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Daily Market Notes

Market Update:

DJIA:	**11092**
S&P 500:	**1152**
Nasdaq:	**2417**
10YR T-Note:	**2.12%**
EUR/USD:	**1.442**
VIX:	**38.19**
Gold	**1859**
Crude Oil:	**86.18**

Prices Current as of 1:04PM

Source: Bloomberg

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After four-down weeks in a row and the worst such performance for equities since the market bottom in March 2009, stocks tried to make an upside recovery yesterday, as the various stock index futures were indicating a very strong opening. And sure enough, the Dow accommodated those who believe that equities represent good value here with an extremely strong surge out of the opening gate to the tune of 203 Dow points right off of the opening bell.

But alas, this optimism ultimately turned out to be some sort of mirage, as sellers leaned into this rally in a big way, knocking the Dow to its lows of the day by 12noon with a gain of only 9 points. There must be investors out there who do not believe in the sustainability of any sort of market recovery, which hopefully sets things up for some kind of bottom here. In any event, the bullish forces tried once again to get the upside, rallying the Dow to a gain of 133 points by 1:15pm, which was the secondary high of the day, before things started easing off once again. At 3:45pm the Dow was still ahead by 90 points, which was somewhat respectable but also disappointing in terms of where things were at their best levels and more importantly where they were before this downside massacre of the past four weeks. But when it rains, it pours as the old saying goes, and as if the optimists have not had to deal with enough negativity lately, out of nowhere came report that none other than the C.E.O. of the prominent investment bank that has been at the center of the storm of controversy over their actions in handling mortgage-type products that were ultimately toxic to those who purchased them, but not to those who took the bearish side of the trade as they did, had retained a prominent criminal defense attorney who has represented the likes of the former WorldCom C.E.O. who was sentenced to 25 years in prison and the former Enron Chief Accounting Officer who was sentenced to 5 ½ years in jail.

This gave investors another "reason" to sell and as a result, the Dow headed south again to end with a closing gain of only 37 points, which represented a huge intraday downside turnaround from its best levels. The other major averages also finished nominally higher as well, but breadth numbers were

negative by a ratio of 13.5/17, which made the day more of a mixed one rather than a positive one as the averages would have one believe. The VIX declined by a little more than it should have relative to the Dow's advance, which continued a trend which began during Friday's late-day selloff, and is perhaps indicating that investor sentiment is getting a bit less gloomy, with a decline of .61 to 42.44.

To no one's surprise, those awful financials led the decline, with most of the large ones getting sold off to new 52-week lows, as all of the issues surrounding them do not seem to be improving. On the other hand, the now former maker of computers, another downside disaster which has now joined the sad list of technology has-beens, finally showed a pulse after its stock has lost 42% of its value this year, and perhaps that is why hope may spring eternal for the banks as well.

All of this turbulence comes as a prelude to the main even this week, otherwise known as the Fed's annual symposium in Jackson Hole, Wyoming in the foothills of the majestic Grand Teton mountains, at which time Chairman Bernanke will answer the question of "QE3, to be or not to be?". Let us also remember that the QE2 program, which ended on June 30th, was a failure in my opinion because it did almost nothing for the economy and all it accomplished was to raise commodity prices through the weakening of the dollar, which has partly helped to put us in the mess that we are currently in. Stocks are just about at the same levels that they were at the start of the program last year and one of the reasons for the implementation of this program was their fear of inflation at the time, so through this dollar weakening policy, now the talk is of potential inflation pressures starting to build, which is another reason why the program has to be deemed an overall failure, and look at the dismal state of the economy today for further proof of its ineffectiveness.

Bond yields continued to stay at close to record low levels, and they are probably pricing in some sort of $500-600 billion worth of purchases by the

Fed, or pricing in an economy that is going to shrink by 2%, which is something that should not happen. If the Fed does in fact do something, it would probably be along the lines of the purchases just mentioned and also maintaining of the size of their balance sheet at its current $2.8 trillion level, which is up from $900 billion before the implementations of the first two stimulus programs.

As if to make up for its dreadful comedown from opening levels yesterday, stocks are doing better today off of their oversold condition and on valuation levels that we have been pointing out lately that are very reasonable on a historical basis, especially when compared to bonds. Despite more woes from some banks, the Dow started out higher and never looked back despite two economic reports that came in slightly worse than expected, namely the July new home sales number and the August Richmond Fed Manufacturing Index.

At its best level, the Dow was able to gain 235 points at 1pm and is currently trading near that level as this is being written. There was a report that the F.D.I.C's list of "problem" banks fell in the second quarter as the cost for bad loans declined. But don't tell this to the bank with the largest amount of consumer deposits, which fell even more as the cost to protect its debt surged to a record. Despite the awful performance from this issue, other banks actually have the nerve to be slightly higher after making new yearly lows earlier in the session. Breadth numbers are excellent at a 5 to 1 upside ratio and the VIX is declining by more than it should be for the second day in a row, with a loss of 4.00 to 38.44 relative to the Dow's current advance of around 227 points as this is being written.

It would be nice if the market can go the distance today for a change, and one thing working in its favor is that the Nasdaq/Dow ratio is supportive for a change after last week's disastrous performance for the technology stocks. This could ensure a better outcome as the afternoon progresses.

This week's earnings calendar is not worth listing, as none of the stocks on it are considered market movers and investors are more concerned with the macro issues at present in any event. Economic reports see weekly jobless claims on Thursday, and then the big events on Friday, namely the next revision of second-quarter G.D.P, which is projected to decline to 1.1% from its current reading of 1.3% and then the Fed speech. The best thing that they can do would be to say they are going to continue to purchase 30-year bonds and keep the size of the fed balance sheet the same as it currently is. But let us also remember that it was last year's Jackson Hole, Wyoming speech that 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 partly 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.

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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.