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Daily Market Notes

Market Update:

DJIA:	**11310**
S&P 500:	**1183**
Nasdaq:	**2501**
10YR T-Note:	**2.04%**
EUR/USD:	**1.42**
VIX:	**32.79**
Gold	**1876**
Crude Oil:	**87**

Prices Current as of 12:45PM

Source: Bloomberg

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Special Comment: We will be sending out later today our annual revision of the ETF glossary, and this extensive report lists around 300 of them and should be used as a reference guide to different sectors of this rapidly growing area of investment.

After an awful month of August, which nonetheless did end with the best eight day performance for stocks in two years, the month of September began yesterday with a less than auspicious start. Let us also remember that despite that strong close to the month, August overall was the worst month for equities since June 2010.

The market gave the optimists some reason for cheer early, as the August ISM Manufacturing Survey showed only a slight decline to 50.6, down from 50.9 the prior month and it was the 25th straight month of expansion. The initial positive reaction was a rebuke to those experts who had predicted a decline to below 50, which would have shown contraction in this sector. As a result, the Dow, which had reversed from an early loss of 30 points, made an absolutely astounding but ultimately unsustainable very fast upside move to show a gain of 102 points by 10:02am, right after the release of this report.

But alas, this was the best that the bulls could do, as things started reversing to the downside after that early high, and the Dow spent the late morning and early afternoon chopping around on either side of unchanged, when after 1pm, things started accelerating to the downside. As a result, it ended at its worst level of the session with a 120 point closing loss while breadth numbers deteriorated to a negative 8/22 ratio. Interestingly and for what it is worth, the VIX actually showed that investors were calm and it took a Dow loss of 90 points to get the VIX into positive territory. It ended with only a nominal gain of .20 to 31.82, as investors perhaps were lulled into a false sense of complacency ahead of today's jobs report

Despite the ostensible friendliness of the ISM report as mentioned above, what was somewhat disturbing was that some of its components showed declines, such as: 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. In addition, the employment component also showed a decline.

The bond market resumed its rally on the perception of the slower economic scenario, and the yield curve narrowed in a bit as there was more buying at the longer end.

And sure enough, the bearish contingent who jumped on yesterday's short-lived advance as described above must be grinning from ear to ear, as today's August non-farm payrolls report was not a very good one, and came in even lower than the most recent downward revisions.

The report showed that U.S. employment growth basically ground to a halt, which will now put pressure on the Fed to provide some sort of further stimulus, which this weak report certainly gives them political cover to do. The bad news was that nonfarm payrolls were unchanged, and to make matters worse, the June and July numbers were revised lower by a total of 58,000. It was the weakest report since last September and below the consensus for a gain of 75,000. The unemployment rate stayed at 9.1%.

The numbers were restrained by a strike of 45,000 Verizon workers, although that was offset to some extent by around 17,000 government workers in Minnesota who returned to their jobs after a partial government shutdown in that state. To further accentuate the weakness of this report, the average workweek declined to 34.2 hours, the fewest since January and average hourly earnings declined by three cents. The economy basically needs to generate 150,000 jobs each month just to keep the unemployment rate steady and to keep up with population growth.

The overall numbers mean that private payrolls rose by only 17,000 after a gain of 156,000 in July and this 17,000 gain was offset by that 17,000 decline in government jobs, which was the tenth straight monthly drop for that category. Factory jobs did rise by 36,000 as disruptions to automobile production caused by the shortage of parts from Japan did ease somewhat.

As a result of this weak report, the market took a dive, and even before the report, things were on the defensive, as Dow futures were already indicating a decline of around 100 points. This was the result of Europe becoming a negative factor once again, as it was reported that Greece will miss its 2011 deficit target. In addition, there was some concern over Italy's commitment to the already announced austerity measures.

So when the weak jobs report came out, various stock index futures declined further, with the result that when trading opened, the Dow immediately plunged to a loss of 248 points at its low so far at 9:40am. Since that time, it has tried to slowly improve, and got as high as a loss of "only" 154 points at 11:45am before easing back a little further than this. Ironically, if things close where they are now, the market will be nominally higher for the week because of the strong advances during the first three sessions to end the month of August.

Breadth numbers are awful at a negative 1 to 5 ratio and the VIX is actually rising by less than it should be on a big down day like this, higher by 1.04 to 32.86 relative to the Dow decline of 183 as this is being written. And surprise, surrpirse, the banks, which got a recent reprieve as a result of Warren Buffett's investment in the largest holder of customer deposits, are getting blasted once again to the downside, as the Federal Housing Finance Agency is going to sue some of them over fraudulent mortgage practices, and what else is new with this story?

And on a down day like this caused by a weak economic report, the bond market is rallying like crazy, bringing yields down to their lowest levels in two weeks, and the yield curve continues to narrow on the perception that the Fed may increase its purchases of the longer maturities relative to the shorter ones.

I guess that the best that the market can do today is not go below the early lows and perhaps if things can gradually improve as the day finishes, that would give some hope to the fact that perhaps the market can at least stay within the trading that it carved out in August while it awaits the President's speech on jobs creation next week and possible action from the Fed at its meeting on September 20-21st.

Next week's holiday shortened trading features – Tuesday: August ISM Non-Manufacturing Survey; Wednesday: Fed Beige Book; Thursday: July trade deficit, weekly jobless claims, July Consumer Credit; Friday: July wholesale inventories.

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.