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Daily Market Notes

Market Update:

DJIA:	**12512**
S&P 500:	**1326**
Nasdaq:	**2810**
10YR T-Note:	**2.91%**
VIX:	**19.20**
EUR/USD:	**1.420**
Gold	**1599**
Crude Oil:	**98.22**

Prices Current as of 12:30 PM

Source: CNBC

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Well, well, well – after hitting a three week low on Monday, stocks put in a tremendous upside performance yesterday, which turned out to be the first time this year that the Dow was able to gain more than 200 points and which were the best gains since March 3rd. So what happened to cause this completely neurotic behavior on the part of stocks, where the Dow declined by as much as 183 points at its worst level Monday and then was able to turn around by more than this much yesterday as if all of the budget and debt issues both here and in Europe were a thing of the past?

There were a number of reasons to explain the turnaround, the first being that the VIX reached a resistance level at Monday's low in stocks, namely in the high 21 area, and this allowed for an oversold condition to have built up, which was certainly alleviated by yesterday's powerful advance. The second reason for the better showing is that earnings are so far coming out better than expectations, as of the 45 S&P companies to have reported as of yesterday, 75% of them had beaten the estimates. And finally for a change, there was some calming of the anxieties over the budget and debt issues that had been hanging over the market for the past several weeks.

This latter issue got more optimistic as a bi-partisan group of senators offered an ambitious plan that could revive the stalled debt negotiations and the prospect of a long-term deficit reduction deal that would avert a threatened U.S. default. Even the President jumped on this plan from those six senators, with just two weeks left before the U.S. runs out of money to pay its bills. He called the plan a "very significant step" and urged congressional leaders to start discussing it. The plan would call for $3.75 trillion in savings over 10 years, which was higher than expectations, along with $1.5 trillion in spending cuts and plans for $1.2 trillion in new revenues. Of course, Republicans still oppose any plan that would include tax increases, which has been the major obstacle to any kind of agreement being reached so far.

The major averages accelerated to the upside around 1:30pm from a Dow gain

of around 150 points when the President encouraged Congressional leaders to get to work on this plan and the Dow reached its best level of the session with a 222 point advance at 3:15pm, before ending with that 202 point closing advance. What ensured that the market would go the distance was that the Nasdaq/Dow ratio was extremely strong, as the former rose by 61 points, with the result that breadth numbers ended at a strong 4 to 1 upside ratio. The VIX declined by a little less than it should have relative to the Dow's advance, with a 1.74 drop to 19.21.

Good earnings from Dow components highlighted the day, with its highest-priced technology component reaching an all-time best ever level and the large soft-drink chain reaching a new 52- week high. Then we got all of the outside markets that went along in that symbiotic relationship with higher stocks, as the Euro rose against the dollar on this newfound optimism that everything is going to be alright and naturally crude oil prices jumped by the same $1.50 or so that they had fallen on Monday when stocks got sold off as well, and ended at $97.50.

Bond yields made a sharp decline to a 2.88% yield for the 10-year Treasury note on optimism that the bi-partisan proposal mentioned above to reduce long-term debt would resolve the stalemate and allow the debt limit to be increased before the August 2nd deadline. And gold, heaven forbid, actually had the nerve to decline a bit after reaching a new all-time intraday high at $1,610 an ounce.

After the initial enthusiasm today over better than expected earnings from the large mobile telecom and computer stock, which reached a new all-time high in the process, in addition to good reports from the largest asset manager, the robotic surgical systems maker which also made a new all-time high, and a large regional bank, among others, along with carryover optimism from yesterday progress on the debt ceiling issue, the Dow made a fast gain of 7 points coming out of the starting gate and the Nasdaq advanced by 13 points

early as well. But these gains did not last very long, as selling immediately entered, as the Dow fell to a loss of as much as 40 points after the release of the June existing home sales report, which "unexpectedly" (in the term used by the experts whose job it is to predict these things and invariably get them wrong) fell to a seven month low. Since then, things have slipped a bit once again as the Dow is down by 21 as this is being written and the Nasdaq is lower by 15, which is not a good ratio, but breadth numbers are slightly positive, which means that the smaller stocks are doing better today.

The Treasury market, which did so well yesterday, is giving back some of its gains as new concerns build that U.S. lawmakers still have a lot of work to do before agreeing to cut the deficit and raise the debt limit ceiling. The large mobile telecom stock is cooling off a bit after briefly trading above 400 in the aftermarket late yesterday in a reaction to the tremendous earnings report that they released. The Dow is being restrained by a poor reaction to the aerospace and building industry manufacturer's earnings report, but if you have to rub your eyes to believe it, the large bank stocks are actually all higher today as bargain hunters come in, particularly on the two large financial institutions that both slumped to two-year lows after their awful earnings reports yesterday. This development could provide for some stability as the day moves on.

In other words, if the market finishes higher today, the "explanation" will be that progress is being made on reaching a compromise to cut the federal deficit and increase the debt ceiling, and if the market ends lower, the "explanation" will now be that no progress was made on this issue. The VIX is sort of taking the day off and is not a factor in today's market action.

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 - – AXP, EBAY, INTC, 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.

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This week's economic reports will be mainly in the housing sector, with tomorrow: 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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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: {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.