

Daily Market Notes**Market Update:****DJIA:** 9765**S&P 500:** 1043**Nasdaq:** 2056**10YR T-Note:** 3.42%**EUR/USD:** 1.474**Gold** 1041**Crude Oil:** 77.17Prices Current as of
2:08 PM

Source: Bloomberg

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Special Comment: I will be at the National Securities fall conference in Las Vegas on Monday and Tuesday, November 2nd and 3rd. The Market Notes will resume on Wednesday, November 4th.

Well, well, well – after all of the bearish hand wringing as a result of the sixth down day out of the past seven on Wednesday's close, the bearish crowd got fooled big-time yesterday, as the market underwent an extremely strong upside correction, with the Dow gaining +200 points, its best showing since July 23rd. Other market indexes also underwent similar gains.

What caused this strong upside move was a better than expected first estimate for third-quarter G.D.P., which came in at a gain of +3.5% when the consensus had been for a +3.2% advance. Let us also remember that one prominent financial organization, whose pronouncements are taken as the second coming of the Gospel, as we mentioned yesterday, had come out with a +2.5% prediction, well below consensus and was one of the factors sighted for Wednesday's sharp sell off, which culminated the six out of seven down days. What was somewhat encouraging about this report was that consumer spending, which makes up 70% of the U.S. economy, rose by +3.4%, its best showing since the first-quarter of 2007. The G.D.P. number itself was the fastest increase since the third-quarter of 2007.

Leading the upside charge were the beaten-down financial stocks, which have fallen out of favor recently on various analyst downgrades and questions about their repaying the TARP program through the issuance of additional shares. The technology sector, which had taken a huge beating on Wednesday as the large favorites continued to cool off, also made a very strong reversal to the upside as well.

So just when the bulls thought that the tide has been temporarily turned, the market is undergoing a sharp downside day today, and let us remember that as night follows day, the two sessions of any month that show the greatest propensity for declines are the third Friday of the month options expiration and the last trading day of the month, as today is. In fact, despite this being a very strong year for gains in the market

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averages, this will now be the seventh out of 10 down days on the final trading session. So what else is new?

The reasons for the extent of today's sell off, which has now reached triple digits in the Dow, and have obliterated all of yesterday's gains unless they improve, seem a bit stretched to explain, and that is what makes today's down day the more disturbing. It also gives credence to the fact that the market will now probably chop around sideways for the rest of the year and finish close to current levels, taking away a lot of the bullish enthusiasm that had occurred when the Dow surpassed the magical 10,000 level two weeks ago. One explanation for the decline today is that the September personal spending data showed a decline for the first time in five months. Even though the U. of Michigan Consumer Sentiment Survey for the end of October declined to 70.6 from the end of September 73.5 level, it actually did increase slightly from the mid-October level. Of course, a very strong reading on the Chicago Purchasing Managers Survey up to 54.2, which shows expansion and which was the highest since September 2008 was ignored. Perhaps the reason it was ignored is that even though the new orders component was higher, the employment component was lower.

Even when things were nominally lower at the start, the financials once again were trading lower after their nice comeback yesterday. This group is obviously in trouble and until these stocks can get their act together, the market will have a difficult time sustaining steady gains. Also the energy stocks were weak as well, and since they are heavily weighted in the major averages, their decline is also accelerating the losses.

And in the most bizarre, ongoing situation of all, as the market's decline has accelerated, its followers (or leaders) such as the Euro, oil, gold and other commodities dutifully are getting slammed as well. So when people are asked why is the market down today, some will actually say stocks are lower because the dollar is stronger and oil and commodities are down. But this answer is really sort of a cop-out because it would appear as if stocks appear to be the leaders both on the up-days

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and the down days, and the outside markets are in that follow the leader mode, not the other way around, because as we have said innumerable times, lower energy prices and a strong dollar would appear to be better in the long-run for stocks, and this is contrary to the way this relationship has been spun for several months now.

So unless things make a dramatic late day improvement, a highly unlikely scenario considering that this is the last trading day of the month, then the wonderful streak of seven straight monthly advances for the S&P and the Nasdaq will have come to an end. But the Dow will have advanced for the fourth straight month if it can close above 9712, and it did have a down month in June while the other averages rose.

Next week also sees many companies reporting earnings, although they are not so much of the heavyweight variety as we have already seen: Monday – CHK, CLX, ED, DF, F, HL, HUM, L, NTE, VMC; Tuesday: ABC, ADM, CTSH, DRIV, GWR, Dow component KFT, MRO, MLM, NA, PZZA, COL, RCL, SHOO, TRLG, VIA; Wednesday: NDN, AGU, ABK, CECO, Dow component CSCO, CLH, DVN, GRMN, HLS, HSIC, JCOM, MSO, MCHP, MUR, NWS, PVA, QCOM, PHM, ALL, TWX, WCG, WFMI; Thursday: ATML, NILE, CAH, CBS, CTL, CROX, CVS, DYN, FBN, HAIN, HOC, IGT, MGM, PWE, PLUG, RRGB, SLE, SBUX, SMG, TM, UL; Friday: LPNT

The economic data next week is going to be important, highlighted by the Fed statement Wednesday after their two-day meeting that will leave rates unchanged again and we also have Friday's October jobs report. So these are two potentially market moving items that must be paid attention to – Monday: October ISM Manufacturing Survey, September pending home sales; Tuesday: September factory orders, domestic vehicle sales; Wednesday: October ISM Non-Manufacturing Survey, ADP jobs estimate, would you believe it, and of course the Fed statement; Friday: October non-farm payroll report.

It should also be pointed out 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

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recently, the market underwent an average decline of -12% over the next three months before being higher by +13% a year later.

So far in the third quarter, profits are down -18%. During the second quarter, profits declines for stocks in the S&P 500 were -29%. This is after a first quarter decline of -33%. According to the analysts, the expectation is for 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. According to the analysts, for 2010, earnings are projected to increase by +26%, followed by earnings increases of +22% in 2011.

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. According to Bloomberg Financial, 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 +2.7 to 3.2% 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.