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Daily Market Notes

Market Update:

DJIA:	10960
S&P 500:	1141
Nasdaq:	2384
10YR T-Note:	2.09%
EUR/USD:	1.440
VIX:	41.22
Gold	1855
Crude Oil:	83.25

Prices Current as of 12:59PM

Source: Bloomberg

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

What was most disturbing about yesterday's downside bloodbath was that just when it seemed safe to go back into the water once again, so to speak, after the Dow had produced the following results starting last Thursday: +423, +126, +214, -77 and +4, things once again got clocked big-time to the downside. If one wants to put a negative interpretation on this action, it shows that the relief rally off of last week's lows was a bear market rally. If one wants to put a better spin on things, one can say that at market bottoms there is very violent back and forth market action until the bearish forces finally run out of reasons to keep selling.

The market's goose was cooked even before the opening here, and once again it was primarily overseas developments that were to blame, as there was a report that a large U.S. financial house cut its forecast for global growth this year to 3.9% from 4.2%. Then the chief economist at Sweden's financial regulator said that it will not take much for interbank lending to freeze, thanks a lot. There was another report that U.S. regulators were scrutinizing the American operations of Europe's largest lenders to assess their vulnerability, concerned that the Eurozone debt crisis could spill into the U.S. banking system. The U.S. money market funds industry, which supplies short-term dollar funding to banks, has retreated from the Eurozone recently on concerns that their debt crisis is getting worse. That plus the drying up of interbank lending has led to a tripling of dollar funding costs for Eurozone banks this past month. In fact, one of these banks was forced to borrow dollars at the E.C.B. yesterday. Even remarks from a top Federal Reserve policymaker that despite "anemic" U.S. growth, the risk of a double-dip recession is "quite low", did not help.

Adding to the anxieties was that the Treasury market narrowed the yield spread between the longer term issues and the shorter ones once again, as the two-year yield at .20 really does not have much more room to decline, so buyers gravitated toward the longer maturities on the slowing economy scenario. As a result, the 30-year yield declined by 9 basis points to 3.48%, the

10-year yield came down by 7 basis points to 2.10%, while the two-year note rose by 1 basis point to .20%. The yield curve is still positively sloped, although by much less than it was back in February, when economic experts were falling all over each other to raise their growth forecasts. At that time the yields were 4.8% and .80% respectively for the 30 and two-year maturities.

As a result of this negativity, the Dow fell to a fast loss of 350 points, when at 10am the market got hit over the head with weak economic reports here, as weekly jobless claims rose by 9,000 to 408,000, which was the highest in a month. The July C.P.I. report was similar to the P.P.I. report released yesterday in the sense that the overall number was higher than expected while the core rate was lower due to declines in food and energy. The overall number rose because of increases in rents, along with apparel and prescription drug prices. These two reports were released before the market opening.

Then at 10am, the market really got sold off, with a decline in July existing home sales after the experts had predicted a small gain and the August Philadelphia Fed Index declined by a huge -30 when a gain of 2 was forecast by the experts. This was the lowest since March 2009, and the market hit the panic button after this release with a plunge of 528 points on the low. Not even a better reading from the July L.E.I. figure could stem the downside, but things are trying to do a bit better, as the Dow rallied back to a loss of "only" 350 points at 12:20pm when a report that the largest computer company plans to spin off its personal-computer business was released, which caused the stock to rally by 17% from its intraday low before setting back once again.

From that best intraday level of being down by 350 points on that bizarre computer company rally, which disappeared and them some very rapidly, the Dow once again declined to just about as low as it had gotten in the morning, this time a loss of 520 points at 3:45pm, when by some miracle it managed to make a very fast upward move to finally end another tumultuous day with a closing decline of 420 points, and welcome back to early last week.

And on a downside disaster like this, we get all of the accompanying accoutrements, as breadth numbers were awful at a negative 1 to 16 ratio and only 10 of the 500 S&P stocks managed to gain, as did only one member of the Dow. Naturally when the VIX saw all of the panic selling once again, it made a very large gain of 11.09 points up to 42.67, so now we are back in volatility land.

And hurting very badly was the fact that for the third straight day, the Nasdaq was much weaker than the Dow, as large technology stock leaders from earlier in the year got sold off by many points, and the point loss for this index was the largest since August 8th when it declined by 136 points with the Dow down by 634 and yesterday it was lower by 131 relative to the Dow loss of 420. In addition to those pathetic financials, other groups getting sold off were growth areas like the industrials and retailers,

After yesterday's downside debacle, the overseas markets got clocked big-time to the downside once again, and so what else is new with that knee-jerk reaction? And for the second straight day, large financial houses lowered their economic forecasts, as one of them said that the U.S. economy may expand less than previously thought in the next two quarters as consumer sentiment has declined and the housing market fails to gain momentum. G.D.P. will now grow by 1% in the fourth-quarter rather than the 2.5% previously forecast and 0.5% in the first-quarter of 2012 instead of 1.5%.

As a result of all this negativity, plus a horrible performance from the Dow largest computer company component, which will now join the ranks of has-beens along with other former illustrious names, the Dow started today with a fast loss of 120 points by 9:50am, from which level it made a very fast upside recovery to a gain of as much as 95 points at 10:30am, from which level it has been chopping around between gains and losses. And let us not forget that today is the options expiration for the August series which might or might not enliven the premises as the session comes to an end. The computer company

just by itself is accounting for 46 points of Dow losses, so there is some distortion with that one.

The rally off of the lows was apparently the result of a statement from a top European monetary official that the E.U. may draft legislation on joint issuance of Euro bonds and present it along with a report on the feasibility of these common bonds. Then the German Chancellor threw a wet blanket on that idea when she said "we do not want that" and that a "collectivization" of the region's debt would leave Euro members worse off. And if these are in fact the reasons for the stock market's gyrations here, it is really pathetic that our stocks are held in thrall to these European politicians who have obviously mishandled their own issues for the past year or so.

It is imperative that the market takes a stand today because if it does not, then next week could see more of the same. By most measures, stocks are at their cheapest levels since the market bottom in March 2009 and hopefully this will draw buyers in at these prices.

We will put next week's earnings calendar in Monday's report, and this list is thinning out rapidly and we will also list the economic report schedule, but the major event might or might not be Chairman Bernanke's Jackson Hole, Wyoming speech and everyone will be hung up on it because as we all know, it was at this event last year that he launched the famous (or infamous) QE2 program, which has been a failure because it did almost nothing for the economy and all it did was raise commodity prices through the weakening of the dollar, which has helped to put us in the mess that we are currently in.

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 1.5% and it is 2% 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.