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Daily Market Notes

Market Update :

DJIA:	**11305**
S&P 500:	**1195**
Nasdaq:	**2593**
10YR T-Note:	**1.95%**
EUR/USD:	**1.36**
VIX:	**34.27**
Gold	**1786**
Crude Oil:	**85.42**

Prices Current as of 12:35PM

Source: CNBC

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The market extended last week's gains on Friday, rallying for the fifth day in a row for the first time since the week of June 27th – July 1st. It was helped in these gains by the professional trading experts who had set up negative positions going into the September options expiration, and their having to cover these incorrect bets probably exacerbated the upside. Also helping was the fact that the mid-September U. of Michigan Consumer Sentiment Survey rose from the lowest level since November 2008 as consumer views of current economic conditions improved somewhat.

As a result, the Dow reached its best level of the day with a 99 point gain at 10:15am, then declined to its worst level of the day with a 25 point loss at 11am, from which level it was able to push higher into the close and finally ended with a 75 point advance after having been higher by 90 at 1pm and 80 at 3pm. Unfortunately the broader market was not able to keep up, as breadth numbers were only nominally positive and were actually negative for most of the day, as options expiration maneuvers with large stocks seemed to be the order of the day. For instance, three Dow stocks, for whatever reasons, accounted for 40 of the 75 Dow up-points at the close and the financials went back to their old habit of selling off after showing some promise earlier in the week. The Nasdaq actually put in its best weekly performance since July 2009 on strength in some of its high-priced leaders.

The VIX declined by a little more than it should have relative to the Dow's gains, lower by .99 to 30.98 and the major averages actually did quite well for the week, with the Dow ahead by 4.7%, the S&P up by 5.4% and the Nasdaq, as mentioned above was the big winner with a gain of 6.3%. This was some sort of relief rally after the market had been lower for six out of the past seven weeks, and it now appears as if the S&P is going to trade in a range of between the yearly low of 1101 reached early last month to near-term resistance at this month's early highs of 1230, with developments in Europe calling the tune.

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A prominent weekly financial publication pointed out some of the dynamics that the market has been working against recently, and they are 1) outflows from stock mutual funds has been comparable in recent weeks to those around March 2009; 2) short interest relative to market capitalization exceeded any level going back to 2009; 3) a fund manager survey revealed the lowest risk appetite since early 2009; 4) the ratio of corporate insider stock sales to purchases has been at or below 10 for six straight weeks for the first time since early 2009; 5) global cuts in corporate earnings forecasts have had their weakest five weeks since 2009. These are signs that things could be bottoming if one wants to take the contrarian position.

Against the backdrop of the nice market gains here, things were not so great in Europe, as finance ministers there ruled out efforts to spur their faltering economy and showed no signs of taking up a proposal by the U.S. Treasury Secretary to increase the firepower of the debt crisis rescue fund. They said that the debt crisis there leaves no room for tax cuts or extra spending to spur their economies, which are on the brink of stagnation.

And sure enough, after last week's nice gains, things started out with a downside thud, as the one item that our stock market unfortunately keys off, namely the Euro, weakened amid concern that Greece will fail to qualify for more financial aid needed to avoid default. And sure enough, as stocks got whacked around to the downside, the Treasury market rallied on the safe-haven mentality with two-year yields once again near record lows. And crude oil is declining sharply on this perception of world-wide economic weakness, which should be beneficial for consumer spending, but never mind.

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Things opened sharply lower with the Dow declining to its worst level of the day with a 254 point loss at 10:45am, from which level it has been able to move up at its high to wipe away around 90 points of its worst decline before pulling back once again. Breadth numbers are awful at a 1 to 5 negative ratio and the VIX is up by more than it should be relative to the Dow's decline, with a 3 point gain to around 34. The newest "safe-haven" seems to be the shares of the large mobile telecom and computer company, which made another new all-time high today for whatever reason after extremely strong gains last week.

The market seems to be more about politics in Europe (and here as well), as apparently the ruling party in Germany suffered another defeat over the weekend in some regional elections and the Greek Prime Minister cancelled a trip to the United Nations meeting this week in New York to deal with the crisis at home. The market seems to be pricing in some sort of Greek default as once again the failure of the politicians over the weekend to accomplish anything at their meeting in Poland after a similar failure last week in Marseilles, France (of course these are strange places to be holding meetings of this importance in the first place) is driving market sentiment at the present time. Then we get the highly anticipated Fed meeting which will end after two days with the release of their policy statement at 2:15pm on Wednesday. This will also be eagerly watched, as sentiment is building for some sort of selling short-term and buying long-term Treasury securities and perhaps decreasing the interest paid to banks to keep their excess funds with the Fed in order to encourage them to lend more. Their statement will obviously have a major impact on trading Wednesday afternoon.

Believe it or not, earnings are starting to heat up as the third-quarter reporting period gets more and more underway. This week we hear from several important companies and the lineup is as follows: Tuesday- DRI, CPRT, JEF, ORCL, ADBE, CCL; Wednesday – GIS, BBBY, RHAT; Thursday – FDX, CMX; Friday – FINL, KBH.

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Economic reports are on the light side, as this morning's September NAHB Housing Market Index declined slightly to 14 from 15; tomorrow we get August housing starts and building permits; Wednesday sees August existing home sales and the all-important F.O.M.C. decision; Thursday – weekly jobless claims and August L.E.I. Obviously the Fed decision will be the crucial item of the week.

The S&P trades at under 12 times 2011 earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are still projected to be $96 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 the first half of 2011, earnings gained +18 as reported by Bloomberg Financial and the 16% overall 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. For 2012, earnings are now projected to be $104 for the S&P.

After four consecutive quarters of negative G.D.P. growth, we now have eight consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first quarter and second quarters of this year, although these numbers are weaker than earlier estimates, according to the Commerce Department. For all of 2010, G.D.P. rose at a 3% rate, which was the highest since 2006 after a worse than originally estimated decline of 3.5% in 2009 and an overall decline of 0.3% in 2008. For 2011, the prediction is now for G.D.P. growth of 1.5% and it is 2% in 2012, although estimates for this number vary widely and are constantly changing.

Donald M. Selkin

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.