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# Daily Market Notes

**Market Update:**

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| **DJIA:** | **11350** |
| **S&P 500:** | **1188** |
| **Nasdaq:** | **2493** |
| **10YR T-Note:** | **2.17%** |
| **EUR/USD:** | **1.443** |
| **VIX:** | **32.80** |
| **Gold** | **1796** |
| **Crude Oil:** | **87.69** |

Prices Current as of 2:00PM

*Source: Bloomberg*

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**Yesterday was a classic example of politicians failing to act in a manner that the market wanted to hear, and haven't we seen a lot of this lately. But one should not put all of the blame on the leaders of France and Germany for the market's woes, but their inept performance did not change things. In fact, if one wants to lay blame somewhere for the weak performance, it was poor economic reports from that part of the world in the first place which got things off to a weak start here and from which stocks could not really recover from.**

**The day started out poorly, as reports from Europe said that German G.D.P. rose by a paltry 0.1% this past quarter after a revised 1.3% jump the previous quarter. This was interpreted very negatively because this is the largest economy in Europe and is certainly the main driver of economic growth in that part of the world, in addition to Germany being instrumental in its involvement with various Greek rescue packages. In addition, G.D.P. in the 17-nation Eurozone rose by only 0.2% from the first-quarter, which was the worst performance since that area emerged from the recession in late 2009.**

**Not even some better news that the Fitch rating agency maintained its AAA rating for the credit of the U.S. (whew!) and July Industrial Production rose by the fastest amount in a year could do away with the European negativity. The latter strong report was primarily due to a recovery from the supply shock caused by the earthquake in Japan, which probably means that it will be difficult for factories to maintain this pace of output as consumer spending and exports cool off somewhat. There were also good earnings reports from the two Dow retail components, a hopeful sign that consumer spending has not completely fallen off the cliff.**

**As a result, the Dow started out with an opening loss of 130 points by 9:45am, from which it was able to battle its way back to a loss of only 40 points at 12noon just before the news conference from the French and German leaders. For whatever reason, their initial bland formulated statements caused a brief upward spike in stocks here which sent the Dow into very fast positive territory**

with a 5 point gain, which disappeared and then some when the rest of the press conference moved on. In fact, the Dow declined to as much as a loss of 190 points at its 1:15pm low, from which it attempted another comeback after the European leaders stopped talking, rallying to a loss of only 25 points at 3:45pm before doing a late fade to end with a final close of negative 77 points.

Let us also remember that the Dow did not get much support from the broader market, which is why it could not sustain its better levels. The main reason was that the Nasdaq/Dow ratio was weak, as when the Dow briefly stuck its head into positive territory as described above, the Nasdaq was lower by 8 points and we all know who wins that battle. Also, breadth numbers were poor all day, which means that the troops were not following the generals higher, and most of the Dow support came from the better results from the two retailers as already mentioned, as most other Dow stocks were lower and the few who did show gains produced advances of the very nominal variety. In fact, closing breadth numbers were at a negative 1 to 3 ratio, although this was a modest improvement from the worst intraday level of negative 1 to 5 when the market was on its 1:15pm low.

So what did the European leaders say to spoil the comeback attempt that was underway before they started talking? At first they issued a bland statement saying that they share "absolute determination" to defend the Euro, and what else were they supposed to say? They added that their goal is to reduce debts and deficits, no kidding, and that they were working on "ambitious" joint proposals together. Then they put a fast end to whatever upside in stocks was developing when they added that they are going to propose a financial-transaction tax in September, and poof went the rally, which as was pointed out, did not have good underpinnings in any event because of the poor Nasdaq/Dow ratio and the weak advance/decline line. The German president then also issued some pro-forma statements as well about "solidarity" and so on, and they also weakened the markets further by rejecting the idea of Eurobonds which would have allowed borrowing on behalf of all 17 members,

in addition to saying that they saw no need to increase the size of the Eurozone rescue fund. So this was really an example of politicians kind of messing up the markets once again.

After yesterday's declines, things started out nicely today, although the reasons offered for the advance seemed a bit sketchy, namely the fact that there were good earnings reports from some retailers, none of which are known as market leaders. From its best level of a gain of 123 points at its best level at 10:30am, things have deteriorated steadily and badly as this is being written, and the primary reason is the same one that has haunted the market for the past two days, namely the inability of the Nasdaq to carry its own weight, so to speak. It was noteworthy that even when stocks were showing nice gains to start out the session, ostensibly because of these "good" earnings, there were more important stocks that were lower because of poor reports, and these included the famous teen retailer, another one of those technology has-beens from the 1990's and a machinery maker. As things started coming off of their best levels, the Nasdaq went negative first, going into the minus column at 11:20am when the Dow was still up by 45 points, and we all know who wins that battle.

And now the "explanation" for the market's current weakness is that the has-been computer maker forecast weaker sales growth, which of course they forecast last night, so why does it suddenly become an epiphany when stocks start to decline? At its low, the Dow has lost 83 points. Breadth numbers were doing alright up until a Dow loss of 60 points or so, and then turned negative, so hopefully this will lead to better steadiness as the day moves ahead. The VIX was actually lower until a Dow loss of 70 points, which is sort of making up for yesterday when it advanced by a little more than it should have relative to the Dow's losses.

By some miracle, the financial stocks are actually higher a bit ,and it would seem that they should remain positive as long as the Dow does not decline by

more than 85 points or so. If these stocks can manage to steady, this would be helpful for overall market prospects.

The July P.P.I. report rose by 0.2% and the core rate actually increased by more, a gain of 0.4%, which means that the overall number was helped by lower energy and food costs last month, but apparently there were increases in tobacco, truck prices and pharmaceuticals. This shows that inflation overall is still contained for the time being.

This week has seen a number of economic reports which have sort of influenced things one way or the other. The report lineup finishes the week with - Thursday: July Consumer Price Index, weekly jobless claims, July Leading Economic Indicators, July existing home sales and August Philadelphia Fed Manufacturing Survey. So this is quite a bit and hopefully the damage from these reports will not be as great as expectations and hopefully the market's large recent decline has already discounted any potential disappointments.

The earnings season for the second-quarter basically draws to a close this week, highlighted primarily by retailers: tonight: NTAP, PETM, SINA; Thursday: DLTR, INTU, GPS, CRM, SHLD, HPQ, RST.

The market has 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 under 12 times 2011 earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are now projected to be $96 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 +17% for the second quarter as reported by Bloomberg Financial and the 16% overall 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. For 2012, earnings are now projected to be $104 for the S&P.

After four consecutive quarters of negative G.D.P. growth, we now have eight consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first quarter and second quarters of this year, although these numbers are weaker than earlier estimates, according to the Commerce Department. For all of 2010, G.D.P. rose at a 3% rate, which was the highest since 2006 after a worse than originally estimated decline of 3.5% in 2009 and an overall decline of 0.3% in 2008. For 2011, the prediction is now for G.D.P. growth of 2% and it is 2.5% in 2012, although estimates for this number vary widely and are constantly changing.

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## 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.*