

Daily Market Notes**Market Update:****DJIA:** 9297**S&P 500:** 997**Nasdaq:** 1971**10YR T-Note:** 3.34%**EUR/USD:** 1.427**Gold:** 993**Crude Oil:** 68.06

After rising for eight days in a row, the market has now fallen for four days straight, after yesterday's decline of -30 points. This was also the first time since May that the averages have undergone losses for four straight days.

The reasons for this decline are the result of four factors:

1) The 56% rally from the March lows to last week's highs resulted in the S&P 500 attaining a price/earnings ratio of 19 to 1, which was the highest since June 2004 and also above the historical average of around 17 to 1.

2) The rally also put 93% of S&P stocks above their 50-day moving average, also an indicator of an overbought situation.

Prices Current as of
11:55 AM

Source: Bloomberg

3) The month of September is historically the worst one for stocks, so there has been some caution the past two days as well.

4) The VIX had gotten as low as 23.69 last week as the market was on its highs, and this was too close to the support level of 23 which has contained rallies from advancing further this year.

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What was disturbing about yesterday was that the major averages were actually in nominally positive territory for good parts of the day before one of those sickening last half-hour declines sent the Dow from a gain at 3:30pm of +12 points to a close of -30 points, which meant that in the last 30 minutes the Dow took a nosedive of -42 intraday points.

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Ostensibly the weakness was attributed to the July factory orders report which rose by half of what the projection was and also the ADP estimate for tomorrow's jobs report came in worse than the consensus, which is for a loss -230,000 jobs and an unemployment rate to go back up to 9.5% from its current level of 9.4%. Their number was for a loss of -298,000. The only "good" thing about this is that after four straight days of losses, excluding whatever happens today, this worse number than

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the consensus that is out there, one must assume that if the numbers do come in anywhere less than -300,000, the market has probably already discounted this worse than expected news. Of course, anything less than the -230,000 number would be construed as bullish.

After some initial optimism today, as the Chinese stocks market posted its best gain in six months and its third straight advance, the major averages went negative, as the Dow went from an initial gain of as much as +52 to a loss of -27 points. This idea of the U.S. markets being influenced by China is really nonsense to some extent because at the same time that China has made a nice showing the past few days, our markets have undergone four straight days of losses. But when the Chinese market gets sold off big-time, this is a convenient excuse for sellers to emerge here.

One would assume that if stocks do close lower today, it would be blamed on weekly jobless claims that came in worse than expected and an August ISM Non-Manufacturing Survey that even though it climbed to its best level since last September, was not good enough because at under 50, it still did not show expansion. A more relevant inhibiting factor is that the Nasdaq/Dow ratio today is not good, due to weakness in a few larger components. If stocks close lower today, it would be the first five consecutive days of losses since January.

On the positive side, some retail sales reports were better than expected, which is helping the shares of some in that group, and more importantly the financial stocks, which got sold off sharply this week, are steadying to the upside today, even when the Dow was on its low.

With earnings season over, the main focus of the stock market will now be tomorrow's jobs report. As was mentioned above, one would like to think that there is already a lot of discounting a bad number by the events already alluded to. Only if the number was to come out worse than -300,000 would it appear that stocks would be vulnerable to declines. Otherwise, it would hopefully appear that this number will not have an adverse affect on stocks.

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Now that the second quarter reporting period is over, stocks in the S&P 500 have 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

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