NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update:

DJIA:	**12641**
S&P 500:	**1343**
Nasdaq:	**2857**
10YR T-Note:	**2.98%**
VIX:	**18.91**
EUR/USD:	**1.437**
Gold	**1612**
Crude Oil:	**99.26**

Prices Current as of 1:37 PM

Source: CNBC

Donald M. Selkin
Chief Market Strategist
(212) 417-8017
dselkin@nationalsecurities.com

Friday's very mixed session ended a rather good week, where the major averages rose on either side of 2% despite all of the anxieties over debt and budget issues both here and in Europe. The day was also unusual in the sense that a stronger Nasdaq did not motivate the Dow higher as it usually does, but the reason for this discrepancy not resolving itself in favor of the Dow joining the Nasdaq on the upside is that the entire Dow decline was a function of the lower market in one stock alone, namely the machinery manufacturer, on its earnings results.

In other words, as the Dow ended with a closing loss of 43 points, this one stock in and of itself accounted for 48 Dow points, which is even more than the Dow's decline, which meant that if it were unchanged on the day, the Dow would have been 5 points higher. The Dow was able to cut its worst loss, an 80 point decline at 10am, in just about half by the close, primarily because of the fact that the Nasdaq ended with a 24 point advance, the result of strength in technology issues, as the largest software company, of all things, actually reversed a lower opening after its earnings report Thursday night and ended with a nominal gain, and the flash data storage company ended with a strong gain after its report. In addition, those usual technology high-fliers kept rolling to the upside, as the large mobile telecom and computer stock reached another new record high price, and there were strong gains in the largest Internet search engine company, the online retailer that allows the consumer to name his own price, the largest online retailer and the largest Chinese internet company, as the latter three report their numbers this week. In addition, the largest chip-maker also went higher after initially reacting to the downside after its report earlier in the week. The Dow, on the other hand, in addition to the weakness in the one company as mentioned above, was also hampered by negative reactions to the reports from the technology and financial giant along with a telecommunications company as well, although the hamburger restaurant chain did reach an all-time high after its results.

In a sense it was a neutral day, as those mixed major average results and

breadth numbers reflected this with a slightly negative ratio at 14/15. The VIX did nothing, as it declined nominally to 17.52, a loss of .04.

The more interesting reactions to the debt crisis situation took place in the currency and bond markets, as the Euro gave back some of its large early gains against the dollar after the new aid plan for Greece was approved by European officials. The new plan now gives them powers aimed at preventing the debt crisis from spreading to Spain and Italy, but it did not help the Euro as ratings agency Fitch said that it will rule that Greece has defaulted on its debt as a result of the new $109 billion bailout. However, it had been expected that the ratings agencies would say that Greece had defaulted as a result of the new bailout and any default situation would most likely be brief. Greece, Portugal and Ireland will now have access to low-cost loans, but the former two could still fall into a mass default in the future, according to some currency experts.

Treasury securities rose for the first time in three sessions amid hopes that the President will reach a deal with lawmakers to cut the budget deficit and raise the borrowing limit, thus averting a default. The 10-Year Note yield declined once again to under 3%, this time down to 2.96%, continuing in that volatile but narrow range of the past few weeks as it reacts to every twist and turn in the drama being played out in Washington, D.C. over the budget and debt limit negotiations.

After the breaking off the budget and debt talks late Friday and all sorts of endless wrangling and proposals by the various parties over the weekend, the stock market accommodated those "nervous nellies" who wanted to sell by opening with a Dow loss of 145 points right off of the opening bell. From that level, things have choppily but steadily improved, with the Dow showing a loss of 29 points at its best level at 12:45pm. The Nasdaq actually went nominally positive due to unrelenting strength in the largest mobile telecom and computer company once again at another new all-time high, another strong

showing from the largest search engine stock and gains in the largest Chinese internet stock and the online movie rental company ahead of their earnings reports tonight. Breadth numbers are still weak at worse than a negative 1 to 2 ratio, but the most interesting item is the VIX, which is rising very strongly despite the fact that the major averages are now showing only nominal declines. It is currently up by 1.43 to 18.95, which would be more consistent with a Dow decline of around 145 points, which it was at the opening as described above. So as the Dow and the other major averages have improved as the session has worn on, the VIX is still maintaining that "fear" premium due to the still unresolved budget and debt issues. Of course, if they are resolved somewhat satisfactorily, this higher VIX will give the market more room to advance, so in a sense this could either turn out to be a foolish bet by those who are expecting the worst possible outcome, or a prescient wager if talks do eventually collapse and the August 2nd deadline passes without anything getting done.

Of course, supporting the market in an overall sense is the fact that of the 154 S&P companies to have reported so far, 75% of them have beaten their numbers, and the earnings gains so far have been 18%, much higher than the overall consensus (see below). On the other hand, those "fear" indicators, namely gold and the Swiss Franc, have both reached record highs against the U.S. dollar today, on the continuing flight into what are perceived as protection against the worst possible scenario developing.

For what it is worth, Moody's did cut the rating on Greek debt by three notches to Ca, which is one level above a debt default, joining the action of Fitch as mentioned above.

The Treasury market is declining once again and yields are up, but only nominally, as the fears that the U.S. faces a credit-rating cut if the opposing parties fail to reach a deal on the debt ceiling are still there.

The earnings parade continues this week with: tonight - BIDU, NFLX, TXN; Tuesday: 3M, AMZN, BWLD, HSY, JNPR, LMT, OXY, RSH, UPS, X; Wednesday: AET, BA, GLW, MCO, SBUX, V, WFM; Thursday: AOL, ADP, AVP, BMY, CL, DD, XOM, K, MET, ROK, TWC; Friday: CVX, MRK, NEM. This means that we hear from 6 Dow companies.

The economic calendar has some important reports, with the lineup looking as follows: Tuesday: July Consumer Confidence, June new home sales, June Richmond Fed Manufacturing Index; Wednesday: June durable goods orders, Fed Beige Book; Thursday: weekly jobless claims, June pending home sales; Friday: first estimate of second-quarter G.D.P., July Chicago Purchasing Managers' Index, NAPM July Milwaukee Index and final July U. of Michigan Consumer Sentiment Survey.

And to repeat what was said recently, the market has now taken on a resemblance to last year, when things reached their highs in late April, and then took a dive in May and June, which marked the lows for the year, and it was the same causes last year as well, with European sovereign-debt issues responsible for much of the comedown, although let us also remember that we started the decline this year from higher levels, which left the market more vulnerable to some sort of setback from the misplaced mind-set of higher commodity prices somehow being good for stocks. Let us hope that this year also sees the market low during this time period as well. And one sign for optimism in this regard is that the May and June declines this year were nowhere near as severe as they were last year and July was actually an up-month before another decline in August.

The S&P trades at 12.4 times forward earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $105 for 2011, according to the analysts who follow these companies. The average P/E multiple for the S&P going back to 1954 has been 16.2. Since 2006, the average

P/E multiple has been 14.7

For all of 2010, earnings increased by +38%, which was the most since 1995. For 2011, first-quarter earnings gained +19% and are projected to gain +9% for the second quarter as reported by Bloomberg Financial and the 14% projected gain for 2011 would be the largest two-year advance since the period ended in 1995. The highest ever earnings for the S&P in one year so far took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have seven consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first quarter of this year, according to the Commerce Department. For all of 2010, G.D.P. rose at a 2.9% rate, which was the highest since 2006 after a decline of 2.6% in 2009. For 2011, the prediction is now for G.D.P. growth of 2.5% and it is 3% in 2012, although estimates for this number vary widely and are constantly changing.

Donald M. Selkin

Disclosures

Don Selkin is the Chief Market Strategist at National Securities Corporation, member FINRA/SIPC, (NSC) and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analyses concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, Recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {Bloomberg Financial, Reuters, Associated Press}. It is possible that at any given point in time, the author, NSC, or one or more of its employees or registered individuals associated with NSC, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report. This Market Letter is intended strictly for current National Securities Corporation customers only.