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Daily Market Notes

Market Update:

DJIA:	**11383**
S&P 500:	**1202**
Nasdaq:	**2596**
10YR T-Note:	**2.06%**
EUR/USD:	**1.38**
VIX:	**32.99**
Gold	**1783**
Crude Oil:	**89.43**

Prices Current as of 12:40PM

Source: CNBC

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Special Comment: We sent out a week ago Friday our annual revision of the ETF glossary, and this extensive report lists around 400 of them and should be used as a reference guide to different sectors of this rapidly growing area of investment.

Wait a minute! What is going to happen to those investors who decided to sell out yesterday when the Dow was down 113 points after the blockbuster news from Austria, which said that a parliamentary vote on an overhaul of the European Financial Stability Facility will be delayed, as their finance committee rejected adding the item to the agenda of a meeting. That vote apparently required a two-thirds majority and Austria's parliament will now call a special meeting for the finance committee that will have the item on its agenda, and as the world holds its collective breadth over these results, the date for the committee meeting will be set by parliament and could still be in September. Are they going to get free tickets to "The Sound of Music" or a personal meeting with the star Julie Andrews as a consolation prize, because if they sold when the Dow was lower by that amount, they missed out on an almost 400 point upside reversal from those lows.

This sort of neurotic action by stocks this week, gyrating all over the place to each bit of supposed news from the troubled Euro-zone, has resulted in three straight higher closes for the major averages, but let us also remember that on every one of those days, the market was lower before managing to end with closing gains. This shows that the stock market continues to be dominated by these high-speed traders who try to move the market around for their own selfish reasons and oftentimes the prices have nothing to do with reality, as otherwise how does one explain a rally in the Dow of 394 points from low to high and then a selloff from those highs of 140 points in the last twenty minutes?

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The Dow started out with a gain of 73 points on European optimism as the leaders of France and Germany urged Greece to implement all financial reforms "strictly and effectively" to ensure continued Eurozone assistance and reduce any chance of a debt default. In addition, Italy won a vote of confidence by its parliament. From those early highs, the Dow dropped to a loss of 113 points at 10:20am on the Austrian "bombshell" news after having been about unchanged when this blockbuster event hit the wires. But for the third day this week, a strong Nasdaq/Dow ratio saved the day as when the Dow was on its lows, the former was down by only 12 points, much less than it should have been and went positive at 10:45am while the Dow was still lower by 55 points and we all know who wins that battle. From this time forward, the Dow was able to rise to an astounding gain of as much as 281 points at its best level at 3:40pm, when all of a sudden and for no apparent reason, it proceeded to fall very sharply going into the close to end with a final advance of 141 points, exactly half of what it was 20 minutes earlier, go figure that one out! But in a sense this was good, because this very late selloff allows the market to advance today, which it would not have done if the Dow had closed at that 281 point high. Market experts can now put a positive spin on the proceedings instead of having to come up with negative explanations if the Dow ends up by less than 141 points today.

Breadth numbers were supportive with a 3 to 1 upside ratio and the VIX declined by more than it should have relative to the Dow's advance, with a decline of 2.31 to 34.60. In addition to the positive news mentioned above relating to Europe, the market was also helped by news that China is willing to buy the bonds of countries such as Italy and Spain that have been hit by the debt crisis as well.

If things can go the distance today, the market would be higher for the fourth day in a row, and it would be the first day this week that the Dow did not go into negative intraday territory.

These gains come despite economic reports here that were not very good for the most part, as weekly jobless claims rose to their highest level since late June and the NYState Empire Manufacturing Survey fell to its lowest level since last November, among lackluster reports on the August C.P.I., August Industrial Production and Capacity Utilization and the August Philadelphia Fed Manufacturing Survey. But never mind, out stock market here is purely a function of what goes on in Europe, and if the Euro currency is rising, then all must be right with the world, as the E.C.B. and international policy makers coordinated efforts to lend dollars to banks to help to try to diffuse the credit crisis.

The E.C.B. said it coordinated with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank to extend three-month loans to Euro-area banks in an effort to ensure that they have enough cash for the rest of the year. As a result, the cost of insuring European sovereign and corporate debt extended their recent declines from record high levels as the prospect of a default by Greece receded. Even the yields on the Greek two-year note declined down to 61% from its record high 85% yesterday, as the Greek Prime Minister committed to meet deficit-reduction targets demanded as a condition for international aid. And in the ongoing effort to make nice between all of these countries, the leaders of France and Germany both said that they are "convinced that the future of Greece is in the Euro zone."

The Dow started the day with gains and hit its best level so far with a 154 point advance just after 10am, from which it proceeded to give up more than half that amount as the Nasdaq went negative, and this is the first time this week that it is lagging the Dow, primarily due to a big selloff in the large Internet movie rental company on news of a sharp drop-off in subscribers and what did they expect after they raised prices sharply this month? From those lows of a gain of only 41 points, the Dow has managed to get back into a triple-digit gain below the highs of the day, as the financial stocks by some miracle are doing better for a change.

And those supposed "safe-havens" of U.S. Treasury paper and gold, are getting sold off on the rally in stocks, and it is astounding how the debt markets have gone to the low yield levels that they recently reached, when a person who buys these instruments ends up losing money after taxes and inflation.

It would be helpful if the market went the distance today without the last hour drama and this could set up a more dynamic September expiration options closeout session tomorrow, where the overwhelming "smart money" has mostly set up bearish positions for the session.

Since the third-quarter earnings season will not start until next month, economic reports this week might move things one way or the other, and the lineup finishes the week with – Friday: U. of Michigan mid-month Consumer Sentiment Survey. And we do get an important earnings report tonight with RIMM reporting after the market close.

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 still 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 the first half of 2011, earnings gained +18 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.