

Daily Market Notes**Market Update :**

DJIA: 11208

S&P 500: 1173

Nasdaq: 2540

10YR T-Note: 12.05%

EUR/USD: 1.36

VIX: 35.79

Gold: 1626

Crude Oil: 82.24

Prices Current as of
1:05PM

Source: CNBC

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When does a triple-digit closing gain in the Dow feel like a down-day? How about yesterday, when an advance of as much as 326 points at 2:20pm turned into a decline from that level of as much as 235 points off of that high (to an advance of “only” 91), before the Dow ended with a final closing gain of 146. And just to show how dependent our market is on the latest developments out of that disaster zone otherwise known as Europe, the Dow was able to shoot up to its best level of the day on a report that Greek lawmakers approved a controversial new property tax that aims to boost revenue as that country continues to struggle to obtain a critical installment of bailout loans that would prevent it from default. And the market here seemed to get this upside kick when the vote was finally passed by a narrow 154 to 143 majority, whew!

This property tax vote is supposedly important because Greece must receive an \$11 billion rescue loan before mid-October in order to prevent a bankruptcy, and I guess that our stock market cheered this development because this new tax will be charged through electricity bills in order to make it easier to collect, instead of using the tax system, probably the most inefficient in Europe and an ongoing source of sleaziness and corruption, which is sort of what got Greece into its current mess in the first place. And for those who do not pay their property taxes, they run the risk of having their power shut off!

I assume that this sympathy for those will might have their electricity disconnected is what caused our market to say that those connivers in that country will find a way to circumvent this tax, which is something that people in Greece are good at, which is why they have these massive budget deficits to begin with. As a result, our market started the plunge from the highs as described above, and to no one’s surprise, it was the financials that turned lower first, in addition to some of the high-priced technology leaders. On the other hand, the energy and industrial type stocks were able to hold onto a good part of their gains which is why the Dow did end with triple-digit advances despite the large intraday comedown from its best levels.

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The VIX fell by just about what it should have relative to the Dow's advance, and ended lower by 1.31 to 37.71. For the time being, it now appears content to stay in a range between the low 30's and low 40's, which corresponds to the current trading range for the S&P of 1220 to 1120,

Aside from sympathy to those Greeks who are going to find a way to avoid paying this new tax anyway, the main explanation put forward for the late collapse from the highs is that there was a report that German and French government advisers urged that Greece be allowed to write off around 50% of its debt while at the same time calling for more support for banks with large holdings of Greek bonds. This raised the stakes from the July agreement that would have provided only a 21% write-down on Greek debt through a bond swap deal that would give the country a longer time to pay off its debt. This group of advisors also wants banks to be able to exchange Greek bonds for notes issued by the E.F.S.F. to guarantee the stability of the restructuring process.

Whatever the real reason for the dramatic late plunge, it also proves one of my major contentions that the market rarely does the same thing late in the session for two days in a row, as let us remember that on Monday the market accelerated its advances in exactly the same late timeframe that yesterday's collapse took place in, which basically means that the market always finds a way to confound almost everyone.

And what about the bond market, which has now completely made a fool out of the Operation Twist maneuver from the Fed last week, as yields on all of the longer-term securities that they so proudly said they would support through that \$400 billion purchase mechanism are now higher than they were on the day that this program was announced, and the yield curve has also pushed out a bit as well, due to the stronger gains in the longer-term yields relative to the shorter ones.

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For instance, the 30-year has pushed higher from its low of 2.74% to 3.08%, a gain of .34%; the 10-year went from its low of 1.67% to 1.98%, an advance of .31%, while the 2-year moved up from its low of .14% to .24%, a gain of .10%. In other words, the yield curve narrowed in recent weeks in anticipation of the Fed program and then when the program itself was announced, the bond market has reacted in the exact opposite way, fooling those late to the party investors once again.

As if to make nice to investors after yesterday's strange collapse, things started out higher today, with the Dow racing out to an early gain of 126 points at its best level right before 10am. But the prosperity was too much and things started to deteriorate lower from those levels, and similar to Monday, the Nasdaq went negative first at around 10:20am while the Dow was still higher by 30 or so, and we all know who wins that battle. As a result, the Dow declined to its low with a 31 point loss, from which it has been able to rally to a gain of 75 points just before 12noon before setting back a bit from that best recovery level. The Nasdaq meantime is lagging and it took around 50 Dow points to get the Nasdaq into the plus column, normally not a good sign, but then again look what happened on Monday.

Also not helping so far is the fact that breadth numbers are really poor at a negative 10/18 ratio while the Dow is higher by 30 points and the Nasdaq is lower by 5. And the VIX is also a bit higher even as the Dow is up a bit. So in a sense, the Dow is being supported by nice gains in a few of its more influential components, as the highest priced technology component is continuing its recent very strong performance, and today the energy components are also doing well. And naturally as the Dow came off of its best early levels, the first stocks to give way on the downside were you guessed it, those awful financials.

As far as market moving news is concerned, the August durable goods report despite being lower overall, did show the best gain since May in the capital goods component of the overall number.

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And as far as Europe is concerned, today's spin is going to be – if the market ends higher, then there was optimism about progress toward a resolution of the Greek debt situation, and if things end lower, the “explanation” will be that there is “growing concern” about the division of financial officials about how to handle the matter. And if things end mixed, then no one will know what to say, except for the fact that stocks today seem to be reacting to their own dynamics, especially the largest Online retailer, which is showing a good gain based on the introduction of its lower-priced Kindle Fire Tablet, which could potentially challenge the dominance of the iPad, whose stock is also higher as well, after being lower on the first two days of the week as the broader market ended higher.

Treasury yields continue to push higher in favor of the longer maturities, once again making fools out of the Federal Reserve Operation Twist program for the fourth day in a row, and most commodities are lower, such as crude oil and copper, because they officially closed yesterday when the stock market was on its best levels, so their decline today is a delayed reaction to where they should have been if they stayed open until the 4pm closing of equities, which got hammered late in the day as mentioned. This is another example of what I believe is that sick symbiotic relationship that has developed in all of these markets, for better or worse, over the past year, as they all look at each other and then decide to move in unison.

This week finishes with a good number of economic reports that could influence things one way or the other and the lineup is as follows – Thursday: final revision of 2Q G.D.P., weekly jobless claims, August pending home sales; Friday: August personal income and spending, September Chicago Purchasing Managers' Index, U. of Michigan final September Consumer Confidence index, and the September NAPM September Milwaukee Index.

Third-quarter earnings continue for those companies whose fiscal quarter ended in August, and we will start to see the deluge of these reports next week as we move into the month of October, but for this week we still hear from MU.

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Isn't it enough that over \$35 trillion was wiped off of equity values worldwide last week alone, which one would like to think makes stocks look cheap at current levels, especially given the level of all-time record low interest rates. The argument for stocks being good values here is further enhanced by the fact that despite all of the turmoil on fears of slower economic growth or worse, analysts have actually raised their profit forecasts for the S&P companies for 2011 to a record \$99.34 from \$98.73 in late April when stocks were on their highs, according to Bloomberg. This is somewhat of a strange occurrence, because the rap against stocks lately has been that earnings estimates are too high. So we will have to see who is right on this one.

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.

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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.

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Disclosures

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