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Daily Market Notes

Market Update:

DJIA:	**9643**
S&P 500:	**1050**
Nasdaq:	**2097**
10YR T-Note:	**3.44%**
EUR/USD:	**1.461**
Gold	**1003**
Crude Oil:	**69.43**

Prices Current as of 12:28 PM

Source: Bloomberg

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After cooling off a bit on Friday as the VIX got down to levels that could not support a further advance, the market followed through early yesterday on the downside as a result of the Ú.S. – China supposed "tires versus chickens" trade dispute. This nonsense had caused overseas markets to sell off, resulting in an initial decline here of as much as -75 Dow points. After realizing the futility of this supposed strain in the relationship between the two economic superpowers, as basically the Chinese need our markets for export and the U.S. needs China as the largest holder of $2 trillion worth of our debt securities, cooler heads prevailed.

As a result, the major averages turned right around as the day wore on and finished at their best levels of the day. Even though the final closes were of the nominal nature, the Dow did undergo an intraday upside reversal of almost 100 points before ending with a close of +21. More importantly, both the S&P and the Nasdaq finished at their highest levels for the recovery move that began over six months ago.

It was difficult to find a reason for the strong turnaround, other than the fact that the VIX got a little too high on the initial decline in stocks, trading up as high as 25.39, which was a gain of +1.24 relative to the Dow's worst level of -75. There was some talk about the fact that utility stocks did well on the back of the gains in one of them on reports that China's sovereign wealth fund was seeking a stake in an electric power generator.

Another factor that tended to support equities was the fact that the Nasdaq/Dow ratio was very strong, as even when the Dow was on its lowest of the day, the Nasdaq was only nominally negative. When things started to turn around from their worst levels, the Nasdaq went positive first, and when this happens it usually means that the Dow is going to follow along to the upside.

As we have been mentioning, the main input for stocks this week will be the host of economic numbers that are going to be released, and today started out with three of them. The August P.P.I. headline number came in much higher than expectations, but let us also remember that you heard it here yesterday that "both the August P.P.I.

and C.P.I. reports will come in higher than consensus on the headline number because of the way that the energy component is calculated, which is from the middle of July to the middle of August, and let us remember that mid-July is when crude oil prices went below $60, dragging stocks down with them on the bizarre dynamic described above. From that point on they proceeded to go to their highs during the third week of August, so it will be payback time to last month's reports, when the headline number for both inflation reports was unchanged to actually down a bit. This higher number should cause the bond market to sell off, and might have a negative effect on equities as well." Of course next month, this number will be on the benign side because from mid August to mid-September gasoline prices have declined a bit. This higher number has caused the bond market to sell off, as one would expect.

The second report was August retail sales, which rose by the most in three years. The increase was obviously led by auto sales as consumers took advantage of the "cash for clunkers" program. This was the largest gain for auto sales in eight years. Even excluding autos, sales rose by more than anticipated, and made the largest gain in six months.

The third report was that the NYState Empire Manufacturing Survey rose at the fastest rate in almost two years.

Also adding a bit of a positive tone were comments from Chairman Bernanke, who said that "the recession is likely over, but the pace of growth in 2010 will be moderate."

Offsetting this optimism were two negative earnings reports, which are the first ones of the third-quarter reporting season for companies whose fiscal quarter ended in August. The giant electronic retailer and the large supermarket operator both came up short on their results, By the way, there do happen to be some other reports coming out this week - tonight: ADBE; Wednesday: DBRN and ORCL; Thursday: FDX, PALM and PIR. So there could be an impact from what these early reporters have to say. As a result of these mixed signals, the major averages have been vacillating between small gains and losses, with once again the Nasdaq holding up the best due to strength in many of the large technology components.

The lineup for economic reports the rest of the week is: tomorrow: August C.P.I., Industrial Production and Capacity Utilization, September NAHB Housing Market Index; Thursday: August housing starts and building permits, September Philadelphia Fed Index; Friday: September quarterly options expiration. So there is certainly enough on the table to provide reasons for the market to move one way or the other.

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 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

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.