

Daily Market Notes

Special comment: The Daily Market Notes will resume on Tuesday, September 29th.

Market Update:**DJIA: 9648****S&P 500: 1042****Nasdaq: 2087****10YR T-Note: 3.32%****EUR/USD: 1.466****Gold 988****Crude Oil: 65.53**

Similar to the post-Fed session on Wednesday, things started out higher yesterday as well, only to end lower. This time the euphoria only lasted for the first 30 minutes before initial gains were turned into losses, as opposed to Wednesday when things fell apart late in the session, and we detailed the reasons for that in yesterday's comments.

After an early climb to a gain of as much as +56 Dow points, things made an abrupt downside turnaround after the 10am release of the August existing home sales report, which showed a loss of -2% when a gain of the same amount was expected. This came as somewhat of a surprise because the trend of these housing reports for the past few months had been better. Perhaps the reason for the decline this time was that the pace of foreclosure sales is lessening. In any event, the market fell immediately after these numbers and really never could get its act together, as it settled into a quiet downside trading range before ending with a Dow loss of -41 points.

Prices Current as of
12:25 PM

Source: *Bloomberg*

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Another reason for the weakness was that the Federal Reserve, in addition to the other major central banks, announced that they would scale back the massive injections of U.S. dollars into their banking systems as the financial markets have stabilized after the crisis of the past year. The U.S. Fed said it would begin to scale back short-term cash auctions in early 2010 while the E.C.B. said it would curtail steps taken to ensure dollar liquidity.

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These joint actions mean that there will be a gradual removal of the extraordinary measures that have been taken to prop up banks and financial systems during what the world financial system went through in the past year. This shows that the central banks see less pressure on banks for short-term cash but it does not appear to be the start of any movement to begin to withdraw the monetary policy stimulus completely.

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The Fed also said it will decrease the size and maturity lengths of auctions, while continuing Term Auction Facility (TAF) short-term cash auctions at least through January. So the overall effect of these actions can be construed as a further curtailment of the emergency funding programs created by the Fed to buttress the financial companies and the economy overall. This is perhaps the main reason that the large financial stocks were the worst performers yesterday.

What could ultimately be positive here is that the VIX went up much more than the Dow went down, which means that it is now indicating that the Dow can theoretically rise to as high as 9970, but the price action of the past two days means that there will be tremendous resistance on further advances over the 9900 level, if that in fact were to occur. So the dreaded month of September is finally appearing to live up to its reputation as not a friendly one for equities, although the major averages are still comfortably ahead as we approach the end of the month.

After the drama of the past two trading days, we got further angst last night as one of the leading worldwide mobile communications manufacturers, a darling of the high-flying technology crowd, actually beat its earnings estimate but fell short on revenue expectations. We had seen this dynamic last quarter, but at that time stocks decided to shrug it off and keep moving to the upside. This time the revenue miss was construed as bearish along with their slightly lower guidance going forward.

Weakness in the report from a single-family homebuilder is having a negative effect on that group, so once again the financially oriented stocks are getting sold off, continuing the trend which began in midweek.

The market has also been buffeted today by the three economic reports that were released and unfortunately the scorecard is 2 to 1 negative. The August durable goods report showed a decline of -2.4% against expectations for a small increase, but excluding the volatile transportation component, the number was unchanged.

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But the real weak aspect of the report was that there was a decline in the non-defense capital goods component, which basically means that businesses were cutting back on their orders. The second somewhat negative report was that August new home sales rose less than expected, but unfortunately they rose less from a lower base as last month's total was revised downward. The only bright spot in the three reports was that the U. of Michigan final September Consumer Sentiment Survey rose to its best level since January 2008.

As a result of these mixed signals and the burden of the weak technology report as described above, the market is chopping around in a very volatile manner with small gains and losses so far for the major indexes, and as one would expect, the Nasdaq/Dow ratio is weak. This will probably prevent the Dow from getting too positive, as each time that it tried to stick its head to the upside, it came right back down. So it would appear that the best that the market could do today would be to close somewhat on the even level and try to contain its losses for the week to no more than they are now.

Then of course we have to deal with the continued trickle of third-quarter earnings reports that will appear next week and they are as follows: Monday: CALM; Tuesday: DRI, JBL, MU, NKE and WAG; Thursday: CAN, GPN, BLUD. Once we get into October the following week, and for the week after that, we will get the bulk of the reports.

Next week will see many economic releases, highlighted by Friday's September non-farm payroll report, which is always a big deal. We will discuss this in more detail as the week moves on – Tuesday: September Consumer Confidence; Wednesday: 2Q G.D.P. revision, September Chicago Purchasing Managers Survey; Thursday: August personal income and spending, ISM September Manufacturing Survey, August pending home sales; Friday: September jobs report, August factory orders.

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It was pointed out that the S&P is now 20% above its 200-day moving average and this overbought condition has taken place in 1932, 1938, 1975, 1985 and 1986. On every occasion in the past, this overbought situation led to pullbacks of 12% on average three months later before an eventual recovery led to average gains of 13% one year later.

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 the third-quarter of 2008, and has now extended through the first two quarters of 2009. Projections for the third quarter are for growth in the +2 to 2.5% 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.