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Daily Market Notes

Market Update:

DJIA:	**11545**
S&P 500:	**1210**
Nasdaq:	**2556**
10YR T-Note:	**2.14%**
EUR/USD:	**1.43**
VIX:	**31.52**
Gold	**1831**
Crude Oil:	**88.96**

Prices Current as of 1:45PM

Source: Bloomberg

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Well, well, well – after a horrible start to the month of August, with the S&P having declined by 18% from its July 22nd high of 1346 to its August 9th intraday low of 1101, the past eight days have actually seen the S&P put in its best gain over this time period since 2009, go figure. In fact, the major indexes have advanced by 7 out of those days, which probably means that the market is trying to put in some sort of bottom after the horrendous decline as just mentioned.

In a very volatile last day of the month, the Dow started out with a strong advance of 152 points by 10:15am courtesy of some better economic reports, which included the A.D.P. jobs estimate of 91,000, which is nothing great but at least it was above some of the predictions; the August Chicago Purchasing Managers' Survey, which fell to its lowest level since November 2009 but still showed an expanding economy; the July factory orders report which rose to its best level in four months on a large gain in transportation equipment; and the August NAPM Milwaukee Survey, which rose from 57.6 to 58.3.

But from these best levels, things started to deteriorate and by 2pm the Nasdaq had actually gone negative when the Dow was still ahead by 40 points and we all know who wins that battle, as the Dow then proceeded to decline by as much as 32 points at its worst level at 3:15pm. From this low, it got its upside act together once again and was able to get back into positive territory with a closing gain of 53 points after a very volatile last 15 minutes or so of trading. As was already mentioned, the Nasdaq started to lag as a result of weakness in several of its high-priced components and ended with a gain of only 3 points, but breadth numbers were decent at a 2 to 1 upside ratio. The VIX also declined by more than it should have relative to the Dow's advance, with a 1.27 point loss down to 31.62.

In addition to technology stocks showing some weakness, the telecom stocks also sold off on the controversy over the takeover in the mobile phone industry, which is going to be challenged by the Justice Department. On the positive side, the financials came back a bit as did most of the industrial issues.

The bond market sold off on the stronger economic numbers but still ended the month with its best showing since December 2008 on the slowing economy theme. So after all of the turmoil in the equity markets, which was historic in the sense that we got the first-ever downgrade of the U.S. credit rating, ongoing difficulties in the Euro-zone and fears of severe economic slowdown in this country as well, the major stock indexes ended with the following losses: Dow -4.4%, S&P -5.7% and Nasdaq -6.4%. This was the worst monthly showing for equities since June 2010.

The first day of trading in the new month looks sort of like the last day of trading in the old month, as the major averages chop around between gains and losses ahead of the all-important jobs report tomorrow after an initial unsustainable sharp early upside burst. Things sort of meandered around on the opening after weekly jobless claims declined by just about what they were expected to do, with a loss of 8,000 to 409,000. With the Dow lower by 30 points before the release of the 10am August ISM Manufacturing Survey, which the experts had predicted would show the first contraction in 25 months. So instead of declining to 48.5, which is below the 50 level between expansion and contraction, the number came out at 50.6, down from last month's 50.9 but above that psychologically important 50 number.

When the market saw this, it underwent one of the most rapid upside spurts I have ever seen, rising from that 30 point loss to a gain of as much as 102 points in a minute or two, and unfortunately a short-covering advance of this level in such a short period of time could not be sustained, and from those highs things have chopped steadily down with the Dow actually back to the early lows as if the supposed "good news" did not happen, which raises the question of the supposed "efficient market theory" having any validity in the first place.

From those lows of the day so far, things have chopped around in a narrow manner, with the Dow swinging back and forth between nominal gains and nominal losses as this is being written. Breadth numbers are just about even as well and the VIX is nominally lower, as investors now seem content to do nothing ahead of the jobs report.

Of course, it is instructive to hear the "explanations" by market experts for the price action so far, as when the better than expected ISM number was originally reported, the reason for the market's sharp advance was that it was further proof that things were not going to go into a real slowdown. Then when the market sold off, the "explanation" was that, wait a minute, if things are better than expected, then this means that the Fed does not have to provide additional stimulus through some sort of QE3 program, which has sort of become the mantra when it was announced that the next Fed meeting later this month will be expanded to two days from one day so that further policy options can be discussed. In other words, the "experts" will always have an after the fact explanation for any possible market dynamic, and the important thing here is to remember that they all become experts after the fact. That is why it would be best if the market today ends around unchanged.

But if the market does end low, the experts will point out that even though the overall ISM number came in better than expected, there were certain components that were weak, as for instance: orders shrank for a second month, production contracted for the first time since May 2009 and exports grew at the slowest pace since July 2009.

There were also reports on July construction spending and August vehicle sales, but these are just background noise to the main event, which will be the August non-farms payroll report tomorrow morning, and it is interesting that the one investment house that is always at the center of controversy just put out an estimate for a gain of only 25,000, and one has to take this estimate with a certain amount of skepticism because if one looks back at some of their past predictions, such as crude oil going to over $200 a barrel when it was at its all-time and never seen again high of $147, their calls have sometimes been off the mark. Ultimately, let us all remember that no one in this business has a monopoly on wisdom and knowledge, so anytime an estimate for earnings or an economic report is put out by an organization or an individual who claims to be some sort of all-knowing guru, one should not take this as the Gospel more than the next estimate, because if one looks at the totality of opinion about any of these estimates, the range of numbers is always extremely wide.

Earnings season is virtually over, but if you thought that last week was full of economic news, how about this week, which will now be highlighted by tomorrow's August jobs number, whose estimate is for an overall gain of 70,000 with 95,000 private payrolls 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.