NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update:

DJIA:	**9697**
S&P 500:	**1056**
Nasdaq:	**2123**
10YR T-Note:	**3.29%**
EUR/USD:	**1.465**
Gold	**1008**
Crude Oil:	**66.41**

Prices Current as of 12:39 PM

Source: Bloomberg

Donald M. Selkin
Chief Market Strategist
(212) 417-8017
dselkin@nationalsecurities.com

Jason Wotman
Research Analyst
(212) 417-8264
jwotman@nationalsecurities.com

After Monday's upside moon shot, the market tried to extend the gains yesterday, with the Dow initially rising by +45 points after the July Case/Shiller Home Price Index recorded its smallest drop in 17 months and actually improved for the third straight month. But unfortunately this was then followed by a weaker than expected September Consumer Confidence Report, with both the present conditions and future expectations components lower as well. This resulted in a fast reversal of the gains into losses of around -30 points in the Dow, which was followed by an attempt to get nominally positive in the middle of the day.

But the impediment to a further advance was a weak Nasdaq/Dow ratio, as both averages were down the same by the middle of the afternoon, namely around -5 points each. This lack of support from that ratio led to one of those final 30 minute sags, as the Dow went from being down -20 points at 3:30pm to a closing decline of -47 points. In addition to most technology stocks seeing some profit-taking after Monday's huge rally in that group, the energy stocks were also weak on continuing recent declines in the price of crude oil.

So now the markets were set up for the final trading day of the quarter, which would be the seventh straight positive month for the S&P if it can finish above 1021 today. This would be only the 16th time since 1928 that stocks have rallied for seven straight quarters. It should also be noted that since World War II, rallies of this sort rarely last for another month or two, so now that we have gotten through the dreaded month of September without a market decline, the market must prove itself in the sometimes treacherous month of October, no small feat after the gains that we have seen so far.

The day started out with ADP reporting their estimate for Friday's jobs report by saying that payroll losses will total -254,000 when the consensus estimate is for -190,000, which would be an improvement over last month's -216,00 figure. This did not seem to temper the early optimism because as we have pointed out many times in the past, their estimates are usually way off, usually to the downside.

Daily Market Notes

Similar to yesterday, things started out higher, as the Dow was showing a gain of +22 in the early going, and this positive momentum lasted for exactly 12 minutes before a steep decline set in. What had led to the early positive momentum was the final 2Q G.D.P. revision coming in less negative than the last one, at a decline of -0.7%, which was slightly better than the -1% previously reported. The improvement was due to better showings in business equipment spending on software in particular and also better consumer spending relative to the previous estimate. In addition, government spending increased by the largest amount in seven years. This was no surprise due to all of the recovery programs currently under way. This report also sets the stage for a large improvement in the 3Q, as there will be much less inventory liquidation, and this alone should ensure that G.D.P. grows in the range of +2 to 3% at least.

Just when things looked as if they were about to have a positive day, the market went into a very fast downside reversal at 9:42am, for some reason, which became obvious exactly 10 minutes later when the September Chicago Purchasing Mangers Survey threw the market into a downside tizzy as it declined to 46.1 (which shows contraction) from 50 last month, when the expectation was for a gain to 52. What bent investors out of shape was that there were declines in both new orders and production, in addition to an increase in the order backlog. The decline accelerated until the Dow had fallen by as much as -133 points, before some stabilization has entered, with a current decline of -50 as this is being written.

Earnings for the third quarter continue to trickle in and there were two good ones today, with a major electronic manufacturing services provider and the largest athletic footwear manufacturer both up on their numbers, while a memory chip maker and a casual restaurant chain are declining after their reports. The reporting period will begin in earnest next week and will be followed by the two largest weeks of reports after that.

If one looks at the historical picture, it is no surprise that the market is lower today, as we have pointed out many times in the past that the two days of the month which have the highest proclivity to be lower are the options expiration session on the third Friday of the month and the final day of the month.

Once again, the outside markets are separating themselves from stocks, and instead of dutifully following equities to the downside, the Euro, gold and oil are all higher. This makes the continued decline in the shares of large oil companies disappointing in the sense that on days when oil prices are lower, these stocks decline in lockstep. So on a day when crude oil prices are sharply higher due to a drawdown in the weekly inventory report, the energy components of the Dow are still down, which is in line with their weak performance all year. The Euro is higher on a report that the U.S. dollar’s share of global currency reserves fell to the lowest level in a decade as the holdings of Euros rose to a record. Gold is up as it is following the weaker dollar today, and copper is also rising.

If the S&P finishes around current levels, it would have advanced around +14% for the third quarter, which would be its best gain since the fourth quarter of 1998. All 10 industry groups would have also been up, with financials showing the best gain, at +24%, followed by the industrial sector with an advance of +20%. Obviously, we still have the rest of the day before the final numbers are in.

The earnings reports this week finish tomorrow with: CAN, GPN, and BLUD. Once we get more deeply into October next week, and for the week after that, we will get the bulk of the reports.

There will be more economic releases, highlighted by Friday’s September non-farm payroll report, which is always a big deal. We will discuss this in more detail tomorrow. Thursday: August personal income and spending, ISM September Manufacturing Survey, August pending home sales; Friday: September jobs report, August factory orders.

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 -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.

NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

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.