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Daily Market Notes

Market Update:

DJIA:	**9252**
S&P 500:	**999**
Nasdaq:	**1999**
10YR T-Note:	**3.64%**
EUR/USD:	**1.441**
Gold:	**962**
Crude Oil:	**71.5**

Prices Current as of 12:52 PM

Source: Bloomberg

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Let us go over what has transpired in the market since the last Daily Market Notes report was issued last Wednesday.

For the first three days of last week, the market underwent intraday declines that were nullified to a great extent by the close. For instance, the Dow showed losses during the session from -60 to -90 points on those days, but managed to finish only nominally lower on two of those days (Tuesday and Wednesday) and nominally higher last Monday. In fact, Wednesday was so typical of what we have seen so far this year, that when oil prices went down sharply, as did other commodity prices and the Euro, observers interpreted this as negative for stocks because "risk aversion" increased and this is why people wanted the "safety" of the U.S. dollar, which rose and as a result stocks were lower. But the inherent strength of the stock market asserted itself once again and the market finished with only nominal losses on Wednesday even as the outside markets plunged.

And sure enough on Thursday, after all of the pontificating about the return of "risk aversion", the market exploded to the upside, with the Dow making an intraday gain of as much as +176 points before settling back to a closing gain of +83 points. On Friday, the last day of the month, the Dow also closed higher, this time by +17 points after being up by as much as +64 points during the day. What caused this higher market on both of these last two days of the month were generally good earnings reports from various companies.

In addition to earnings, economic reports were also construed as favorable, as continuing jobless claims showed a decline and the first estimate of 2Q G.D.P. came in better than expectations, with a loss for the quarter of -1%. On the other hand, the 1Q was actually revised lower to show a loss of -6.4% from the last estimate of -5.5%. The main disturbing note in this report was that personal consumption declined by -1.2%, and let us all remember that consumer spending is the largest component of G.D.P. This means that the better readings came from a lower trade deficit, as imports shrank by more than exports, primarily due to this lower consumption of foreign goods by U.S. consumers.

As a result of this latest week of gains last month, July turned out to be a month of historic types of gains, as the Dow advanced by +8.4%, the S&P rose by +7.4% and the Nasdaq gained +7.8%. This meant that July put on the best performance for a July month since 1989, and it was the best gain for any month since October 2002. In fact, the major averages have now completed their best five-month stretch of gains since 1938.

These gains have primarily been a function of earnings, and for the two-thirds of the S&P companies that have reported so far, the overall decline from a year ago has been -29%, when the estimate as recently as July 1st was for a decline of -35%. And even more importantly, 74% of the companies that have reported have beaten the estimates, and this compares to the historical average of 61%. In fact, this is the highest percentage of beating the numbers since the first quarter of 2004, when 73% of the companies did better. In addition, these companies have beaten the estimates by an average of 13% versus the previous record of beating by 7% in the first quarter of 2004.

The one interesting and somewhat perplexing dynamic lately has been the behavior of the VIX, which last week actually gained +2.83 points as the Dow rose by +78. This is extremely unusual, but let us all remember that the VIX basically represents the intensity of put buying and even as the market ended July at its highs for the year, there are apparently enough skeptics around to keep this VIX elevated above its low for this year which was 23. In fact, the VIX today is going higher once again even as the Dow is up by 70 points as this is being written, so it is now at the same level it was back on July 13th, (over 26) when the Dow closed at 8331, or around 900 points less than it is today.

This is what gives the market further room to advance, even though 80% of stocks are now above their 200-day moving average, compared to only 1% when the lows were hit in early March. Theoretically, there is still 300 points to go on the upside for the Dow if the VIX were ever to return to its inverse relationship to the major stock market averages, which it has not been doing as the market is making new highs. So for the time being the bearish crowd has been absolutely wrong.

The month of August has started out with another rollicking upside move, with the Dow gaining by as much as +117 points before setting back a bit and the S&P hitting over the magical 1,000 level as well, before also setting back. Strength overseas as the result of an unexpected profit at Europe's largest bank has given the financial stocks here a big boost. The auto stocks are doing well as a result of that "cash for clunkers" program, which has received additional support from Congress. In addition, the two economic reports released this morning came in better than expectations, with the ISM Manufacturing Survey for July rising to an 11-month high at 48.9, and this gauge has risen every month since hitting a low of 32.9 in December. June construction spending rose by +0.3, when a decline was expected. In addition to the overall higher ISM number, the new orders component rose to its best level since July 2007 and the employment index also rose. There were also constructive manufacturing reports out of China and also in the U.K., where manufacturing expanded for the first time in more than a year.

This week also sees more earnings, and the calendar is as follows: Tuesday: KFT, ALL, PRU, SUN; Wednesday: PG, CSCO; Thursday: CMCSA, DTV. So this means that three more Dow components report this week.

The economic calendar is heavy as well, with today's reports coming in better as mentioned above; Tuesday: June personal income and personal spending; Wednesday: June factory orders and the ADP jobs estimate for what it is worth; Thursday: July same store retail sales: Friday: the big one, the July jobs report which is expected to show a loss of -333,000 which would be an improvement from June's loss of -467,000, and the unemployment rate is excepted to rise from 9.5% to 9.6%. We will discuss this in more detail as the week moves on.

Now that the second quarter reporting period is upon us, stocks in the S&P 500 are expected to report profit declines of -25%. 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.

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, such as we saw already the past two weeks. Let us also remember that during the second quarter reporting period so far, more than 70% of the companies reporting have beaten the estimates,

Overhanging the market are the negatives of 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. If earnings 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 and could continue through the third quarter of 2009, although most forecasters are now predicting positive growth for the third quarter. This would be the first time ever that the U.S. economy has contracted for five consecutive quarters, if that were in fact to take place. In fact, 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.