

**Daily Market Notes****Market Update:****DJIA:** 8246**S&P 500:** 890**Nasdaq:** 1765**10YR T-Note:** 3.48%**EUR/USD:** 1.395**Gold:** 930**Crude Oil:** 63.12Prices Current as of  
1:28 PMSource: *Bloomberg***Donald M. Selkin**Chief Market  
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Yesterday's very late rally in the Dow, which took it from an intraday loss of around -70 points to a closing gain of +44 was probably the market's way of saying sorry for what the N.Y.S.E. pulled on the close last Thursday. Let us all remember that it is very difficult for the market to rally on a summer Friday (or last trading day of the week) when it starts out lower and continues to decline by a very large amount. So with the "excuse" that there were trades missing and therefore the closing had to be extended 15 minutes on the slowest trading day of the year, this was an open invitation for market maneuverers to do what they wanted, especially as there were so few participants around. So naturally, the market lost an additional -25 points in those last 15 minutes to add insult to injury for what the poor jobs report had already done.

This meant that market commentators yesterday had to basically go fishing for a reason to explain the very late Dow and S&P rally, and the explanations ranged from – the market rallied because of optimism that worldwide credit conditions are improving because of a report that Moody's Investors Service said it may lift Brazil's debt rating – oh, really – was that the reason? And others said that because of the recent decline in oil prices, the consumer discretionary stocks would do well because there would be more money in people's pockets. This was despite overall breadth numbers being -13/18 negative. But this explanation does not really hold water, except for yesterday, because all of these defensive consumer type issues are all lower today despite oil being down even more (and theoretically even more money in consumer's pockets). So this basically means that all yesterday's late rally accomplished was a correction of Thursday's artificial very late sell off.

Today things are sliding, similar to yesterday, on no specific news and this is why this type of decline is disturbing. At least yesterday, a better than expected ISM Non-Manufacturing Survey provided some sort of fundamental help. Today there were no economic reports or earnings, and the only good that can come out of market drops like this are that they set the bar lower when companies actually do report, unlike last week when the market rallied into what turned out to be a bad jobs report. Since stocks are down into their earnings, they hopefully will have discounted any lower

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than expected profits that are reported. And hopefully if earnings are better, then there could be considerable room for price recovery.

In addition to the anxiety over earnings, there is the second leg of this week's Treasury auctions and this will see how the \$35 billion of three-year notes goes. The results will be out at 1pm, and bond yields have been fluctuating in a somewhat narrow range lately.

Breadth numbers are worse than 2 to 1 to the downside, and the only stocks trying to do better are some financials, which have been under pressure lately, and various health care issues, but nothing much as the drift is definitely to the downside. It will be interesting to see if the important 887 level for the S&P manages to hold again, as it did yesterday, as this is around where the 200-day moving average lies. Many technical types do watch this closely, so let's hope that the market can dig in its heels at this level.

The poor start to the month of July is not a very encouraging development because for the past 10 years, July has seen market declines in 7 of them.

And sure enough, once again lower commodity prices, particularly energy, are being offered as a reason for market declines instead of as a relief for stressed consumers. Where are those Nigerian rebels when we need them to start attacking again to make oil prices go back up so that stocks can dutifully follow, because after all, the mantra of the moment is that oil prices are a proxy for worldwide economic recovery, isn't it? And once again, no one comments that relative to supply and demand, oil prices are probably still around \$10 higher than they should be.

The second-quarter earnings season starts to pick up this week, but it is really next week when the large financials and technology heavyweights will report. Unfortunately the Dow has a very weak leadoff hitter, as AA will report a loss on Wednesday and let us hope that their report does not set the perception that all of the earnings will be poor. In addition, we hear from RT tomorrow, FDO and PBG on

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Wednesday as well, and CVX on Friday. So this is really not a heavy week for earnings, and neither will economic reports be that important either, as we really only have the May trade deficit and preliminary U. of Michigan Consumer Sentiment Survey for July on Friday.

There is also another week of heavy debt sales, with \$14 billion in 10-year securities on Wednesday and \$11 billion in 30-year bonds on Thursday.

We will continue to point out that since World War II, cyclical (i.e. short term) bull markets within the context of secular (i.e. longer-term) bear markets, such as what we have had since October 2007, produce returns that average around 42%, and from the low of 666 to the recent high of 956 in the S&P, the return was 43%, right on schedule. In addition, the average cyclical bull market within a secular bear market has lasted 157 days, but this one has lasted only 90 days from the low to the recent high, so hopefully there will be some recovery at least back up to those highs in the next 60 days or so. The type of market action we have seen the past couple of weeks probably means that the best we are going to be able to do over the rest of the summer is that the averages can get back to the recent highs of last week and trade in a range.

So to repeat what we have said recently, the market has obviously made a near-term top for the averages, as the consistent failures at the abovementioned levels means that trying to overcome them will now become more difficult. This means that for the remainder of the summer, things could remain in a trading range, and to break out to new highs will have to be on the perception that in the fourth quarter, we will see both profit growth and G.D.P. growth for the first time in several quarters (see below).

Now that the second quarter reporting period is upon us, stocks in the S&P 500 are expected to report profit declines of -34%. This is after a first quarter decline of -60%. The projection is for a -21% decline in the third quarter, before a rousing gain

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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.

The best that can be said about these dire forecasts is that the bar has been set so low that any time a company says things were not as bad as expected, this leaves the potential for a rally in those stocks. Let us also remember that during the first quarter reporting period, even though the first quarter earnings were lower, two-thirds of the companies that reported did beat the lowered expectations.

Overhanging the market are the negatives of seven 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 quarter of 2009. If as expected, earnings come in lower for both the second and third quarter of 2009, this will be the first time ever that there have been nine consecutive quarterly profit declines.

We now have three consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008, and has now extended through the first-quarter of 2009 and could continue through the third quarter of 2009. This would be the first time ever that the U.S. economy has contracted for five consecutive quarters.

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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.*