THE MARKET CONTINUES TO IGNORE THE NOISE.

We started August with the discussions being focused on an equity market that many believed was too high. All through the month, more and more pundits parade in the media singing the tune that the market MUST go down. Interestingly, the equity market held firm and did not retreat. Experts have given numerous reasons for a return to the March 2009 lows, yet the market is giving no indications of a sizable correction.

The S&P has now risen six months in a row, for a total 56% gain since the March lows, including 13% in July and August alone. But this super-strong summer rally has been on relatively light volume, so the big test will come after Labor Day, when trading volume normally rises dramatically. It is noteworthy that the volume of cash on the sidelines is still higher than it was in the historically low market bottoms of 1982, 1990 and 2003. There is plenty of cash to propel the stock market higher this fall, provided there are buyers.

Normally, investors cringe this time of year, since September and October are the worst months for the stock market, historically. Additionally, we will soon be inundated by the media with the one year anniversary of last year's financial crisis. However, after Labor Day, the "avalanche of good news" (due to easier year-over-year comparisons on economic news) should begin, running through at least May of 2010. If that happens, Wall Street and the news media will be forced to celebrate these headlines with rallies.

In summary, we are bullish because of (1) the high volume of cash on the sidelines now returning to the stock market, spurred by (2) easy year-over-year comparisons for economic news, and (3) a dramatically improving earnings environment due to easier year-over-year earnings comparisons. In addition, we will see (4) an inevitable flight to quality, due to excessive valuations for many low-quality stocks.

CONSUMER CONFIDENCE UP SHARPLY.

Since the consumer is the biggest missing ingredient in GDP growth now, here's the best news of the week: Last Tuesday, the Conference Board's survey of 5,000 households reported that its consumer confidence index rose to 54.1 in August, up from a revised 47.4 in July - and far better than economists' consensus expectation of 48. Also notable is that the Conference Board's expectation index rose from 63.4 in July to 73.5 in August, the highest reading since December 2007, when the recession began.

In the survey, the percentage of consumers who said jobs were "hard to get" declined to 45.1% in August, from 48.5% in July, which implies that some consumers are finally starting to find jobs. New jobless claims also fell 10,000 to 570,000 in the most recent week, the first drop in the past three weeks.

Some dismissed the Conference Board survey since it conflicted with the downbeat Reuters/University of Michigan (R/UM) survey, released just a couple of weeks ago. However, on Friday, a new R/UM survey was released that showed consumer sentiment rising in late August to a revised 65.7, up from 63.2.

DURABLE GOODS ORDERS BOOST GDP ESTIMATES.

Confirming the rise in consumer confidence, the Commerce Department announced on Wednesday that July's durable goods orders rose by 4.9%, driven by an18.4% increase in transportation orders. But even without these new transportation orders, durable goods orders still rose by 0.8%. Durable goods orders have risen for three straight months, the largest cumulative three-month increase in four years. Due largely to rising durable goods orders and shipments, economists are now raising their third quarter GDP estimates.

For example, Morgan Stanley economists boosted their forecast for third quarter GDP to 4.3% from their previous forecast of 3.9%.

Meanwhile, in the second-quarter GDP revisions, corporate profits were revised up to a 5.7% gain (vs. the first quarter). Excluding adjustments for depreciation and changing inventory values, corporate profits actually rose by even more, +9.2% in the second quarter.

In all fairness, we've got to add that despite July's surge in durable goods orders, the first seven months of 2009 are still down 26% compared with the same period in 2008, due to the fact that business inventories were depleted in recent months. In fact, inventories declined 0.8% in July, a sign that manufacturers will likely have to replenish depleted inventories, which will boost GDP figures in the second half of the year.

COMMERCIAL REAL ESTATE.

Many believe commercial real estate poses a big problem for the U.S. economy in the near future. As short term commercial loans come due, the subsequent lower property valuations due to lower demand and increased vacancies will cause a cash crunch for property owners looking to renew those loans. We have seen several indications that a number of wealthy institutions are raising funds to invest in the pending commercial real estate "crisis".

While everyone is concerned that commercial real estate is "the other shoe to drop", smart money is gearing up to provide the liquidity to purchase properties. This is the polar opposite of the situation we had in the residential real estate markets last year where no buyers can be found and prices dropped considerably. If there is money waiting to invest in commercial property when the property becomes distressed, one has to wonder if a "crisis" is truly pending.

As always, thanks for your trust.