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Daily Market Notes

Market Update :

DJIA:	**11627**
S&P 500:	**1226**
Nasdaq:	**2646**
10YR T-Note:	**2.19%**
EUR/USD:	**1.38**
VIX:	**33.07**
Gold:	**1647**
Crude Oil:	**88.39**

Prices Current as of 12:00PM

Source: CNBC

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After Monday's downside debacle, which was supposedly the result of the statement from Germany's Finance Minister to the effect that "dreams" of an imminent resolution to the European financial crisis are not likely to be fulfilled at this weekend's summit meeting in Brussels, stocks put in another one of their classic "Turnaround Tuesday" performances as an early 100 point Dow decline ended with an upside reversal of as much as 355 points from those lows, before closing with a 180 point gain.

The market accommodated those who wanted to sell at those early morning lows, motivated to the downside by a weak reaction to its earnings report from the highest-priced technology Dow component, whose losses when it was down by 10 points, contributed to 73 lower Dow points just by itself. In addition, there were other factors at work, and as usual our market followed the trials and tribulations of the Euro, which was lower once again, this time apparently because Moody's Investors Service said that France's top credit rating is under pressure, which supposedly adds to the concern that the E.U. will continue to struggle to find a solution to the region's debt crisis. In addition, the Euro declined on a report that German investor confidence fell to its lowest level in almost three years. And heaven forbid, China's economy grew by "only" 9.1% in the third-quarter from a year earlier, which was the slowest pace since 2009. Part of this supposed slowdown was that industrial production increased by "only" 13.8% in September as compared to the consensus for a 13.5% advance.

After the sellers were satisfied at the lows, things started to move to the upside, motivated higher, would you believe it, by those beaten-down financial stocks whose earnings reports did not come in as badly as the worst-case predictions and whose collapse this year to very low prices put them in a position for an oversold move to the upside. As a result, several of those issues started to get a measure of revenge against their downside tormentors by moving steadily and consistently higher for a change.

This began to motivate the entire market to the upside, and by 1pm, that 100 point Dow loss had been reversed to the tune of 200 points, and it now showed a gain of 100 points, as breadth numbers started to expand to a 3 to 1 upside ratio, and more importantly, the one item that controls every type of financial market in the world, namely the Euro, started to rally from its morning lows, which was ostensibly the reason that stocks here had started out lower as well. In addition, crude oil prices, which reached as low as $75 a barrel when stocks hit their brief bear market lows on October 4th, also started to explode to the upside, reaching as high as $89 a barrel, and once again, are prices at these levels better for consumers and businesses than at $75?

Then at 3pm, one of the more astounding reactions ever to a report took place when it was supposedly reported that France and Germany will increase the size of the Eurozone rescue fund, otherwise known as the E.F.S.F. to $2 trillion Euros from its current level of $440 billion Euros. At the time this report was released, the Dow was still ahead by 100 points, from which level it immediately exploded to a gain of 255 points by 3:13pm, a gain of 155 points in the period of 13 minutes. Now, is this normal investing or not? Of course, no one is going to investigate a bizarre upside spike such as this because politically it does not have weight because everyone is happy when stocks go higher, but if the same sort of manipulation had occurred to such an extent on the downside, then everyone would have been up in arms over – high frequency traders, dark pools, hedge funds, ETF's and so on. But as long as the manipulation was to the upside, then everything is right with the world.

From those unsustainable levels, the Dow settled back to end with an advance of "only" 180 points, thereby almost wiping out the 247 point beating that it took on Monday, so what kind of message is it sending? It appears that the message is that whatever the Euro and crude oil decide to do on a daily basis, this will determine the fate of everyone's equity investments.

By the time the upside fireworks had calmed down a bit by the close, breadth numbers expanded to a positive 5 to 1 ratio and the VIX declined by 1.83 points after being higher by 1.32 points when stocks were at their morning lows.

After yesterday's upside fireworks, things started out lower today, once again influenced by the negative reaction to earnings from a widely followed company, which is the largest one in the S&P, namely the mobile telecom and computer maker. And similar to the Dow technology component yesterday, it negatively influenced proceedings on the opening, with the Dow declining to an early low of 33 points at its worst level. Then similar to yesterday, things started moving higher because, oh no, the Euro started moving higher as well. And then crude oil prices also started to gain also, on a reaction to lower weekly inventories. This unbeatable combination resulted in the Dow advancing to a gain of 54 points at its best level of the session and breadth numbers turned slightly positive as well.

These gains were helped by good earnings-related advances in two Dow components, the largest maker of semiconductors and its insurance component. Even the large mobile telecom stock was able to come back from its worst level of the session as well. The large soft-drink company is also having a one-day delayed positive reaction to its report, which is also helping the Dow.

Today's economic reports were sort of mixed, with September C.P.I. rising at its slowest level in three months due to a large decrease in clothing prices and smaller decreases in prices for used cars and trucks. September housing starts rose by the largest amount in 15 years, but building permits, an indicator of future activity, declined. These housing reports today and yesterday were probably responsible for the large gains, albeit from very low levels, similar to the financials, for another beaten-down group, the homebuilders.

As today's session moves along, the ultimate determiner of where things end will probably once again be the direction of the Euro, as reactions to the latest trials and tribulations of the situation there take center stage once again. As this is being written, the Dow is ahead by 39 points while the Nasdaq is down by 11, obviously negatively influenced by the mobile telecom company.

Once again, technical types are keeping their eyes on that 1220 S&P level, which starts to represent the high end of the current trading range, from which there was a failure on August 31st at 1230, a mid-September comedown from 1220 and another failure from the same level at last Wednesday's high. At yesterday's highs, it reached 1233, so now perhaps this could be an indication that things are about to turn to the upside. It is interesting to hear those market touts who did not buy at the lows say that they are now waiting for the opportunity to come back into the market at the "lower end" of the recent range, which is at least 100 S&P points lower than where we are now, and a decline of that magnitude might not be forthcoming based on seasonal and historical patterns (see below).

This week sees the really heavy start of the third-quarter reporting period and the lineup is as follows – tonight: AXP, EBAY, RVBD, XLNX; Thursday: ABT, CMG, LLY, MO, NUE, LUV, MSFT, SNDK, UPC, T, TRV; Friday: CAKE, GE, HON, MCD, QLGC and VZ. This means that there are 12 Dow companies reporting, in addition to several other important ones.

For what it is worth, there is a statistic that says the S&P has gained on average 5% in the fourth-quarter after third-quarter losses of greater than 8% since 1924. There is another statistic that says when the S&P declines by 14% or more during the third –quarter, as what occurred this year, it has an 89% chance of advancing during the fourth-quarter. Let's see if history repeats itself this year.

Isn't it enough that around $10 trillion was wiped off of equity values worldwide in the quarter just ended, which one would like to think makes stocks look cheap at current levels, especially given the level of all-time record low interest rates. The argument for stocks being good values here is further enhanced by the fact that despite all of the turmoil on fears of slower economic growth or worse, analysts have actually raised their profit forecasts for the S&P companies for 2011 to a record $99.34 from $98.73 in late April when stocks were on their highs, according to Bloomberg. This is somewhat of a strange occurrence, because the rap against stocks lately has been that earnings estimates are too high. So we will have to see who is right on this one.

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 $95 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. Third-quarter earnings are projected to now rise by 13%. The highest ever earnings for the S&P in one year so far took place in 2006, at $88. For 2012, earnings are still 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.