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Daily Market Notes

Market Update:

DJIA:	**9427**
S&P 500:	**1014**
Nasdaq:	**2012**
10YR T-Note:	**3.42%**
EUR/USD:	**1.431**
Gold:	**994**
Crude Oil:	**68.30**

Prices Current as of 12:54 PM

Source: Bloomberg

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After eight straight days of gains and then four straight days of losses which amounted to -4.5% in the S&P from the early August 28th intraday high to the intraday lows earlier this week, the market made a strong late comeback yesterday. At 3pm, the Dow was just about unchanged, and then proceeded to make a dramatic advance in the last hour to a closing gain of +64 points. Of course, this is the exact opposite of what had happened the day before when the major averages basically dropped sharply in the last 30 minutes. So this proves that time after time that what happens one day has nothing to do with the next, especially in the last hour.

Leading the comeback were the financial stocks, which were generally higher even when the major averages slipped into negative territory on a few occasions during the session. Let us also remember that these stocks took a beating earlier in the week on vague rumors of further losses due to the troubled state of the commercial real estate market. In addition, several key retailers were strong on favorable comparable same-store sales – the large discount retailers seem to have done the best.

Otherwise, things were relatively calm ahead of today's all-important jobs report, which showed losses of -216,000 jobs. This was slightly better than the consensus for a loss of -230,000 and significantly better than the ridiculous -298,000 put out by ADP earlier in the week. Why anyone gives these people any sort of credence is beyond me, as time after time they are way off in their estimates. Let us also remember that investors did sell stocks off on Wednesday, which was the day that these ADP numbers were in fact released. The fact that the financial media even pays them any sort of attention and actually publicizes their predictions in the same manner as an official government report or ISM report is really something that should change, because investors who act on this ADP information have come to regret it time and time again.

The negative input from this report was that the unemployment rate did jump higher than forecast, up to 9.7% from the 9.5% that had been forecast. But let us remember that last month the number actually declined to 9.4% from 9.5%, so if last month showed an increase up to 9.6%, this progression would have been more in line with the reality of the labor market, which still has obvious weakness. Another slight negative was that the June and July numbers were revised slightly upward as well. The fact that the size of the labor force increased was probably the main reason why the unemployment rate went higher than the forecast.

As usual, it was the same old suspects that led the declines, with manufacturing losing -63,000 after a slight increase last month due to the opening of some of the automobile plants after the GM bankruptcy issue was resolved. There have now been a total of two million factory jobs that have been lost since the start of the recession in December 2007. The one sector that seems to be adding the most jobs is the education and health services areas.

The initial reaction to these numbers in the stock index futures market was one of chopping around between gains and small losses, and even in the first half-hour of actual trading the Dow went from gains of around +20 points to losses of as much as -23 points. From that point on, things did steady somewhat and as this is being written, the major averages have accelerated their gains, with the Dow up as much as +90 points at its session high. Despite today's gains, the major averages are still on par to record their largest weekly decline in the past two months.

Also helping is that the G20 financial ministers who are meeting this weekend are saying that they are unwilling to curb spending or start unwinding their record low interest rates and purchases of government debt. This should ultimately prove positive for equities as it will keep interest rates low and allow for economic numbers to continue to show their improving trend.

Also, it has always been one of my theories that it is best for the stock market to go into a major event on a downswing, and this is certainly what we saw earlier this week, as the supposed dreaded month of September and the explosion of the VIX to the upside were supposed to signal a new bearishness on the part of investors, which hopefully has been moderated by the gains of the past two days.

Since earnings are not going to be an issue this month, aside from those companies that come out with profit warnings, economic numbers and policy actions are going to rule the roost, and today's indication of no abandonment of the current policy of keeping interest rates low is an example of that. Next week's numbers will include the Fed Beige Book of current economic conditions, the July trade balance and the U. of Michigan Consumer Sentiment Survey. None of these numbers for next week seem to be as important as the ones released this week, with the jobs number being the most significant.

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.

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.