price per share is down 44.72% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 1.33. The Kaufman Options Indicator was 1.00.

The spread between the reported earnings yield and 10-year bond yield is 37.56% and 132.95% based on projected earnings.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $10.45, a drop of 45.52%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $17.69, a drop of only 19.41%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.*

437 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.3 % have had positive surprises, 10.3% have been in line, and 31.4% have been negative. The year-over-year change has been -9.1% on a share-weighted basis, +6.7% market cap-weighted, and +2.0% non-weighted. Ex-financial stocks these numbers are 16.0%, 25.7%, and 21.4%, respectively.

Federal Funds futures are pricing in an 90.0% probability that the Fed will *cut rates 50 basis points to 0.50%,* and a 10.0% probability of *cutting75 basis points to 0.25%* when they meet on December 16th. They are pricing in an 73.8% probability that the Fed will *cut rates 25 basis points to 0.75%* on January 28th, and a 24.4% probability of *cutting 50 basis points to 0.50%.*

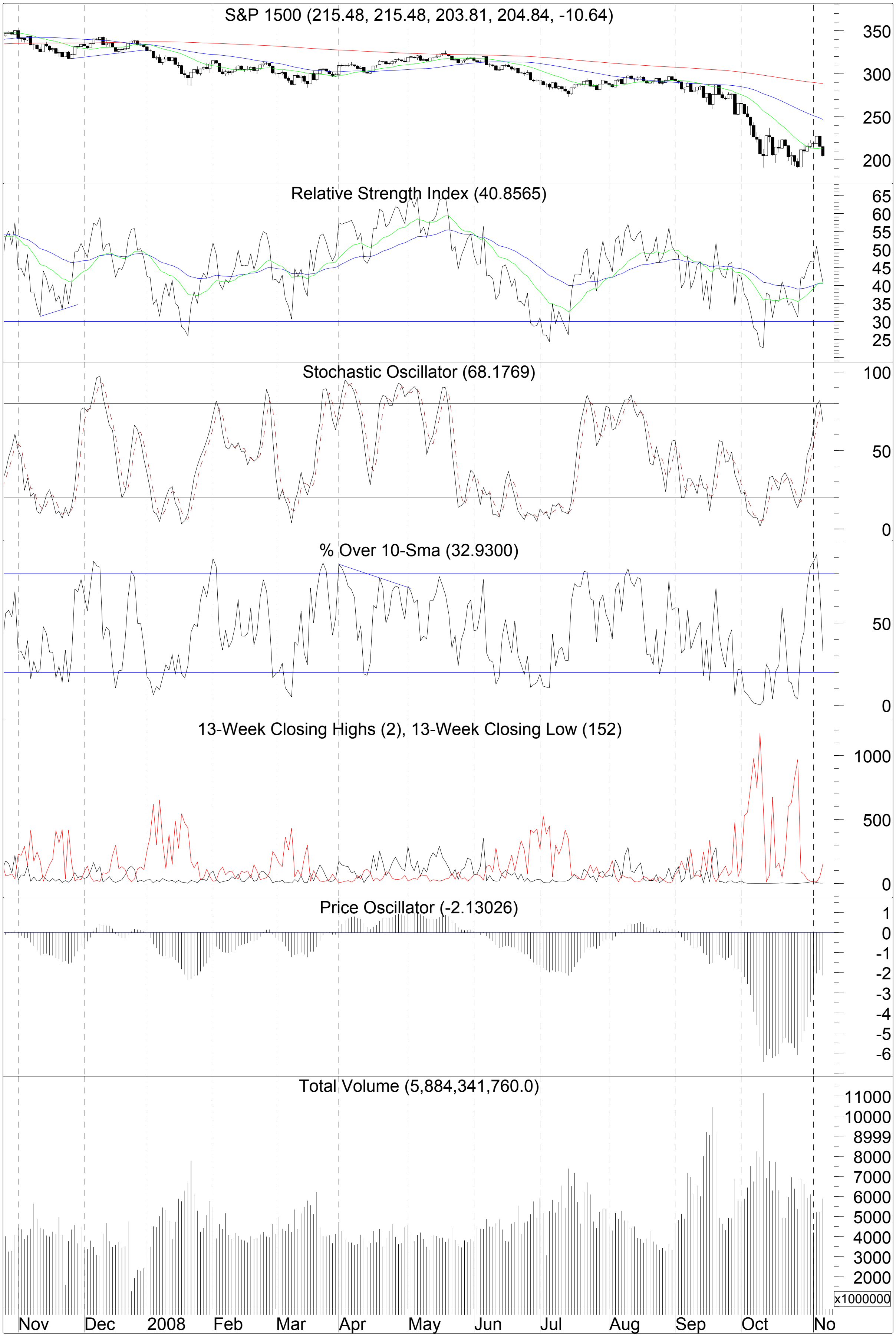
The short, intermediate and long-term trends are down. We reiterate that this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short, but the primary downtrend must be respected. Investors need to be alert to sector rotation and should not hesitate to move out of lagging sectors and stocks and into leaders.

Options expire November 21st. December options expire the 19th.

IMPORTANT DISCLOSURES

The S&P 1500 plunged through its 20-sma Thursday retracing more than 50% of the sideways range it has been forming. This greatly increases the odds of a retest of the October 10th low.

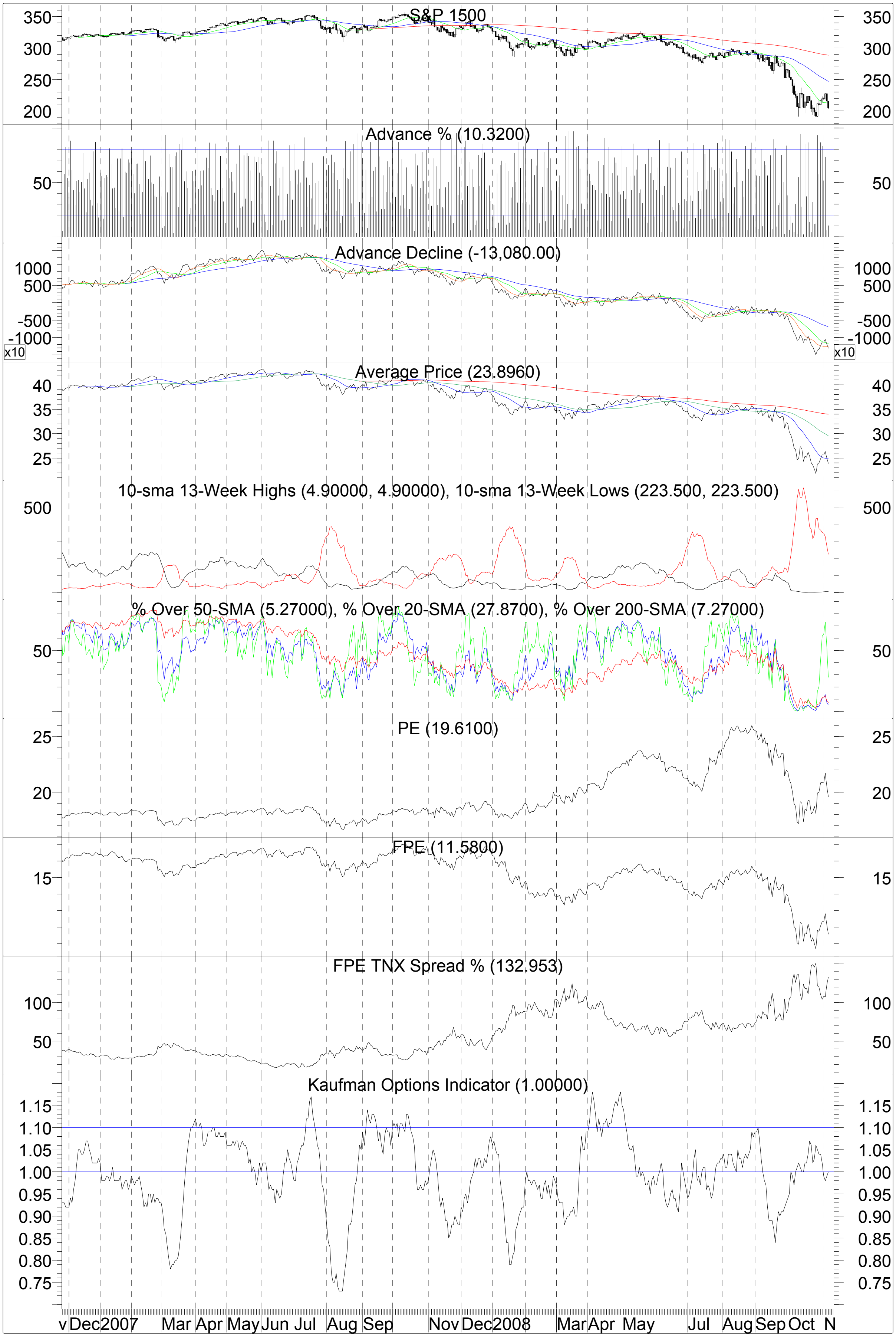
S&P 1500 Analysis - Wayne S. Kaufman, CMT



Our oscillators have dropped sharply but are not yet oversold.

Volume expanded during Thursday's plunge.

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



P/E ratios are dropping but are not yet at the levels where stocks bottomed in October. Unfortunately reported and projected earnings continue to move inexorably lower.

Our proprietary options indicator is neutral, not at the pessimistic levels where stocks have made important bottoms in the past.