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Daily Market Notes

Market Update:

DJIA:	**11337**
S&P 500:	**1190**
Nasdaq:	**2530**
10YR T-Note:	**2.01%**
EUR/USD:	**1.406**
VIX:	**34.05**
Gold	**1829**
Crude Oil:	**89.45**

Prices Current as of 12:50PM

Source: Bloomberg

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Special Comment: We sent out this past Friday afternoon 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.

Whew! We should have considered it a "victory" yesterday when the market was able to rally nicely off of its worst intraday levels of a Dow loss of as much as 307 points to end with a closing decline of "only" 100. Nevertheless, the first three trading sessions of the month were the worst for the Dow since 2002 and the worst ever for this time period for both the S&P and the Nasdaq. During these three days, $2.5 trillion worldwide was subtracted from equities, and to make matters worse, there is a statistic that says in 14 of the 16 years since 1928 when the market declined at least 4% from June through August (it fell 7.7% in that span this year), September was a losing month. If one wants to take the optimistic side, one can argue that it does not automatically mean that history has to repeat itself, especially with the pervasive bearishness that is currently around and the fact that stocks are cheap on a forward price/earnings ratio basis, as we have pointed out on several occasions using various comparative valuation measures.

Our market really caught a bad case of the European jitters yesterday, as after Friday's awful session, where the August jobs report dominated the proceedings, it was overseas problems, particularly in Europe, that started the negative ball rolling downhill. For instance, while Americans were enjoying the end of summer Labor Day holiday, the following statistics from other parts of the world came out – the August China services sector report showed growth at the slowest pace on record, and this component makes up 40% of G.D.P.; India's service sector in August grew at the slowest pace in more than two years; the August Euro services sector declined for the fifth straight month, as new orders fell for the first time since August 2009; German G.D.P. growth declined to a small gain of 0.1%, down from 1.3% in the first-quarter; U.K. August

service sector growth slowed at the most rapid pace in more than a decade; Italian bond yields rose for the 11th day in a row on growing lack of confidence that the austerity measures proposed will get implemented; the cost of insuring European debt against a default rose to a record high. As a result of all this misery, the European Stoxx 600 Index finished at its lowest level since July 2009, and let's not look at where our major averages were at that time, as it would be too depressing to think that we could get that low.

These awful reports put our stock index futures under pressure and led to a horrible opening where the Dow immediately declined by 280 points off of the opening bell. After the 10am release of the August ISM Non-Manufacturing Survey, which actually had the nerve to show an increase when the experts had called for a decline, the Dow was able to cut its loss to a 200 point decline, from which level it inexplicably made a new intraday low with a 307 point drop at 10:45am. Declines to the lows here in the U.S. often take place within the 10:30-11:30am time-frame because that is when the European markets close, and on a day when they are under tremendous pressure like yesterday, this spillover selling can affect the proceedings here as well.

Fortunately from these worst levels, things started to battle their way back, with the Dow loss being cut to 115 points at 2:30pm, followed by another decline to a loss of 200 points at 3:30pm, before things really got a strong upward wind at their back, as the Dow was able in the last half-hour to rally back to its best level with a loss of "only" 80 points before ending with a closing decline of 100.

What probably got things motivated to the upside was the fact that on a bad day in the market, the Nasdaq/Dow ratio actually did quite well, with the Nasdaq being lower by only 10 points at the 2:30pm Dow loss of 115 and by the end of the session it showed a decline of only 6.

This was the result of some of its high-priced technology leaders once again showing good resilience after the recent beating they had taken during the first three sessions of the month. Breadth numbers ended at around 1 to 3 negative, which was a tremendous improvement off of their worst early readings of 1 to 10 to the downside.

And how about the bond market, which reacting in lemming-like reverse manner to stocks, pushed yields on some maturities to new all-time lows, especially the 10-year note, which had the nerve to go as low as 1.90%, and what kind of investment is that at those levels? The 30-year bond declined to as low as 3.19%, and both of these low levels were reached at the same time that stocks also hit their intraday lows, which basically means that the bond market is just reacting in a panicky sort of way to what stocks do, which is not the best kind of situation to be in, as if equities do stabilize, then those investors who seek the supposed "safe-haven" of bonds will be holding merchandise that is worth less than what they paid for it in the first place.

The collapse of the longer-end yields was also based on the perception that the Fed will engineer its buying further out on the curve to include the longer maturities at the same time that it will sell the shorter maturities, which is similar to an action that they conducted in the early 1960's, known as "Operation Twist", named after the popular dance craze at that time. By doing this, they apparently will not increase the size of their balance sheet.

Also of note was that the Swiss National Bank finally decided to do something about its currency, which had recently risen to a record high against both the Euro and the dollar. They set a minimum exchange rate of 1.20 per Euro and said that they will defend this target with the "utmost determination" if needed. This weakening of the "safe-haven" Swiss currency led to a decline in that other safe-haven, otherwise known as gold, after it had actually reached a new all-time intraday record high during the overnight panic in stocks, at $1,921.

It declined from that level as stocks came off of their lows, creating what is now a double-top formed by these highs yesterday and also on August 23rd, so it now appears that this will be the level to beat, if in fact this were to ever get that high again.

Well, well, well – after all of the downside misery of the first three trading days in September, things are so far giving the bulls some cause to celebrate, at least for one day, as low valuations for stocks attract buyers once again, as they did on several occasions last month as well despite all of the traumas resulting from the first-ever downgrade of the U.S. credit rating and other assorted miseries. All of a sudden, there is some belief that the President's plan for more than $300 billion in economic stimulus will boost growth. He plans to propose tax cuts, infrastructure spending and direct aid to state and local governments.

As a result, things started out nicely higher and have not looked back so far, with the Dow reaching its best level with a 197 point gain at 11:30am. For a change, the financial stocks are showing some signs of a pulse after getting sold off sharply for the past three days on the various ills that afflict them and these ills have been mentioned in these notes. And in lemming-like fashion, the bond market is declining as stocks do better, raising the yields on the longer maturities off of their recent record low levels as described earlier.

Europe finally is showing some gains, motivated higher by a German court ruling that threw out suits targeting the country's share of the $110 billion Euros in loans for Greece from Euro-region governments and the I.M.F., as well as a separate $750 billion Euro-rescue fund approved last year to halt the spread of the Greek debt crisis. And that other safe-haven – gold – is also getting blasted to the downside from the over $1,900 level once again as investors rush into stocks, at least for one day.

Breadth numbers are very strong at an almost 8 to 1 positive ratio and the VIX is atoning for its sins yesterday by declining by more than it should relative to the Dow's advance, falling by 2.82 to 34.18.

The trick will be to go the distance today, and the only ostensible hurdle in the way of stocks is the 2pm release of the Fed Beige Book on economic conditions in various parts of the country, which of course holds its own risks and hopefully has been discounted by the market's recent sharp retreat.

This week's holiday shortened trading features – later today: Fed Beige Book; Thursday: July trade deficit, weekly jobless claims, July Consumer Credit; Friday: July wholesale inventories. And for what it is worth, the President will make a major address to a joint session of Congress on Thursday night about his plans for some job creation, and that might or might not affect the proceedings on Friday.

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 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.