

Daily Market Notes**Market Update:****DJIA:** 9468**S&P 500:** 1022**Nasdaq:** 2027**10YR T-Note:** 3.44%**EUR/USD:** 1.449**Gold:** 1001**Crude Oil:** 71.10Prices Current as of
11:45 AM

Source: Bloomberg

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Friday's extremely positive response to the August jobs report was a function of the fact that the market chose to believe in the supposed "accuracy" of the ridiculous ADP numbers which came out earlier in the week and predicted a jobs loss much worse than what the reality turned out to be. Add this negative reaction to the large sell off on Tuesday when investors got bent out of shape on a large rise in the VIX due to some vague stories about concerns that banks will report more losses. These losses the first two days of last week combined with losses the last two days of the prior week resulted in the longest losing streak for stocks since late May.

And this is exactly what one wants to see going into a major event, namely a bearish attitude on the part of investors. And sure enough, despite a 26 year high in the unemployment rate, the number of job losses was the least since last September. As a result, things started out higher and never looked back as the Dow ended at its best level of the day, with a gain of +97 points. Breadth numbers were also very favorable with a 4 to 1 advance/decline ratio, as those who were bearish earlier in the week suddenly turned bullish. Also helping was a very strong Nasdaq/Dow ratio, led by continued gains in the large technology components.

Even though the major averages broke their six-week winning streak, the losses at week's end were on the order of around -1% or less for these indicators, with the Nasdaq doing the least worst of all.

These two late week advances set the stage for this morning's strong opening, and in a dynamic that has been in place for the last several months as this rally has moved steadily higher is that gains in equities are being attributed to the gains in resource and gold prices, as this supposedly improves the outlook for raw-material companies. Throw in a dollar which has now weakened to its lowest level since last December and one has that sometimes difficult to explain combination of reasons for stocks to rally. Investors have been ignoring the inflationary implications of these higher metals and resource stocks along with the weaker dollar, and are instead concentrating on the fact that these higher commodity prices are indicative of global economic recovery. Today is another example of the decline in so-called "risk-aversion", which

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lessens the supposed appeal of the dollar as a safe-haven into more risky assets like stocks.

The reason that the S&P is doing much better than the Dow on a relative basis is that the energy stocks are strong for a change and the Dow is being restrained by a decline in the shares of the large food and beverage company on its takeover bid for a European competitor. In addition, some of the financial components of the Dow are also lagging on the upside as well. And how about the VIX, which is getting bid higher even as the major averages have been positive all day. This could be a function of the fact that despite all of the optimism of late, there are always those cynics who believe that stocks are in for a typical September move lower, and this is certainly how the first two days of this month started out. But ultimately, this is the best combination for stocks, in the sense that the further the VIX goes above its support level of 23, this means that theoretically stocks have further room to move higher.

Earnings season for the second quarter is over, so the only input from profit reports is that there is always the potential for negative pre-announcements as the month of September moves on and the actual reporting starts to take place in early October. Economic reports are also light this week, with: tomorrow: the Fed Beige Book of current economic conditions; Thursday: July trade balance; Friday: U. of Michigan Consumer Sentiment Survey for mid-September. None of these reports look like potential market movers.

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

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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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