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Daily Market Notes

Market Update:

DJIA:	11530
S&P 500:	1207
Nasdaq:	2564
10YR T-Note:	2.18%
EUR/USD:	1.442
VIX:	33.10
Gold	1825
Crude Oil:	88.94

Prices Current as of 1:25PM

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. For the specific dividend paying stocks that we had listed, please refer to the summary notes from the August 10 and August 17th meetings.

It must have been that all-time record one-day gain of 18.5% in the Cyprus stock market yesterday, or perhaps it was the fact that the Greek stock market made its best one-day gain in 20 years with a 14% advance, but whatever it was, following Friday's dramatic 352 point upside reversal after Chairman Bernanke's speech, things opened higher and never looked back.

As a result, the Dow ended with a closing gain of 254 points, which means that it has been straight up for 606 Dow points since 10:30am on Friday. It also looks more and more as if that August 9th intraday low of 1101 for the S&P and 10,604 for the Dow could be it on the downside.

Breadth numbers were extremely positive at better than a 10 to 1 ratio and 495 of the 500 S&P companies were higher, but let us also remember that there was one session during the August downside debacle that 499 of these same stocks were lower, so here was a case of reverse justice, so to speak. The VIX, which is starting to come back down to earth, declined by more than it should have relative to the Dow's advance, falling by 3.31 to 32.28. And for the second day in a row, the Nasdaq led the upside charge, as let us remember that on Friday it was the index that turned positive first, which then motivated the entire market higher. It ended with a strong advance of 82 points, as once again those high-priced technology leaders which led the upside. And let it be noted that they had been the darlings of the earlier in the year market advance to the highs, but then underwent significant declines on a percentage basis in many cases of more than the S&P decline of 19.6%. This added to their advances of last week.

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And how about those financial stocks, which were given up for dead before Warren Buffett's investment in the most beaten-down of the large banks appears to have put in a bottom for some of those larger banks. They also did very well, in addition to the insurers, which rallied strongly on the estimate that their liabilities from Irene are going to be much less than originally feared.

The Greek stock market got an upside boost from the merger of none other than Alpha Bank and EFG Eurobank, which eased the situation in that part of the beleaguered Eurozone. Helping the sentiment once the trading day got underway here was that June personal spending rose to its highest level in five months, proving that the consumer is still kicking and the gains were primarily the result of good auto sales.

After last week's gains and yesterday's upside moonshot, things started out lower today based once again on troubles in Euro-land, as the August European confidence in the economic outlook number declined to its lowest level since December 2008, no surprise given what has transpired over there, and not helping either was that yields on Italian bonds rose once again as the result of a poor auction. In addition, the June CaseShiller Home Price Index sagged once again with a 4.5% decline, bringing the year-over-year loss to 5.8%.

As a result, the Dow was lower by 35 points when the August Consumer Confidence Index showed a decline to 44.5 from last month's 59.2, the lowest since April 2009 and the largest point decline since October 2008. Well, this was all that a near-term perhaps overbought market needed to see, with the result that the Dow obliged those who felt the need to sell on this number by declining to a fast loss of 110 points right after the 10am release of this report.

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From that low, things once again dug in their heels, as the Nasdaq did a repeat of its leading the upside charge similar to Friday, and turned positive at 11:30am while the Dow was still lower by 20 points or so. When the Nasdaq continued its advance to show a gain of as much as 16 points, the Dow got the wind at its back and was able to advance as much as 42 points. From those 11:45am highs, things have set back a bit as both of these indexes are now nominally positive as this is being written. The VIX is following the Dow today almost perfectly, rising by 1.27 when the Dow was on its 110 point low, and then declining a bit as the Dow is slightly higher. We can all be assured that this situation is going to fluctuate considerably as the day moves on, especially when the next big event, namely the release of the minutes of the last Fed meeting, which will take place at 2pm. And naturally when this happens, the market will put its new spin on this event, just as experts were "explaining" the Dow's 110 point decline after the awful Consumer Confidence number was released. And who knows how the Fed minutes will be spun?

Breadth numbers are positive from a weak opening reading, and are currently at a 16/13 level, and the Dow is being led by some of its industrial components in addition to the largest software company, which is the beneficiary of dividend raising talk, whether that materializes or not. And how about the hamburger restaurant chain at a new all-time high, which is a real rarity for a blue-chip stock in this atmosphere.

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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: later today – 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.

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.

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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.