

Daily Market Notes**Market Update:**

DJIA: 9782
S&P 500: 1065
Nasdaq: 2126

10YR T-Note: 3.40%

EUR/USD: 1.473

Gold 1016

Crude Oil: 72.57

Prices Current as of
2:11 PM

Source: Bloomberg

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Let's see now – which comes first – in other words, do stocks lead the dollar lower and commodities higher or does the weakening dollar and higher oil and gold prices make stocks go up on the “higher commodity prices means that there is worldwide economic recovery” theme.

In another astounding display of strength yesterday, a higher August Industrial Production report ostensibly motivated stocks to a tremendous day of gains, with the Dow up another +108 points as all of the major indexes once again made new highs for this recovery move. And similar to the first two days this week, stocks sort of vacillated early in the session and the Dow actually went negative early yesterday as well, although not by as much as it had on Monday and Tuesday. Then in the late morning, well after these 8:30am reports are released, things decided to head much higher, as reluctant bulls and desperate shorts get forced in at ever higher levels. And this is despite the fact that we have not had a good earnings report for any of the companies that have reported third quarter results so far this week, from major electronics retailers to supermarkets to software and farm equipment. But yet the bullish mindset is so strong that the stock market and the commodities markets both want to go higher, and this is an inconsistency that cannot last too much longer.

And how much more legs to the upside can the following comments have - Chairman Bernanke, who repeated the obvious that the recession is “very likely over”, or the remarks from Warren Buffett that the U.S. economy has “hit a plateau at bottom” and that his company was buying equities? After the S&P has rallied 60% off of its lows, it seems obvious that he is not the only one who has been buying.

The most bullish dynamic yesterday was that the VIX hit right into support at 22.78 shortly after 12 noon as the Dow was ahead by +67 points. From that point on the VIX proceeded to rise, and ended the day at 23.69, which was actually a net gain of +.27, but a rally of almost a full point from its low. One would have thought that a VIX increase like this would have meant that stocks were starting to decline, but instead the Dow continued to extend its rally alongside the now higher VIX to end with that closing gain of +108. So in a sense this is the most bullish dynamic possible, namely

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the VIX rising along with the stock market because it pushes the VIX further away from its ultimate downside of 22.48 and therefore gives the Dow theoretically room to increase by another 100 points or so.

And sure enough today we saw the same syndrome that has propelled stocks higher virtually every day since September 3rd, as the Dow raced to a gain of as much as +62 points on the back of more economic reports that came in higher than consensus – August housing starts, which rose by +1.5% to the highest level since last November and the September Philadelphia Fed Survey, which expanded for the second month in a row, to the highest level since June 2007. And this was despite the fact that the earnings scorecard for the third quarter is now 0 for 8, as an enterprise software company, a specialty women's retailer, the major package and freight deliverer and filtration products company joined the list of companies coming up short and which were previously mentioned above.

Earnings for the week finish up with PALM tonight.

During the second quarter, stocks in the S&P 500 reported profit declines of -29%. This is after a first quarter decline of -33%. The projection is for a -20% decline in the third quarter, before a rousing gain of +62% for the fourth quarter, when the comparisons to the fourth quarter of 2008 should be somewhat easy to overcome. The only problem with this projected gain is that the bulk of it is supposed to come from financials, because the comparisons to the disastrous 4Q of 2008 should allow for good upside.

We have now seen eight straight quarters of profit declines for companies in the S&P 500, starting with the last two quarters of 2007, all four quarters of 2008 and the first two quarters of 2009. Earnings have never been down for eight consecutive quarters. If earnings do come in lower for the third quarter of 2009, this will be the first time ever that there have been nine consecutive quarterly profit declines.

We now have four consecutive quarters of negative G.D.P. growth which started in

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the third-quarter of 2008, and has now extended through the first two quarters of 2009. Projections for the third quarter are for some modest growth in the +1 to 2% range. This is the first time that there have been four straight quarters of negative growth since records have been kept since 1947.

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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: {PROVIDE SOURCES}. 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.