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Daily Market Notes

Market Update:

DJIA:	**9498**
S&P 500:	**1027**
Nasdaq:	**2055**
10YR T-Note:	**3.18%**
EUR/USD:	**1.459**
Gold	**1002**
Crude Oil:	**69.24**

Prices Current as of 12:35 PM

Source: Bloomberg

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The market began the fourth quarter in a less than auspicious fashion yesterday, as once again, economic reports that came in below expectations continued the recent trend and led investors to question whether stock prices had moved too far relative to the pace of the economic recovery.

There were a large number of reports released and there were just as many good ones as disappointing ones. Both August personal income and personal spending rose by more than expected, but the latter was dismissed as a function of the "cash for clunkers" and other government stimulus programs. So was the August construction spending which rose by slightly more than consensus. And the August pending home sales very strong reading was also ignored.

What investors focused on instead was the higher than expected weekly jobless claims and the fact that the September ISM Manufacturing Survey did not gain as much as expected, even though it was the second up month in a row of expansion. Investors also viewed the lower September auto sales figures negatively even though it was obvious that sales would be down after the expiration of the "clunkers" program.

So investors rang in the fourth quarter with the largest market decline since July 2nd as the Dow took a -203 point beating, and underwent one of those sickening late plunges, as at 3:50pm the Dow was down by -152 points, where it had been hovering for most of the afternoon. Then to rub salt into the wounds, a huge wave of market on close selling pushed the Dow lower by another -51 points to get to the closing number.

Also hurting the proceedings all day was the fact that the Nasdaq/Dow ratio was poor, which prevented any intraday rally from gaining any headway. What really knocked the major averages lower was a very weak performance from the financial stocks, and let us remember that they have been the best performers so far this year, as we mentioned yesterday, so perhaps there is some vulnerability for them.

Daily Market Notes

So now that the market has been down for six of the past seven trading days, the expectations got even more intense for this morning's jobs report, and unfortunately for the bulls, it came in on the high side of expectations, with jobs losses of -263,000 when the consensus was for losses of -190,000. The unemployment rate rose as expected to 9.8% from 9.7%, and this is the highest since June 1983. In addition, the revisions for July and August showed that -13,000 more jobs were lost than originally reported. The biggest surprise was a loss of government jobs, with losses of -53,000.

As soon as the stock index futures markets saw this report at 8:30am, they sort of went into another downside panic, with losses of as much as -130 points for the Dow Jones futures contract. From that worst level, things did improve and the lowest that the Dow itself traded at after the opening was -79 points down. Then continuing the latest string of disappointing economic reports, August factory orders fell by -0.8%, which was the first decline since March.

But after all of the recent losses which has obviously created an oversold condition, things have improved from their worst levels, with all of the major indexes actually getting nominally positive after 10:30am. From those best levels of the day, there has been some drifting lower, with all of the main averages down slightly, and the Dow is -15 as this is being written.

Even though the averages are down only slightly, breadth numbers are poor at 3 to 1 to the downside, so if the market is going to make an afternoon rally attempt, the advance/decline line will have to improve from these levels. It is a handful of larger cap stocks which are making the major averages appear better than the broader market, such as the large cap technology issues in the Nasdaq. It would appear that the best that investors can hope for today is that the market finishes at levels that are not worse than they are at now, and that things do not go into another one of those sickening late collapses. Perhaps the very late decline yesterday takes away that possibility.

Daily Market Notes

So now that the near-term trend has turned down, what could get the market back to the upside once again? Obviously some improvement in the recent string of disappointing economic numbers would help, and next week sees the following: Monday – ISM September Non-Manufacturing Survey; Friday: August trade deficit. So it would appear that only if the survey on Monday comes in better will the market get a boost from reports, which are obviously on the light side.

Next week also sees a trickle of third-quarter earnings reports, and it is not until the following two weeks that most of the heavy hitters come out with their numbers. The only difference between the early reports of the past two weeks and next week is that we do have one Dow component, AA, reporting, and this is not the best lead-off hitter for that group that one wants to see, but since the economic reports are light next week and so are the earnings, the biggest deal will be made of its numbers. Monday: MOS; Tuesday: CHTT, PBG, YUM; Wednesday: AA, COST, FDO, MON, RT; Thursday: MAR, PEP; Friday: INFY.

We will repeat what we have said earlier this week, to put the market's recent advance in perspective – namely that in other periods when the market advanced for seven months in a row, the gains continued for one or two months maximum, so perhaps we are getting closer to the end of this historic string of consecutive advances, which of course does not mean that things cannot continue to rise, but it appears that it will not be as predictable as what we have already seen.

Let us also remember that when the S&P has been 20% above its 200-day moving average, as it was only in 1932, 1938, 1975, 1985 and 1986, and as it was recently, the market underwent an average decline of -12% over the next three months before being higher by +13% a year later.

Even though most commodities are down today, such as oil and copper, which are industrially oriented and seem to be following the recent path of stocks, the Euro is actually higher, so instead of the tired old argument that when stocks go up, so does the Euro because of the decline in "risk aversion", the excuse for the rally in the Euro today is probably going to be that today's weak jobs report and other recent weak reports means that interest rates in the U.S. are going to stay low for very long periods, and in fact the yield on the 30-year Treasury Bond actually fell to 3.8%, which is the lowest since April. The only good thing about this recent drop in yields is that mortgage rates will now decline once again back to the low levels of this past spring.

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 -22% decline in the third quarter, before a rousing gain of +63% 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 3% range. This is the first time that there have been four straight quarters of negative growth since records have been kept since 1947.

Daily Market Notes

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.