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Daily Market Notes

Market Update:

DJIA:	**11489**
S&P 500:	**1203**
Nasdaq:	**2545**
10YR T-Note:	**2.27%**
EUR/USD:	**1.45**
VIX:	**46.32**
Gold	**1790**
Crude Oil:	**87.17**

Prices Current as of 1:40PM

Source: Bloomberg

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Special comment: We sent out earlier today a summary piece of all of the reasons why we feel that the purchase of high-quality dividend paying stocks is an appropriate strategy in today's market. This piece is a summary of our recent market discussion conference calls and also the Wall Street Journal's article which sort of pointed out the same things that we have been advocating.

Well, well, well – in a buildup reminiscent of the excitement that must have surrounded Moses descending from Mt. Sinai with the Ten Commandments, Fed Chairman Bernanke made his long-awaited, over-hyped and eagerly anticipated speech on Friday in the magnificent setting of the Grand Teton mountains in Jackson Hole, Wyoming.

And what he said had the astounding effect of causing all markets – equities, bonds and commodities to rally, and how do you like that? But it was not before the equity markets sort of went into an initial dive of 218 points at 10:06am, namely six minutes after the text of the speech was released. After those who wanted to sell were satisfied at the lower prices, things started to improve. In fact, various stock index futures and equities themselves were under pressure early in the session because of the downward revision of the second-quarter G.D.P., from the last estimate of 1.3% to 1%, which combined with the first quarter of only 0.4% meant that the first six months of 2011 have been the slowest growth period since the recession officially ended in mid-2009. We had detailed the breakdown of the revision in Friday's market notes for those who still want to see it.

The improvement in stocks indicated that things were going to get better, namely because one of our favorite indicators, the old Nasdaq/Dow ratio, was giving out positive signals, as the former actually turned positive at around 11am while the Dow was still lower by 100 points, and how many times have we seen the Nasdaq lead the upside charge from a lower opening, which has the effect of pulling the Dow higher as well, which is exactly what happened as the

day moved on. As a result, the Dow ended with a 134 point positive close, which sort of counteracted the previous day, when it underwent an intraday 300 point downside turnaround, so on Friday the bullish contingent got its measure of revenge, so to speak, with an intraday upside reversal of about the same amount. The Nasdaq kept going and going and ended with a very strong advance of 60 points relative to the Dow's advance of 134. We had mentioned on Friday that even when the market was on its immediate post-Bernanke short-lived lows, those high-priced technology stocks were giving off signals that they wanted to let loose on the upside by actually being unchanged or even slightly higher even as the Dow hit that 218 point loss.

Breadth numbers were very positive at more than a 5 to 1 upside ratio and the VIX also got blasted to the downside with a much larger than normal loss of 4.57, down to 35.59 relative to the Dow's 134 point advance.

So what did Bernanke say that accounted for the ultimate upside gain after the initial negative reaction, or in other words, what changed in the interpretation of his speech that resulted in the complete turnaround in sentiment?

The first thing is that it was pointed out that he mentioned the word "fiscal" 15 times more than "monetary" in his speech. By doing this, he put the ball squarely in the court of Congress and the President when he said that "Most of the economic policies that support robust economic growth in the long run are outside the province of the central bank." And what a way to deflect blame from himself if the economy goes back into a double-digit recession, which does not appear likely but these words certainly give him cover to deflect the blame. And even though he did not announce any sort of QE3 program, which is what the bulls were originally hoping for and which is why the market originally declined, he did leave "the door open" for some sort of new stimulus.

So why did the bond market rally along with stocks, when the trend lately has

been for Treasuries to move in the opposite direction from equities? The "explanation" here was that he did endorse the use of additional stimulus measures if necessary. And why did gold and other commodities rally on his speech as well, and here the explanation was that by leaving the door open to new stimulus, this would once again weaken the dollar and be positive for commodities.

In a sense, all of the various markets put their own spin on what Bernanke had to say, and sort of ran with it on the upside, but the most important result was that stocks finally ended their recent horrendous string of four straight down weeks as the Dow gained 4.3% last week, the S&P rose by 4.7% while the Nasdaq was the hero with an advance of 5.9%. More importantly, it is looking more and more like that 1101 S&P low from August 9th is going to be the extent of the downside, which is why we have strongly been advocating the purchase of these high-quality dividend stocks at cheap prices.

After Friday's rip-roaring upside reversal, things today are continuing the bullish party as the market came charging out of the starting gate and has really never looked back. One of the reasons being put forward for today's strong showing is that there was a merger of two Greek banks, would you believe it, which is being interpreted as meaning that their financial situation is improving. And for those who are dying to know which two banks they were, they are none other than Alpha Bank and EFG Eurobank. In addition, there has been relief that the liability of the insurance companies to potential claims from Irene has been lowered to around $2.6 billion from an initial estimate of as much as $14 billion. There was also an economic report that was interpreted as constructive, namely July personal spending, which rose by 0.8%, the most in five months. In addition, July pending home sales, despite their decline of 1.3%, are actually above their year-ago level.

Basically what this rally and Friday's rally show is that with the absence of negative news, stocks are undervalued relative to their projected earnings

and equally as important, relative to yields in the bond market.

And talking about bonds, this market is getting sold off to the downside as stocks are rallying, on the better economic signals as mentioned above, and on less of a need for "flight to quality" buying because of the lessened Greek anxieties, which just goes to show that those investors who buy on these so-called "flights" end up with losing positions relative to where they bought it, which is just another example of why it is always better to buy at lower levels instead of higher levels.

And almighty gold, which showed the first signs of cracking last week, is also reversing its post-Bernanke euphoria as the rising stock market is lessening that so-called flight to quality buying here as well.

Breadth numbers are extremely strong at a positive 10 to 1 ratio and the VIX is lower by 2.73, down to 32.86 relative to the Dow's current gain of 212 points, which is close to the best level of the day.

Earnings season is virtually over, but if you thought that last week was full of economic news, now we can all worry about this week's calendar, which will be loaded with reports, highlighted by Friday's August jobs number, and similar to the high level of anxiety ahead of the Bernanke speech today, imagine what this one is going to produce. The lineup is the following – Tuesday: June CaseShiller home price index, August Consumer Confidence, minutes of the last Fed meeting and won't this make for some good reading; Wednesday: ADP employment estimate for Friday's jobs report (oh, no!), August Chicago Purchasing Managers' Survey, July factory orders, August NAPM Milwaukee Purchasing report; Thursday: weekly jobless claims, July construction spending, August ISM Manufacturing Survey, domestic vehicle sales; Friday; August jobs report whose estimate is currently for a gain of 80,000 versus July's 117,000 gain.

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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.