

Daily Market Notes**Market Update:****DJIA:** 9807**S&P 500:** 1065**Nasdaq:** 2126**10YR T-Note:** 3.43%**EUR/USD:** 1.470**Gold** 1011**Crude Oil:** 72.04Prices Current as of
12:12 PM

Source: Bloomberg

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Could it actually have happened yesterday? The stock market had the nerve to end up slightly lower after a higher start based on, you know the old story – the weaker dollar is good for U.S. stocks because it shows that investors are less “risk averse” and want those riskier assets like equities and commodities and want nothing to do with the dollar and are falling all over each other to buy gold and oil. And this mindset is supposedly “favorable” for equities.

After a higher start yesterday, the major averages finally sold off on no real news except for the fact that the third-quarter earnings scorecard is now 0 for 8 to the negative side for those companies whose fiscal third quarter ended in August. In addition to stocks ending slightly lower yesterday, gold and oil actually declined a bit as well, after the first London gold fix reached \$1,020.50. The only thing that could possibly explain the late sell off is inevitable profit-taking after the 60% advance in the S&P from its early March intraday low to yesterday’s intraday high which left the S&P with a price/earnings multiple of 19.7, the highest since June 2004. It also closed 20% higher than its current 200-day moving average of 890. Even though this would seem to indicate a very overbought situation, history tells us that on the three other occasions since World War II that this relationship has occurred, namely in 1975, 1982 and 1986, the market proceeded to be between 13-20% higher a year later, would you believe it?

Today’s options expiration session started out with an upside bias, as upgrades of two Dow stocks, one a large integrated oil company and the other the largest consumer products company, both of which are actually lower for the year, are helping that index to be the best performer relative to the S&P and Nasdaq. In fact, of the current gain of +39 points in the Dow as this is being written, these two account for 22 points of that gain. The higher oil stock is also helping the shares of the other oil component of the Dow, which has also been a real laggard this year as well. Otherwise, the earnings scorecard for the third quarter is now 0 for 9 to the negative side as a mobile computing products company becomes the latest stock to come up short on its numbers.

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Gold continues to decline a bit from yesterday's high, as does oil, on the fact that at least for today, the dollar is a bit stronger. It is interesting to note that for all of the concern that the dollar is weak because so much government debt has been issued to pay for all of the recovery programs, the statistics show that U.S. government debt is currently equal to 61.5% of G.D.P., which compares to Germany's 76.4%, Italy's 104.3% and Japan's nearly 200%. Yet the Euro and the Yen have made very strong gains against the dollar this year despite these statistics.

Next week continues to see more third-quarter earnings reports trickle in, and there will be an important one on Thursday, with RIMM coming out with its numbers: Monday – LEN; Tuesday: CCL, CAG; Wednesday: BBBY, GIS, RHT; Thursday; COMS, FINL, RIMM, RAD; Friday: KBH. Let us hope that the 0 for 9 losing streak so far of earnings reports will be broken.

Next week also sees another F.O.M.C. meeting at which interest rates will be held at current record low levels but the statement as to what the economy looks like will be important. There will also be a number of economic reports, the most important of which will be the various housing statistics – Monday: August L.E.I.; Tuesday: Richmond Fed September Manufacturing Index; Wednesday: Fed interest rate decision and statement; Thursday: August existing home sales; Friday: August durable goods orders, U. of Michigan final September Consumer Sentiment Survey and August new home sales.

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

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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 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

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