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Daily Market Notes

Market Update:

DJIA:	**11257**
S&P 500:	**1181**
Nasdaq:	**2494**
10YR T-Note:	**2.48%**
VIX:	**35.37**
EUR/USD:	**1.421**
Gold	**1658**
Crude Oil:	**85.44**

Prices Current as of 12:11 PM

Source: CNBC

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Ugh! Yesterday's market disaster was sort of stocks saying to investors the OPPOSITE of what the poetess Elizabeth Barrett Browning said in 1850 in Sonnet 43. The poem said "How do I love thee, let me count the ways". Stock said to investors – "How do I hate thee, let me count the ways." So let us read the sad statistics and weep:

1) The Dow's 513 point decline was its ninth largest one-day point loss ever (not in percent).
2) The Dow loss was the worst since December 2008.
3) The S&P decline was the worst since February 2009.
4) The advance/decline came in at one of its worst ever negative ratios, at 1/20.
5) The S&P has now declined by 10.7% in the last 10 days, which was the worst such decline in this period of time since the 10 days ended on March 6, 2009, when it was down 11.3% and which marked the end of the bear market.
6) Volume reached its highest level since June 25, 2010, which put in a temporary market bottom at that time.
7) The VIX rose by its largest amount since February 2007, an astounding one-day gain of 31.7%.

The day started out with what looked like a garden variety loss, with the Dow down by what turned out to be its best level, a loss of 110 points. Similar to Wednesday, unfortunately it began a classic "down staircase" lower pattern, where each successive high and each successive low became lower in a down trending channel. Also in classic fashion, the market then went into an accelerated down draft in the last 45 minutes, as at 3:15pm, the Dow was down by "only" 320 points, from where it proceeded to undergo a complete collapse to its eventual close with a loss of those 513 points.

The stocks that got sold off the most, in addition to the financials, which have now taken on a weakness of their own, were the energy, industrial, mineral and resource stocks who get much of their earnings overseas, and which were touted earlier in the year just for that very reason. Now they are suffering the

consequences of that slowing growth and worse in Europe and other parts of the globe. And once again, the E.U. officials seem to be oblivious to what is going on, as they did buy the bonds of Ireland and Portugal, but forgot about the new problem children on the block, namely Italy and Spain, as they hope this action what offer a new round of funding to some commercial banks.

And how about crude oil, with a large decline of $5 down to $87 a barrel, which is obviously going to lower energy costs for consumers and businesses. But in the sick symbiotic relationship that I have been pointing out all year, when commodity prices go higher, this is what the market loves, because then investors can say – worldwide economic growth is improving. And even almighty gold took a day off, rallying to a new all-time high price of $1,681 an ounce before actually ending the day lower, as even it could not withstand the beating that most markets took.

And a market that did not take a beating, in fact it did the opposite by rallying to all-time highs in some cases and record low yields, was the U.S. Treasury market, which saw the yields for the two-year issue fall to a record low .26% while the 10-year Note declined to a new yearly low of 2.40%. The one-month T-bill had the nerve to trade at a slightly negative yield, as it guarantees a loss right off of the purchase, where at least with a stock a person might or might not make a profit. This was because BK had the nerve to charge large deposits a "custodial fee", to do these institutions a favor to hold their money, and the charge is .13%, thanks a lot guys.

The S&P has now declined from its late April high of 1370 to 1200, which means that as of yesterday it had fallen by 12.4%. Last year it fell by 17% from late April until the mid-summer low, so as I have been saying below, this year has taken on a spooky resemblance to last year, which eventually ended pretty well.

Can one imagine what would have happened if today's jobs report was a bad

one instead of a pretty decent one? July payrolls rose by more than predicted, by 117,000 after an upwardly revised number for June, and the unemployment rate did decline to 9.1%, but this was a function of more workers leaving the labor force.

After a bullish knee-jerk reaction higher, with the Dow soaring by 171 points right off of the opening bell, things started to deteriorate, courtesy of a poor Nasdaq/Dow ratio, as the former went negative at 9:50am after having been higher by 36 points, which is just about what it should have been relative to the Dow's advance. But despite good earnings from PCLN, practically every other technology stock started a very fast decline, which put the Nasdaq negative very quickly. When the Nasdaq went negative, the Dow was still ahead by around 70 points, and unfortunately we know who wins that battle. Hurting the Dow and S&P is another absolutely pathetic performance from the financials, after a brief higher start as well.

As a result, the Dow has chopped around so far with a downward bias, reaching a low of 138 points lower, and breadth numbers have deteriorated to a horrible negative 1 to 6. And the VIX, which had declined by a large 4.12 points to 27.54 when the major averages surged on the opening, has now resumed its climb once again, rising as much as 3.38 points to 35.04, which just goes to show how the sentiment is changing back and forth in a very volatile manner.

It goes without saying that the market must dig in its heels and not go into another one of those late swoons, or at least not get any worse than it already is, or next week could see more poor market action as well.

The earnings season, which has been a good one with 400 of the S&P companies showing 72% of them have beaten the forecasts, with profit growth at around 16%. But the market is obviously looking ahead to a potentially slower earnings season in the second half of the year, and that will be the big

question as to how the market performs from here on out.

Next week sees a few earnings, which obviously are not going to have much of an impact on the overall market, as we have seen this week, and there is a Fed meeting on Tuesday which will obviously be super-important.

And with the S&P trading at a forward price/earnings multiple of 11.9 to 1 based on estimates for $100 earnings this year, one would like to believe that stocks are attractively valued, but the market for the time being is taking the view that the weaker economic reports are going to prevent this number from being reached, and of course that will be the main issue facing stocks in the second half of this year.

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 11.8 times forward earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $100 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 +13% for the second quarter as reported by Bloomberg Financial and the 17% 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.

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.