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Daily Market Notes

Market Update:

DJIA:	**12567**
S&P 500:	**1323**
Nasdaq:	**2816**
10YR T-Note:	**2.88%**
VIX:	**19.63**
EUR/USD:	**1.416**
Gold	**1588**
Crude Oil:	**98.18**

Prices Current as of 2:06 PM

Source: CNBC

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After a decent rally on Friday, stocks decided that the path of least resistance was down for most of yesterday. The reasons for the initial sharp decline were the same ones that are trotted out on any day that the market declines lately, namely concern over the ongoing negotiations over the debt ceiling limitation and budget cuts here in the U.S., in addition to the always negative influence of the ongoing sovereign debt crisis in Europe. In fact, costs to insure European sovereign debt rose to a record, which underlined the severity of the crisis, at least for yesterday.

After a lower opening, the Dow declined to its worst level of the day with a loss of 183 points at the 12noon low. At this point, breadth numbers were 1 to 8 to the negative downside, which is a really awful reading and the VIX shot up to its worst level of the day, a gain of 2.40 to 21.93.

After those who wanted to sell at the lows were satisfied, things made a choppy irregular recovery for the remainder of the session as the Dow was able to cut its worst lost in half by the close, ending with a final decline of 95 points and breadth numbers "improved" to end at a negative 1 to 6 ratio. As the major averages were able to bounce back from their worst levels, the VIX also declined and ended with a gain of 1.42, to 20.95, still more than it should have but also finding resistance in that high 21 area, which has indicated an oversold market now for almost a month and which has provided relief rallies over that period of time.

The declines were very widespread with few exceptions, as 29 of the 30 Dow stocks ended lower and the only one that managed a gain was up by a rousing .04 cents, the high-priced diversified manufacturer, which just goes to show how negligible this gain really was. Exceptions to the downside onslaught were few and far between, the most notable one being the advance to a new record all-time high for the large mobile telecom and computer stock a day ahead of its earnings, which will be reported eagerly watched tonight.

Ignored in all of the hysteria about the fiscal mess that has enveloped most of the Western world is the fact that the second-quarter reporting period has gotten off to a mostly good start, as of the 44 of the S&P companies to have reported already, 75% of them have beaten their profit estimates. According to which survey one follows, earnings gains for the second-quarter range from an advance of 7% to as high as 13%, so time will tell which the more accurate figure is.

And sure enough, the market is following that neurotic pattern of ignoring all of the macro-debt issues at least for one day once again today, as the concentration has been on a better than expected economic report and some better than expected earnings. June housing starts rose by much more than predicted, with a gain of 14.6% to the highest level in five months, and building permits also showed a gain when a decline was predicted by the experts whose job it is to enlighten the investing public on how these numbers are supposed to come out.

And the Euro rallied against the dollar on perceptions that European officials are nearing an agreement over measures designed to contain the region's sovereign-debt crisis. When the Euro goes higher, most commodity prices follow as well, so then we have to assume that higher energy prices are good for stocks today, just as lower oil prices yesterday were negative for stocks, in the Bernanke-induced symbiotic relationship that stock and commodity prices have had for the past 10 months.

Then there were some better than expected reports from the highest price Dow technology component and the large soft-drink maker, as the former has reached a new all-time high and the latter is now at a 52-week high. In addition, other companies such as a few bank stocks and an agricultural chemical company. On the other hand, the Dow medical products component is lower after its results, and three important financial stocks are all getting blasted to the downside after their reports, with a Dow financial component at a new two-year low, as is the large investment bank that has been the subject of government inquiries. The bank that is one of the largest asset managers in the world is also selling off after its numbers.

The Dow is maintaining triple-digit gains, and was higher by as much as 142 points at its best level and is hovering a bit below that as this is being written. Breadth numbers are better than 2 to 1 to the upside and the VIX is lower by slightly less than it should be relative to the Dow's advance of 120 at the present time.

It is imperative that the market holds most of its gains in order to break that syndrome of finishing closer to its lows after starting out higher, which we have been on several occasions over the past two weeks. This would keep things in their recent trading range until we get some sort of resolution about the debt ceiling limitation situation. Meanwhile, the S&P remains in the broad trading range between just above 1250 to around 1350 and it does not appear to have the strength to break out above this range until the fiscal situation is resolved and the second-quarter earnings season comes to an end. On the other hand, assuming the August 2nd deadline for the debt limit comes and goes without a satisfactory resolution, then all bets are off because then we would be in unchartered waters so to speak, and there are many dire predictions as to potential consequences floating around in the financial media.

This week continues the big focus on earnings, and the upcoming two weeks will be the heaviest for the second-quarter reporting period, and the lineup reads as follows: tonight - AAPL, YHOO; Wednesday – AXP, EBAY, EMC, FFIV, INTC, MO, QCOM; Thursday – T, LLY, MSFT, MS, PEP, SNDK, UNP; Friday – CAT, GE, MCD, SLB, VZ. This means that we will hear from 11 Dow companies alone, in addition to many others.

This week's economic reports will be mainly in the housing sector, with

tomorrow: June existing home sales; Thursday: weekly jobless claims, June L.E.I. and July Philadelphia Fed Index.

And to repeat what was said recently, the market has now taken on a resemblance to last year, when things reached their highs in late April, and then took a dive in May and June, which marked the lows for the year, and it was the same causes last year as well, with European sovereign-debt issues responsible for much of the comedown, although let us also remember that we started the decline this year from higher levels, which left the market more vulnerable to some sort of setback from the misplaced mind-set of higher commodity prices somehow being good for stocks. Let us hope that this year also sees the market low during this time period as well. And one sign for optimism in this regard is that the May and June declines this year were nowhere near as severe as they were last year and July was actually an up-month before another decline in August.

The S&P trades at 12.4 times forward earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $105 for 2011, according to the analysts who follow these companies. The average P/E multiple for the S&P going back to 1954 has been 16.2. Since 2006, the average P/E multiple has been 14.7

For all of 2010, earnings increased by +38%, which was the most since 1995. For 2011, first-quarter earnings gained +19% and are projected to gain +9% for the second quarter as reported by Bloomberg Financial and the 14% projected gain for 2011 would be the largest two-year advance since the period ended in 1995. The highest ever earnings for the S&P in one year so far took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have seven consecutive quarters of positive growth, starting with the third-quarter of 2009,

every quarter in 2010 and the first quarter of this year, according to the Commerce Department. For all of 2010, G.D.P. rose at a 2.9% rate, which was the highest since 2006 after a decline of 2.6% in 2009. For 2011, the prediction is now for G.D.P. growth of 2.5% and it is 3% in 2012, although estimates for this number vary widely and are constantly changing.

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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: {Bloomberg Financial, Reuters, Associated Press}. 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.