

September 1, 2010

# Market View Daily

INVESTMENT STRATEGY GROUP

Gregory M. Drahuschak

JANNEY MONTGOMERY SCOTT LLC

| 2010 Market Data        | Prior CLOSE | LAST     | CHANGE | % Daily | % YTD   | % Jan.  | % Feb   | % Mar  | % Apr  | % May   | % June | % July  | % Aug   | 1st Qtr. | 2nd Qtr. | 3rd Qtr. |
|-------------------------|-------------|----------|--------|---------|---------|---------|---------|--------|--------|---------|--------|---------|---------|----------|----------|----------|
| D J Industrials .DJIA   | 10009.73    | 10014.72 | 4.99   | 0.05    | (3.96)  | (3.46)  | 2.56    | 5.15   | 1.40   | (7.92)  | (3.58) | 7.08    | (4.31)  | 4.11     | (9.97)   | 2.46     |
| S&P 500 SPX             | 1048.92     | 1049.33  | 0.41   | 0.04    | (5.90)  | (3.70)  | 2.85    | 5.88   | 1.48   | (8.20)  | (5.39) | 6.88    | (4.74)  | 4.87     | (11.86)  | 1.81     |
| NASDAQ Comp COMP        | 2119.97     | 2114.03  | (5.94) | (0.28)  | (6.84)  | (5.37)  | 4.23    | 7.14   | 2.64   | (8.29)  | (6.55) | 6.90    | (6.24)  | 5.68     | (12.04)  | 0.23     |
| SOX Index SOX           | 313.58      | 307.49   | (6.09) | (1.94)  | (14.56) | (12.18) | 7.21    | 8.18   | 2.59   | (5.43)  | (6.57) | 4.97    | (11.85) | 1.85     | (9.35)   | (7.47)   |
| Biotech Index BTK       | 1061.62     | 1060.72  | (0.90) | (0.08)  | 12.59   | 2.36    | 7.92    | 17.95  | (2.34) | (12.25) | (2.74) | 3.56    | 0.11    | 30.30    | (16.66)  | 3.68     |
| DJ Transports .TRAN     | 4111.13     | 4122.63  | 11.50  | 0.28    | 0.56    | (4.98)  | 6.14    | 5.81   | 6.77   | (7.17)  | (7.57) | 10.36   | (6.79)  | 6.71     | (8.38)   | 2.86     |
| DJ Utilities .UTIL      | 387.21      | 388.97   | 1.76   | 0.45    | (2.27)  | (4.96)  | (2.87)  | 3.11   | 2.41   | (6.90)  | (0.96) | 7.77    | 0.89    | (4.82)   | (5.56)   | 8.73     |
| Volatility Index VIX    | 27.21       | 26.05    | (1.16) | (4.26)  | 20.16   | 13.56   | (20.80) | (9.79) | 25.36  | 45.44   | 7.70   | (31.96) | 10.85   | (18.87)  | 96.36    | (24.58)  |
| S&P Midcap 400 MID      | 721.47      | 721.64   | 0.17   | 0.02    | (0.69)  | (3.28)  | 5.06    | 6.98   | 4.20   | (7.33)  | (6.69) | 6.82    | (5.08)  | 8.70     | (9.90)   | 1.39     |
| S&P 100 .OEX            | 475.35      | 475.73   | 0.38   | 0.08    | (7.46)  | (3.70)  | 2.22    | 5.70   | 1.00   | (8.74)  | (5.15) | 7.04    | (4.96)  | 4.05     | (12.57)  | 1.73     |
| Gold ETF GLD            | 120.91      | 122.08   | 1.17   | 0.97    | 13.76   | (1.26)  | 3.27    | (0.44) | 5.88   | 3.05    | 2.36   | (5.09)  | 5.71    | 1.53     | 11.68    | 0.33     |
| Russell 1000 Index .RUI | 577.49      | 577.68   | 0.19   | 0.03    | (5.61)  | (3.69)  | 3.06    | 5.98   | 1.75   | (8.13)  | (5.72) | 6.82    | (4.69)  | 5.19     | (11.87)  | 1.82     |
| Russell 2000 Index .RUT | 601.72      | 602.06   | 0.34   | 0.06    | (3.73)  | (3.73)  | 4.41    | 7.97   | 5.59   | (7.67)  | (7.88) | 6.79    | (7.50)  | 8.51     | (10.19)  | (1.22)   |

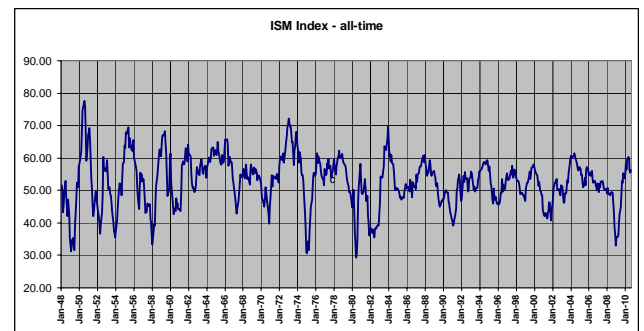
| DJIA -                   |        | LAST   | CHANGE | YIELD  | Impact DJIA | Dec. 31 2009 | YTD-2010 % G/L | 1Q-2010 % G/L | 2Q-2010 % G/L | 3Q-2010 % G/L |
|--------------------------|--------|--------|--------|--------|-------------|--------------|----------------|---------------|---------------|---------------|
| Caterpillar Inc. CAT     | 65.16  | 0.69   | 2.70   | 5.21   | 56.99       | 14.34        | 10.28          | (4.42)        | 8.47          |               |
| Inter. Bus. Machines IBM | 123.13 | (0.27) | 2.11   | (2.04) | 130.90      | (5.94)       | (2.02)         | (3.72)        | (0.28)        |               |
| United Technologies UTX  | 65.21  | (0.18) | 2.61   | (1.36) | 69.41       | (6.05)       | 6.05           | (11.82)       | 0.46          |               |
| Chevron CVX              | 74.08  | 0.30   | 3.89   | 2.27   | 76.99       | (3.78)       | (1.51)         | (10.51)       | 9.17          |               |
| Hewlett-Packard HPQ      | 38.45  | (0.11) | 0.83   | (0.83) | 51.51       | (25.35)      | 3.18           | (18.57)       | (11.16)       |               |
| 3M Co. MMM               | 78.55  | (1.10) | 2.67   | (8.31) | 82.67       | (4.98)       | 1.09           | (5.48)        | (0.56)        |               |
| Procter & Gamble PG      | 59.67  | 0.30   | 3.23   | 2.27   | 60.63       | (1.58)       | 4.35           | (5.20)        | (0.52)        |               |
| Boeing Co. BA            | 61.13  | (0.97) | 2.75   | (7.33) | 54.13       | 12.93        | 34.14          | (13.58)       | (2.58)        |               |
| Intel Corp. INTC         | 17.67  | (0.29) | 3.57   | (2.19) | 20.40       | (13.38)      | 9.26           | (12.74)       | (9.15)        |               |
| Exxon Mobil XOM          | 59.11  | 0.11   | 2.98   | 0.83   | 68.19       | (13.32)      | (1.77)         | (14.80)       | 3.57          |               |
| Wal-Mart Stores WMT      | 50.14  | (0.41) | 2.41   | (3.10) | 53.45       | (6.19)       | 4.02           | (13.54)       | 4.31          |               |
| Kraft KFT                | 29.91  | 0.21   | 3.88   | 1.59   | 27.18       | 10.04        | 11.26          | (7.41)        | 6.82          |               |
| McDonald's Corp. MCD     | 73.06  | 0.32   | 3.01   | 2.42   | 62.44       | 17.01        | 6.85           | (1.27)        | 10.92         |               |
| American Express AXP     | 39.87  | (0.02) | 1.81   | (0.15) | 40.52       | (1.60)       | 1.83           | (3.78)        | 0.43          |               |
| Merck & Co. Inc. MRK     | 35.16  | 0.43   | 4.32   | 3.25   | 36.54       | (3.78)       | 2.22           | (6.37)        | 0.54          |               |
| Johnson & Johnson JNJ    | 57.02  | (0.28) | 3.79   | (2.12) | 64.41       | (11.47)      | 1.23           | (9.42)        | (3.45)        |               |
| Home Depot Inc. HD       | 27.82  | 0.07   | 3.40   | 0.53   | 28.93       | (3.84)       | 11.82          | (13.23)       | (0.89)        |               |
| Alcoa Inc. AA            | 10.22  | (0.03) | 1.17   | (0.23) | 16.12       | (36.60)      | (11.66)        | (29.35)       | 1.59          |               |
| AT&T T                   | 27.03  | 0.40   | 6.22   | 3.02   | 28.03       | (3.57)       | (7.81)         | (6.39)        | 11.74         |               |
| Verizon VZ               | 29.53  | 0.09   | 6.43   | 0.68   | 33.13       | (10.87)      | (6.37)         | (9.67)        | 5.39          |               |
| Cisco Systems CSCO       | 19.99  | (0.33) | 0.00   | (2.49) | 23.94       | (16.50)      | 8.73           | (18.13)       | (6.19)        |               |
| Microsoft Corp. MSFT     | 23.47  | (0.17) | 2.22   | (1.28) | 30.48       | (23.00)      | (3.90)         | (21.41)       | 2.00          |               |
| General Electric GE      | 14.48  | (0.04) | 3.32   | (0.30) | 15.13       | (4.30)       | 20.29          | (20.77)       | 0.42          |               |
| Coca-Cola Co. KO         | 55.88  | 0.33   | 3.15   | 2.49   | 57.00       | (1.96)       | (3.51)         | (8.87)        | 11.49         |               |
| DuPont DD                | 40.77  | 0.45   | 4.02   | 3.40   | 33.67       | 21.09        | 10.60          | (7.12)        | 17.87         |               |
| Bank America BAC         | 12.46  | 0.14   | 0.32   | 1.06   | 15.06       | (17.26)      | 18.53          | (19.50)       | (13.29)       |               |
| Pfizer PFE               | 15.91  | 0.05   | 4.53   | 0.38   | 18.19       | (12.53)      | (5.72)         | (16.85)       | 11.57         |               |
| Walt Disney Co. DIS      | 32.54  | 0.19   | 1.08   | 1.44   | 32.25       | 0.90         | 8.25           | (9.77)        | 3.30          |               |
| Travelers TRV            | 48.99  | 0.04   | 2.94   | 0.30   | 49.86       | (1.74)       | 8.18           | (8.69)        | (0.53)        |               |
| J.P. Morgan Chase JPM    | 36.36  | 0.51   | 0.55   | 3.85   | 41.67       | (12.74)      | 7.39           | (18.19)       | (0.68)        |               |

Following some strong economic data from China and solid gains in overseas markets, futures this morning were notably higher.

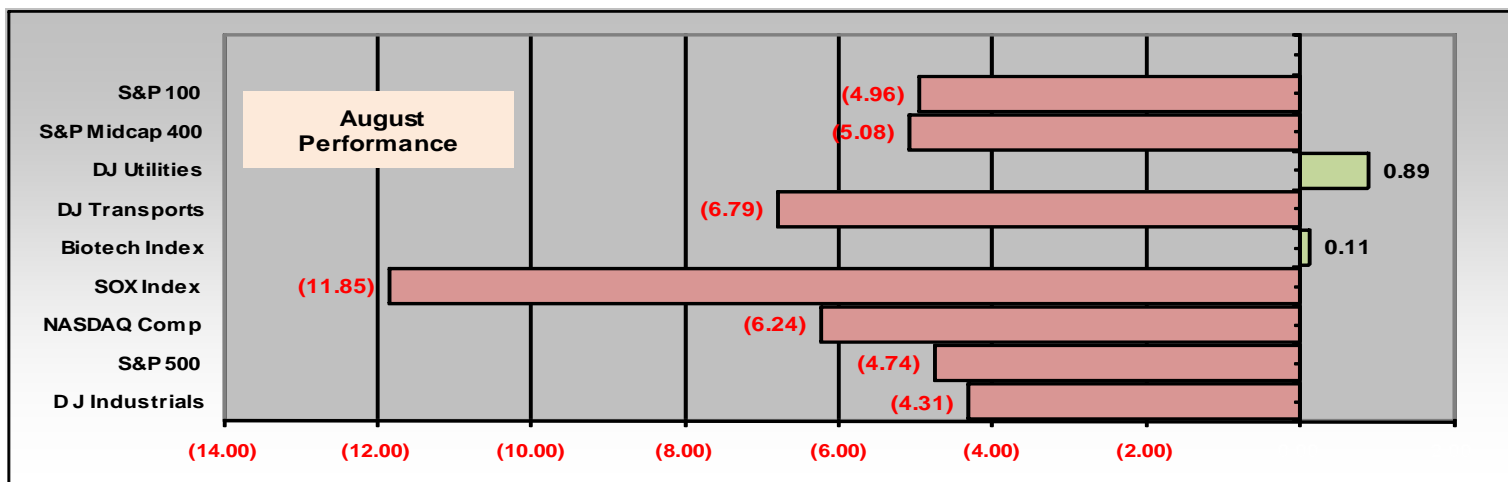
The ADP Employment Survey showed a loss of 10,000 private sector jobs compared with an estimated gain of 14,000. The report initially put some pressure on futures, but it did not take long for that to be overcome.

Immediately ahead of the 10 AM report of the ISM Index the Dow was up 135 points.

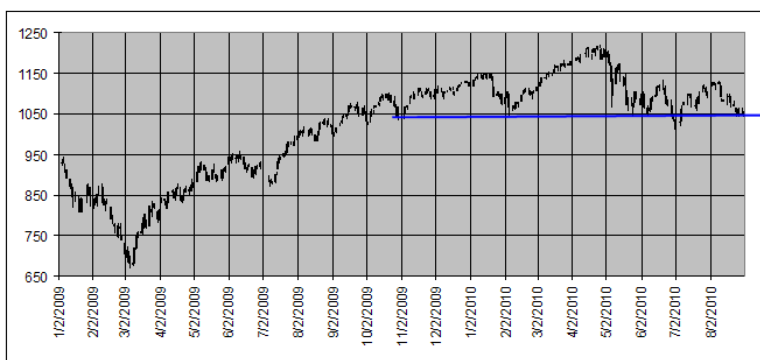
The ISM Index at 56.3 was higher than expected and higher than a month ago. The report added even more gains to the market with the Dow pushing toward a 200-point gain right after the release of the ISM data. Construction spending fell 1.0 percent, which was a bigger than anticipated decline, but this did not deter the market.



Reports on energy inventories and vehicle sales were due later today, but the focus remains on Friday's employment report and what the data on private sector payrolls will show.



Often we have noted in the Market View Daily that a market move that may appear to be news motivated coincides well with technical factors. In some regard today's market activity had its roots in a technical condition.



The chart on the left illustrates this.

The blue line in the chart is at 1040 for the S&P 500. As it shows, the S&P 500 established 1040 as a support level by providing a stopping point for market downturns on numerous occasions going back to last October. We have noted this specific level many times lately since each recent market slide has been stemmed at this level.

Throw in the economic news today as well as the typical influx of new cash that enters the market at the start of every month

and you get the ingredients for a market upswing.

The chart also suggests where an extended market rally might take the S&P. Initially the area around 1080 would be a potential level where the S&P could encounter resistance. It was interesting to note that by 11 AM today the S&P was less than a point from 1080.

If this level is exceeded 1120-1130 is the next logical spot of resistance. On the chart above this range is represented by two peaks in the chart established in June and early August this year.

The ISM report today had more good news in it than merely the consensus-beating headline number.

The new orders component slipped to 53.1 from 53.5 but the production component (59.9 from 57.0) and the employment component (60.4 from 58.6) were up nicely. The prices component rose to 61.5 from 57.5. Possibly the most important part of the ISM report was that the employment index hit its highest level since 1983.

Employment, of course, will be a key issue on Friday when the government reports the latest private and public sector jobs data. The ADP Survey suggested that the private sector employment roles may be disappointing, but we continue to have reservations about taking the ADP data too seriously due to a history of relatively inaccurate interpretations of the data.

As reassuring as today's opening surge in the major market indexes was, one day does not make a good market. It is interesting to look back and see that August, which ended as the tenth worst result for the month over the last 61 years, began with a 2.2 percent opening day gain for the S&P 500 and a 219-point gain in the Dow Jones Industrial Average.

|              |              | 1 Day  | MTD    | QTD    | YTD     |
|--------------|--------------|--------|--------|--------|---------|
| S&P 500      | 9,511,296.64 | 0.04%  | -4.75% | 1.81%  | -5.90%  |
| Cons Disc    | 975,038.64   | 0.11%  | -4.06% | 3.36%  | 1%      |
| Industrials  | 1,002,711.72 | -0.30% | -7.33% | 2.21%  | 0.23%   |
| Cons Staples | 1,119,559.85 | 0.23%  | -1.59% | 4.16%  | -0.27%  |
| Utilities    | 370,612.79   | 0.41%  | 0.89%  | 8.30%  | -1.68%  |
| Telecom Svc  | 309,072.00   | 1.14%  | 2.25%  | 10.35% | -1.77%  |
| Materials    | 343,565.46   | 0.34%  | -2.85% | 9.04%  | -5.88%  |
| Financials   | 1,512,745.50 | 0.92%  | -7.91% | -1.82% | -5.94%  |
| Health Care  | 1,108,896.54 | -0.41% | -1.79% | -0.55% | -10.25% |
| Energy       | 1,032,552.33 | -0.22% | -4.71% | 2.89%  | -10.65% |
| Info Tech    | 1,736,541.80 | -0.57% | -7.20% | -0.55% | -11.49% |

The ISM report reinforces our belief that a double-dip recession is not in the cards for the U.S. economy. At the same time it does not suggest that GDP growth will surge.

Overall we think the general view of the economy is too pessimistic. Even a modest change in the extremely pessimistic psychology could prompt a substantial market rally that could be fueled by massive asset reallocation from bonds to stocks. The exodus from bonds would be most likely in

Treasury paper, which as we noted in our report on Monday, offers no incentive for investors at this point. Today's market move and commensurate decline in the price of Treasury paper was ample proof in our view that an asset reallocation could provide the equity market with a consequential gain.

It may be premature to assume that today is the start of a major rally, but we still think there is one ahead.

Have a great day.

## Additional items from Yesterday

**Monsanto Company (MON, \$55.90)** fell 5.81% after cutting its full year EPS guidance to \$2.40-\$2.45 (from \$2.40-\$2.60). The company also said it expects to record in 4Q about \$150 million of the \$180 million of pre-tax costs to restructure its Roundup herbicide business and that it will cut its workforce by 650-700.

**Dollar General (DG, \$27.38)** beat on the bottom line owing to higher demand and increased average transaction amounts. However, shares slipped 0.26% as revenue rose slightly less than expected, up 10.8% to \$3.21 billion. Management raised its 2010 EPS guidance to \$1.68-\$1.74 (from \$1.62-\$1.69) and guided same store sales to be up by 4-6%.

**Donaldson Company, Inc. (DCI, \$42.88)** beat the Street by a penny driven by new products, growth in emerging markets and distribution expansion. Revenue increased more than expected, up 22% to \$515.2 billion. However, shares declined 2.29% as the company guided 2011 EPS and revenue below expectations.

**Deere & Co. (DE, \$62.98)** gained 0.46% as it agreed to sell its wind power unit to a subsidiary of **Exelon Corporation (EXC, \$40.52)**, for \$860 million. As part of the deal, EXC may also pursue 1,468 MW of new wind projects that are in various stages of development, including a provision to pay an additional \$40 million for construction on 230 MW of wind power in advanced stages of development. EXC said it plans to finance the purchase using debt and expects the deal to be accretive to 2012 EPS and 2013 cash flow. DE expects to record an after-tax charge of about \$25 million in the closing quarter, which is expected to be Q4. EXC shares finished up 0.49%.

**Saks Incorporated (SKS, \$6.60)** advanced 19.70% following reports that it may get a \$1.7 billion (\$11/sh) cash-offer from a consortium of US and UK private equity firms. The company refused to comment

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