

September 8, 2010

# Market View Daily

INVESTMENT STRATEGY GROUP

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JANNEY MONTGOMERY SCOTT LLC

2010		Prior		%	%	%	%	%	%	%	%	%	%	%	1st	2nd	3rd	
Market Data		CLOSE	LAST	CHANGE	Daily	YTD	Jan.	Feb	Mar	Apr	May	June	July	Aug	Sep	Qtr.	Qtr.	Qtr.
D J Industrials	.DJIA	10447.93	10340.69	(107.24)	(1.03)	(0.84)	(3.46)	2.56	5.15	1.40	(7.92)	(3.58)	7.08	(4.31)	3.25	4.11	(9.97)	5.80
S&P 500	SPX	1104.51	1091.84	(12.67)	(1.15)	(2.09)	(3.70)	2.85	5.88	1.48	(8.20)	(5.39)	6.88	(4.74)	4.05	4.87	(11.86)	5.93
NASDAQ Comp	COMP	2233.75	2208.89	(24.86)	(1.11)	(2.66)	(5.37)	4.23	7.14	2.64	(8.29)	(6.55)	6.90	(6.24)	4.49	5.68	(12.04)	4.72
SOX Index	SOX	328.71	322.31	(6.40)	(1.95)	(10.45)	(12.18)	7.21	8.18	2.59	(5.43)	(6.57)	4.97	(11.85)	4.82	1.85	(9.35)	(3.01)
Biotech Index	BTK	1122.89	1105.23	(17.67)	(1.57)	17.31	2.36	7.92	17.95	(2.34)	(12.25)	(2.74)	3.56	0.11	4.20	30.30	(16.66)	8.03
DJ Transports	.TRAN	4387.40	4341.42	(45.98)	(1.05)	5.90	(4.98)	6.14	5.81	6.77	(7.17)	(7.57)	10.36	(6.79)	5.31	6.71	(8.38)	8.32
DJ Utilities	.UTIL	399.52	397.44	(2.08)	(0.52)	(0.14)	(4.96)	(2.87)	3.11	2.41	(6.90)	(0.96)	7.77	0.89	2.18	(4.82)	(5.56)	11.10
Volatility Index	VIX	21.31	23.80	2.49	11.68	9.78	13.56	(20.80)	(9.79)	25.36	45.44	7.70	(31.96)	10.85	(8.64)	(18.87)	96.36	(31.09)
S&P Midcap 400	MID	766.52	755.10	(11.42)	(1.49)	3.91	(3.28)	5.06	6.98	4.20	(7.33)	(6.69)	6.82	(5.08)	4.64	8.70	(9.90)	6.09
S&P 100	.OEX	498.96	493.68	(5.28)	(1.06)	(3.97)	(3.70)	2.22	5.70	1.00	(8.74)	(5.15)	7.04	(4.96)	3.77	4.05	(12.57)	5.57
Gold ETF	GLD	121.86	122.70	0.84	0.69	14.34	(1.26)	3.27	(0.44)	5.88	3.05	2.36	(5.09)	5.71	0.51	1.53	11.68	0.84
Russell 1000 Index	.RUI	608.52	601.38	(7.14)	(1.17)	(1.74)	(3.69)	3.06	5.98	1.75	(8.13)	(5.72)	6.82	(4.69)	4.10	5.19	(11.87)	5.99
Russell 2000 Index	.RUT	643.36	629.29	(14.07)	(2.19)	0.62	(3.73)	4.41	7.97	5.59	(7.67)	(7.88)	6.79	(7.50)	4.52	8.51	(10.19)	3.25

DJIA -		LAST	CHANGE	YIELD	Impact	Dec. 31	YTD-2010	1Q-2010	2Q-2010	3Q-2010
					DJIA	2009	% G/L	% G/L	% G/L	% G/L
Caterpillar Inc.	CAT	69.70	(0.38)	2.53	(2.87)	56.99	22.30	10.28	(4.42)	16.03
Inter. Bus. Machines	IBM	125.95	(1.63)	2.06	(12.32)	130.90	(3.78)	(2.02)	(3.72)	2.00
United Technologies	UTX	67.98	(0.28)	2.50	(2.12)	69.41	(2.06)	6.05	(11.82)	4.73
Chevron	CVX	77.05	(0.95)	3.74	(7.18)	76.99	0.08	(1.51)	(10.51)	13.54
Hewlett-Packard	HPQ	39.92	(0.42)	0.80	(3.17)	51.51	(22.50)	3.18	(18.57)	(7.76)
3M Co.	MMM	82.14	(1.34)	2.56	(10.13)	82.67	(0.64)	1.09	(5.48)	3.99
Procter & Gamble	PG	60.14	(0.15)	3.21	(1.13)	60.63	(0.81)	4.35	(5.20)	0.27
Boeing Co.	BA	63.42	(1.22)	2.65	(9.22)	54.13	17.16	34.14	(13.58)	1.07
Intel Corp.	INTC	18.12	(0.31)	3.48	(2.34)	20.40	(11.18)	9.26	(12.74)	(6.84)
Exxon Mobil	XOM	60.55	(0.77)	2.91	(5.82)	68.19	(11.20)	(1.77)	(14.80)	6.10
Wal-Mart Stores	WMT	51.86	(0.18)	2.33	(1.36)	53.45	(2.97)	4.02	(13.54)	7.88
Kraft	KFT	30.35	(0.23)	3.82	(1.74)	27.18	11.66	11.26	(7.41)	8.39
McDonald's Corp.	MCD	75.80	0.71	2.90	5.37	62.44	21.40	6.85	(1.27)	15.08
American Express	AXP	40.09	(1.71)	1.80	(12.92)	40.52	(1.06)	1.83	(3.78)	0.98
Merck & Co. Inc.	MRK	35.46	(0.13)	4.29	(0.98)	36.54	(2.96)	2.22	(6.37)	1.40
Johnson & Johnson	JNJ	58.70	(0.23)	3.68	(1.74)	64.41	(8.87)	1.23	(9.42)	(0.61)
Home Depot Inc.	HD	29.33	(0.52)	3.22	(3.93)	28.93	1.38	11.82	(13.23)	4.49
Alcoa Inc.	AA	10.86	(0.02)	1.11	(0.15)	16.12	(32.63)	(11.66)	(29.35)	7.95
AT&T	T	27.27	(0.17)	6.16	(1.28)	28.03	(2.71)	(7.81)	(6.39)	12.73
Verizon	YZ	30.22	0.02	6.45	0.15	33.13	(8.78)	(6.37)	(9.67)	7.85
Cisco Systems	CSCO	20.58	(0.46)	0.00	(3.48)	23.94	(14.04)	8.73	(18.13)	(3.43)
Microsoft Corp.	MSFT	23.96	(0.33)	2.17	(2.49)	30.48	(21.39)	(3.90)	(21.41)	4.13
General Electric	GE	15.44	0.05	3.11	0.38	15.13	2.05	20.29	(20.77)	7.07
Coca-Cola Co.	KO	57.63	0.07	3.05	0.53	57.00	1.11	(3.51)	(8.87)	14.98
DuPont	DD	42.00	(0.51)	3.91	(3.85)	33.67	24.74	10.60	(7.12)	21.42
Bank America	BAC	13.21	(0.29)	0.30	(2.19)	15.06	(12.28)	18.53	(19.50)	(8.07)
Pfizer	PFE	16.33	(0.13)	4.41	(0.98)	18.19	(10.23)	(5.72)	(16.85)	14.52
Walt Disney Co.	DIS	33.84	(0.83)	1.03	(6.27)	32.25	4.93	8.25	(9.77)	7.43
Travelers	TRV	50.13	(0.90)	2.87	(6.80)	49.86	0.54	8.18	(8.69)	1.79
J.P. Morgan Chase	JPM	38.28	(0.89)	0.52	(6.73)	41.67	(8.14)	7.39	(18.19)	4.56

Asia markets were lower overnight, but Europe was higher mostly due to a successful debt offering by Portugal. This led to futures pointing to a higher U.S. market opening. By 10:15 the Dow was approaching a 60-point gain.

	7-Sep	Market cap	1 Day	MTD	QTD	YTD
S&P 500	9,902,008.07		-1.15%	4.05%	5.93%	-2.09%
Cons Disc	1,024,780.75		-1.61%	5.10%	8.63%	6.15%
Industrials	1,060,631.89		-0.90%	5.78%	8.11%	6.02%
Cons Staples	1,147,612.39		-0.35%	2.51%	6.77%	2.23%
Utilities	373,582.76		-0.55%	2.09%	10.57%	0.38%
Telecom Svc	314,535.67		-0.34%	1.77%	12.31%	-0.03%
Financials	1,581,540.78		-2.37%	4.55%	2.65%	-1.66%
Materials	364,050.12		-0.84%	4.40%	13.83%	-1.75%
Energy	1,077,402.37		-1.58%	3.87%	6.87%	-7.19%
Health Care	1,143,995.99		-0.59%	3.17%	2.60%	-7.41%
Info Tech	1,813,875.34		-0.85%	4.45%	3.88%	-7.55%

There were no pre-opening economic releases today. The focal point will be the mid-afternoon release of the Fed's Beige Book report, which is used as part of the basis for discussion at the FOMC meetings. The report covers economic activity in the 12 Federal Reserve districts.

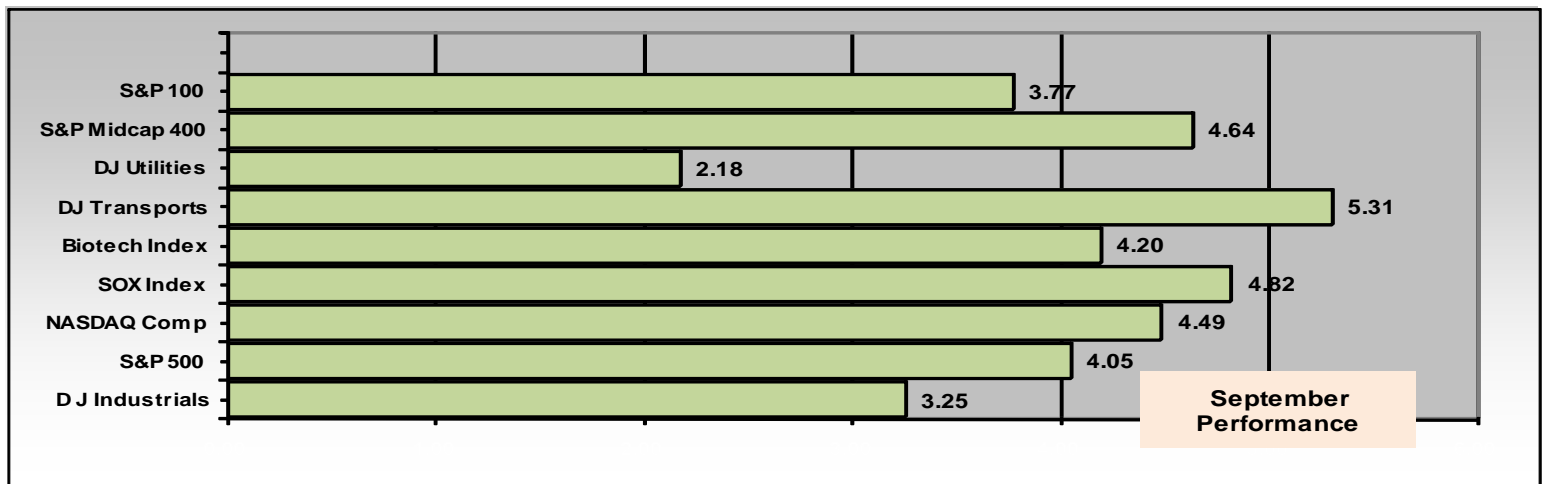
Talbots (TLB) reported earnings of \$0.14 that were \$0.09 better than the consensus, but the firm offered downside guidance.

Ciena (CIEN) posted a loss of \$0.09, which was \$0.24 better than expected.

Jackson Hewitt's (JTX) loss of \$0.65 was \$0.10 better than the estimated.

Navistar (NAV) reported earnings of \$1.83 that were \$0.36 better than the consensus.

The major corporate news today probably was the proposal from Bristol-Myers Squibb (BMY) to acquire ZymoGenetics (ZGEN) for \$9.75 a share in cash.



The White House was in the news yesterday on talk of two potential proposals. One would begin a \$50 billion infrastructure renovation program. The other was a possible tax deduction for all capital investments outside of real estate made this year and next.

The infrastructure program immediately prompted people to assume that the plan might not get Congressional approval. We have two reactions to the proposal.

The first is that getting anything done before the November 2 mid-term election is highly unlikely. The second point is that considering the size of the U.S. economy \$50 billion is so small as to barely have any impact.

The tax deduction proposal is more intriguing.

Congressional reluctance to do anything ahead of the election inhibits this proposal as it does for the infrastructure plan. However, from a potentially substantive impact viewpoint, this proposal could go a long way toward aiding the economy near and long-term.

We never have had a positive view of plans like the infrastructure proposal since they do not have a lasting impact. Some people refer to them as creating a “sugar high” following by a sharp downward drift as the short-term impact fades. A “new” infrastructure plan also begs the question of what happened to the prior ones.

A plan allowing companies to write off immediately 100 percent of their investments in capital expenditures, however, has several key positives. Our main question about the proposal centers on timing of the write offs.

The ability to recover 100 percent of investments in new plant or equipments assets would be a major inducement for companies to update, replace or expand almost without regard to current economic conditions. This surely would increase employment short-term and could have a long tail in terms of the number of people permanently employed. It also could free up a great deal of the excess cash sitting on the balance sheets of numerous U.S. companies.

The timing issue we question centers on the likely inability for most firms to do anything with the tax deduction this year since there is so little time to get any major project going before the end of this year. Instead if the administration is serious about having this plan last for two years (which it may not be or else 2010 would not have been the first year of the plan’s effectiveness) it would better to allow the remaining months of 2010 to be use for planning for projects that could be put in place starting with New Years Day 2011.

A plan lasting two years also would eliminate some of the uncertainty companies face now regarding tax policy.

In the very long run even this proposal could have only limited impact if the underlying economy fails to strengthen, but the hope, of course, is that the economy gets beyond the current malaise by the time the plan’s direct effectiveness ends.

We also wonder now why the Fed is holding onto the 0-25 basis point target rate for Fed funds. The seemingly obvious answer is that the Fed wants rates to remain low as an inducement to generate more economic activity, but it is really accomplishing this result now?

Today's very low rates are punitive for savers. Low rates have allowed many banks to shore up their balance sheets due to the spread between short and long rates. For a time this was a crucial objective, but this largely has been accomplished. What would happen if overnight the Fed hikes its Fed Fund target rate to 2.0 percent or higher?

Clearly bank spreads would tighten notably, which would lower the portion of profits banks generate from lending. We think it is a fair assumption that the banks would seek to widen the spreads they receive by redirecting their spread-related activity toward longer-term business lending. The Fed has expressed dismay at the number of banks that are not lending. A sudden upward movement in Fed Fund rates could prompt the banks to act more aggressively in seeking borrowers, which in turn would put more money to use in the economy.

Potentially the more relevant problem is that it might not matter how much money is available for lending if borrowers are not interested at any price or conditions.

In the very long run the only real economic benefit will come when business has sufficient confidence to hire, expand or renovate. In essence this is a chicken or egg problem. Companies will not act more aggressively until they feel the economy justifies it, and the economy will not justify more aggressive corporate activity until companies begin hiring, expanding or generally becoming more aggressive. Until the election is over neither the chicken nor the egg will matter.

There is an old cliché that says traders should sell on the start of the Jewish holiday Rosh Hashanah and buy on Yom Kippur. Rosh Hashanah begins at sundown today. This year Yom Kippur falls on September 18.

Although some people might suggest the Jewish holidays have something to do with potential mid-September market weakness, it is more likely that it is merely coincidental that the market in September historically has a downward bias.

This September we think the more relevant factor is the technical posture of the market, particularly the S&P 500.

A quick glance at a chart of the S&P 500 clearly shows a well-defined interim bottom at 1040. Not quite as well-defined but still easily recognizable is the top of the recent range at 1130. How the market fares on a near-term basis will have a lot to do with the market's activity within this range and whether the S&P makes a concerted move out of the range.

Our own thinking now is that 1040 can hold up should selling be sufficient to pressure index lower. If, for example, this month closes with the S&P at 1040, the S&P will post a 0.89 percent loss, which would be a marginally larger loss than the average for September over the prior 60 years, but from a practical standpoint it would be meaningless since the S&P will have honored the support at 1040.

For the S&P 500 to produce a downside break of this support we think we will have to see some significantly negative economic information or an external event to drive prices lower.

We continue to think the probability is high that before this year ends the market will begin a notable rally. The first indication of this will come once the S&P breaks above 1130.

**Have a great day.**

## Additional items from Yesterday

Oracle Corporation (ORCL, \$22.91) advanced 5.87% after announcing it has hired Mark Hurd, former **Hewlett-Packard (HPQ, \$40.34)** CEO, as co-president. Hurd will replace Charles Phillips, who has resigned. The new co-president said he believes that ORCL will be able to beat **International Business Machines (IBM, \$127.58)** in both enterprise servers and storage.

**Lincoln National Corp. (LNC, \$26.09)** and **Hartford Financial Services (HIG, \$22.51)** fell 4.52% and 3.95% respectively, after the Treasury Department announced it will auction warrants of both firms over the next several weeks. Moreover, the Treasury Department said the HIG warrant auction will involve 52 million shares with a strike price of \$9.79 and an expiration of June 26, 2019 and that the LNC auction involves 13 million shares with a strike price of \$10.92 and an expiration of July 10, 2019. The warrant sale represents the remaining Treasury holding in the firms.

**Idenix Pharmaceuticals Inc. (IDIX, \$5.99)** sank 46.91% after announcing it has received a verbal notice from the FDA that two of its experimental hepatitis C treatments have been placed on clinical hold due to safety issues. The company said all studies of the two drugs to date have been completed and there are currently no healthy volunteers or patients receiving the drugs.

**AMR Corp. (AMR, \$6.35)** reported a 3.1% increase in August traffic driven by stronger international traffic. Domestic traffic rose 0.6%. AMR increased capacity by 3.2% while its occupancy rate was nearly unchanged at 84.6%. Shares declined 4.41%.

**Harley-Davidson (HOG, \$27.13)** reached a proposed labor agreement with its union leaders. The proposal still needs to be ratified by union workers and approved by the company's

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