

Morning Markets Briefing

Market Commentary: [September 22nd, 2010](#)

A snapshot of the markets through the lens of ConvergeX.

Stocks closed mixed Tuesday after giving back most of their gains following the Fed's FOMC statement (S&P 500: -26 bps, Dow: +7 bps, Nasdaq: -28 bps). As expected, the central bank left rates unchanged near zero, but also said it would be willing to support "additional accommodation" to the economy if needed to return inflation to "levels consistent with its mandate." In other economic news, housing starts rose 10.5% in August – the biggest boost since November – to an annualized pace of 598K versus estimates for 550K. Due to a sharp increase in multifamily construction, permits for new construction surged 1.8% after a 4.1% fallback in July. After the bell ADBE reported earnings that topped estimates, but 4th quarter guidance fell far short of expectations.

@#%*! The Role of Cursing in Trading and Life

Summary: We recently stumbled on an academic article that outlined the psychological underpinnings and uses of cursing. While it was based on a study done in a hospital, it got us thinking about the purposes and roles of the "bad words" we hear with great frequency in the trading and conference rooms of Wall Street. A quick trip through the literature throws off several key observations about why and how humans use curses in their daily communications. Good news first: cursing is very helpful in dealing with pain. So if you need a little help holding onto a losing position that you just KNOW is right, let the bombs fly (while maintaining a respectful discourse to those around you, of course). Bad news, though: "bad words" have a lot of power, even in today's society. Since they come from your emotional core, they will betray feelings you may want to keep to yourself. The "f-bomb" may be more a window to your soul than you realize.

A recent article in a psychiatric journal entitled "Offensive Language in the General Hospital" (Psychosomatics Sep-Oct 2010) got me thinking about the role of cursing in language and human psychology. It's not a long leap from "bad words" to the trading desk after all. Not long at all..

The article looked at the different reasons humans curse in the context of the day-to-day operations of a hospital, and it struck me that staffing an emergency room is probably similar to working on a trading desk. Doctors and nurses try to make good decisions with incomplete information, patients that may not always be telling the truth, and a lot potentially riding on their decisions. After you dismiss the reasons for cursing that might be unique to a hospital (mental illness, Tourette's, etc), the rest are a good compilation of why humans will let the "f-bombs" (and other words) fly:



Market Commentary – Pages 1-3, Equities/Conferences & Earnings – Page 4, Fixed Income – Page 5, Options – Page 6, Exchange-Traded Funds/Indexess – Page 7, Social Media & Internet Blogs Top Stories – Page 8, Jaywalk Consensus (Highest/Lowest Stocks in the S&P 500) – Page 9

- **Stress and Regression.** Cursing is a way to blow off steam (more on that in a minute) but if you know anything about Freudian psychology you might also notice that a lot of popular curse words correlate very nicely with the Viennese doctor's thoughts on psychosexual development. Good taste (and government regulation) prohibits me from taking this point further. But the point here is clear: listening to what curse words a person uses can be a useful "tell" about what they are really thinking.
- **Hateful Act of Aggression.** People curse to hurt other people. 'Nuff said there.
- **To Enable Empathy and Catharsis.** If you don't curse much, you probably make it count when you do. Since most doctors do not curse when talking to patients, the authors of the article noted that letting some rude language slip through can actually be beneficial in communicating with them. It "cuts through the clutter" of the conversation and lets the listener know that their concerns have registered with the physician.
- **To Create a Feeling of Social Equality.** A lot of people think of doctors as authority figures – and some of those same people have problems with authority generally. That leads to a distinctly suboptimal relationship between patient and doctor. One way doctors can cut through that barrier is with a well-placed curse word or two, according to the article. It removes some of the perceived social difference between the two individuals and can improve communication.

Some of the other literature on the subject of cursing sheds some real light on how letting the "bad words" fly can have a positive effect on the speaker. British researchers had 67 college students stick their hands in icy water for as long as they could stand the discomfort of slowly numbing fingers. One group was told to repeat "their favorite curse word" (I don't think I have favorite); the other group was asked to repeat a neutral word. Sure enough, the people who kept muttering swear words could keep their hands in the water longer and experience less pain than those repeating "table" or "chair" over and over again. Women saw an even greater increase in the benefits of cursing than the men in the study, which the scientists in charge of the experiment chalked up to the notion that women curse less than men, so saying the curse words has an even greater ability to ameliorate the pain of the icy water. More from this study here: <http://www.msnbc.msn.com/id/31852963/ns/health-behavior/>.

Perceptions of female discretion notwithstanding, other studies seem to point to cursing as a fairly constant feature of all human communication. One article pins the frequency of cursing at 0.3 to 0.7% of our total speech. Frequently used personal pronouns score about 1%. What's more, the bigger the "potty mouth," the more likely that the person is an extroverted, "Type A" kind of personality. My personal experience certainly supports that finding (more on this study at <http://psychcentral.com/blog/archives/2009/03/30/why-do-we-swear/>).

Another blurb on the topic from psych researchers gives a nice historical perspective on the topic. The first paper on the subject, in 1901 (The Psychology of Profanity), proposed that people curse to intimidate others around them. More recent work on the topic from the 1970s claimed that boys develop their cursing habits earlier in life than girls, but by college age they both have the same favorite expletive. It begins with "F," if you must know. A few more historical tidbits here: <http://www.examiner.com/cognitive-science-in-national/why-do-people-curse>.

This little whirlwind tour of the psychology of cursing leaves me with a few takeaways.

- **When that bad trade blows up your day, let the bombs fly.** Modern psychology seems to be coming down on the side of cursing as a natural and even necessary way to manage negative emotions. The current hard to trade, let alone invest, market should give you ample reason to release unnecessary psychological pressure in the course of your day.

- **It's not just for breakfast anymore.** The piece that led off this note was a bit of an eye-opener because it outlines lots of ways a well placed curse word can be considered effective communication and not just crude language. Curse words play a real role in communication and properly used can connect people who might otherwise remain at a distance.
- **Listen for the "tell," and try not to give yourself away.** Cursing is one vent for emotion – the academic literature seems clear on that point. So listen to why and when someone curses. If something you think is spurious and unimportant upsets a colleague or friend to the point of rough language, there is likely a message in that cloud of bad language. And be careful of giving yourself away in the same manner.

U.S. EQUITIES

In tech land, HP (-0.8%) and ORCL (-2.4%) settled a legal dispute over Oracle's hiring of ex-Hewlett-Packard CEO Mark Hurd, while SNDK tumbled 6.1% after being downgraded at 2 brokerages. Meanwhile, shares of NOK fell 3.9% after it announced it will again delay its flagship smartphone N8 model. Steel giants X (-1.0%) and NUE (-1.8%) declined after Longbow Research cut their ratings to "Neutral" from "Buy" and "Sell" from "Neutral," respectively, and VVUS (+9.1%) soared on news that its weight loss drug Qnexa showed solid weight loss and no side effects for most users.

Important Earnings Today (with Estimates) From...

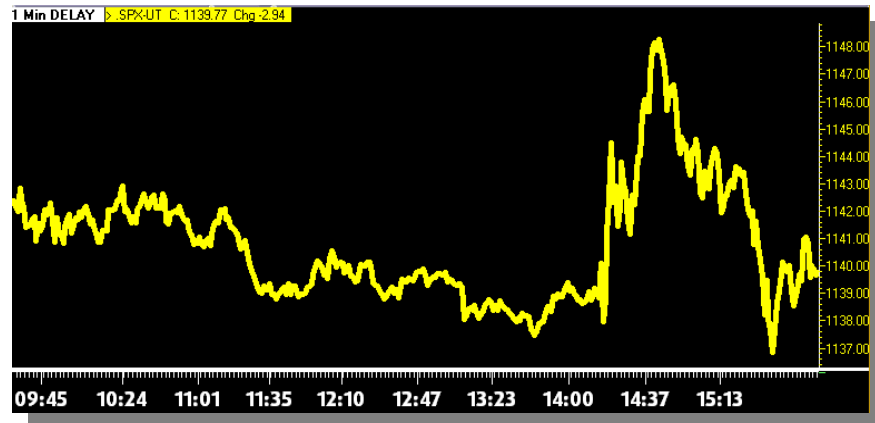
- BBY: \$0.63
- KMX: \$0.40
- GIS: \$0.63
- IHS: \$0.53
- RHT: \$0.14

Source: Bloomberg

Important Conferences/Corporate Meetings Today:

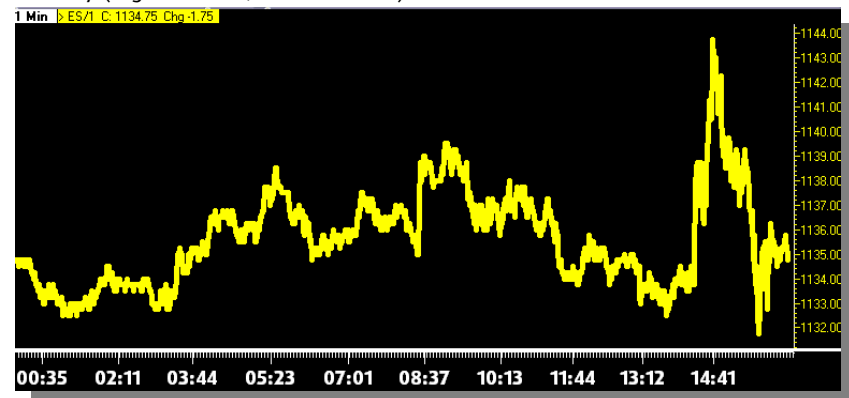
- CIBC World Markets Eastern Institutional Investor Conference – Montreal, QC
- Goldman Sachs Communacopia XIX Conference
- Morgan Stanley Business & Education Services Conference
- UBS Global Life Sciences Conference – New York, NY

Prior Day SPX (High – 1148.59; Low – 1136.22; Close – 1139.78):

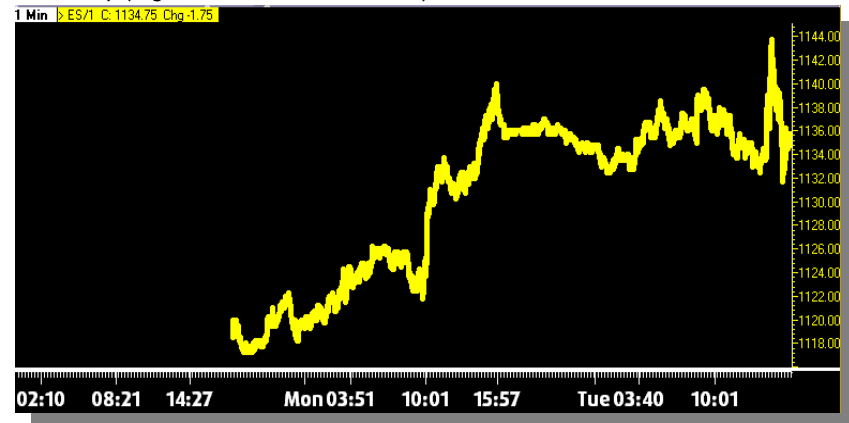


S&P Futures

One Day (High – 1144.00; Low – 1132.00):



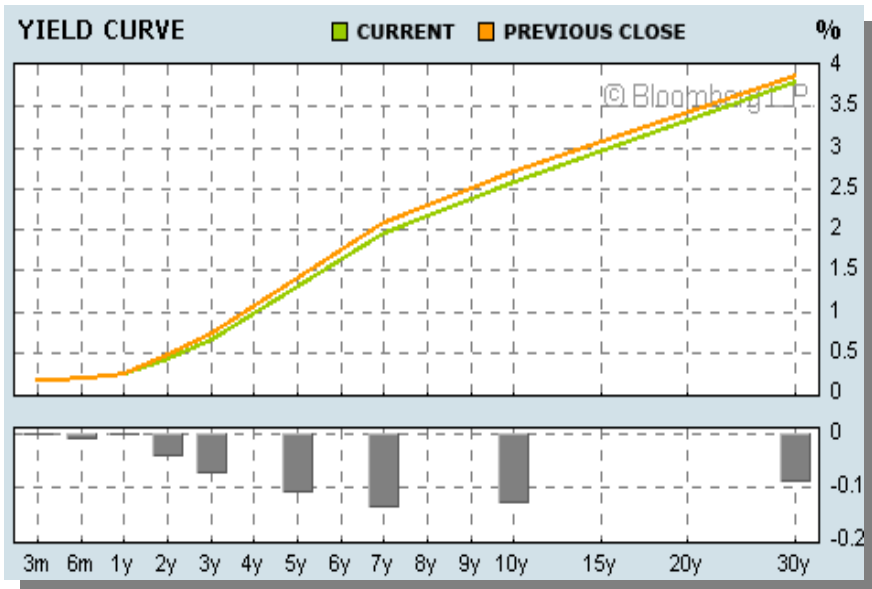
Three Day (High – 1144.00; Low – 1117.00):



Source: Thomson ONE

FIXED INCOME

On Tuesday Treasuries rallied after the Federal Reserve said it's willing to adopt additional quantitative easing measures if necessary to lower unemployment and boost the economy. As expected, the central bank left rates unchanged near zero, while Kansas City Fed President Thomas Hoenig voted against the majority for a 6th consecutive time, saying he believed economic conditions no longer warranted exceptionally low rates. Two-year note yields touched a record low of 0.4155% before settling at 0.42%, while 10-year yields shed 13 bps to close the day at 2.58%. The spread between 2- and 10-year debt narrowed to 2.16 percentage points, the least in 2 weeks.



U.S. Treasuries				
	COUPON	MATURITY DATE	CURRENT PRICE/YIELD	PRICE/YIELD CHANGE
3-MONTH	0.000	12/23/2010	0.15 / .15	-0.005 / -.005
6-MONTH	0.000	03/24/2011	0.18 / .18	-0.008 / -.008
12-MONTH	0.000	08/25/2011	0.24 / .24	0 / -.000
2-YEAR	0.375	08/31/2012	99-29½ / .42	0-02+ / -.040
3-YEAR	0.750	09/15/2013	100-08½ / .66	0-06+ / -.069
5-YEAR	1.250	08/31/2015	99-24 / 1.30	0-16+ / -.108
7-YEAR	1.875	08/31/2017	99-16+ / 1.95	0-28 / -.136
10-YEAR	2.625	08/15/2020	100-13½ / 2.58	1-03 / -.126
30-YEAR	3.875	08/15/2040	101-17+ / 3.79	1-18+ / -.089

Source: Bloomberg

Today's Important Economic Indicators/Events (with Consensus):

- MBA Purchase Applications (7:00am EST)
- FHFA House Price Index (10:00am EST)
- EIA Petroleum Status Report (10:30am EST)

U.S. EQUITY OPTIONS

SPX – Despite the anticipation around the FOMC announcement today, the underlying index remained contained in a trading range of -0.6% to +0.5%. The Implied Volatility in SPX options gained slightly, reflecting the continuing uncertainty associated with the FOMC announcement beyond that expressed in the actual underlying index movement. In early trading the October 1050 puts were bought vs. selling the December 900/1000 put spread over 15,000 times. The October 1185 and 1175 calls were also bought outright to further boost the October premium levels. Later in the day there were two sizable sellers of calendar put spreads with the November 1125 puts being bought in both trades. The November/June 1125 put spread was sold over 4,000 times and the November/December 1125 put spread was sold at \$4.00.

ETF – The market, which traded lower on the day, saw some whippy action following the conclusion of the FOMC meeting. With housing numbers outperforming expectations investors got long calls in XHB (Homebuilder) ETF. We highlight one large print as 50,000 XHB Jan 2012 16 Calls were purchased outright. We noted other long term volatility trades in SLV as paper sold 9500 SLV Jan 2012 21 straddles. We saw buyers of January 2011 options as well. For example, in EEM (Emerging Markets) we saw a buyer gaining exposure to the upside in January through trading the Jan / Nov 46 Call spread 50,000 times. In XLF (Financial), one investor decided to get long volatility through buying 15,000 XLF Jan 12 Puts delta neutral. Lastly, XRT (Retail) had an investor selling downside through the Nov 40 / 36 put spread 12,500 times.

CURRENT IMPLIED VOLATILITY / CURRENT HISTORICAL VOLATILITY						
Rank	9/15/2010	9/16/2010	9/17/2010	9/20/2010	9/21/2010	30-Day Implied Vol
1	FDO	FDO	FDO	FDO	FDO	33.99
2	FSLR	DTV	GIS	MKC	MKC	30.46
3	PG	APOL	Q	DTV	Q	25.19
4	AGN	GIS	APOL	GIS	DTV	22.91
5	AZO	PG	PG	FSLR	FSLR	39.61
6	DTV	FSLR	DTV	PG	PG	13.09
7	CEPH	AZO	FSLR	AZO	WFR	43.03
8	RHT	CEPH	AZO	WFR	KMB	14.39
9	GIS	Q	AGN	NOVL	NOVL	49.25
10	STZ	STZ	HSY	STZ	PCS	37.99
11	HSP	HSP	CMS	EFX	APOL	49.48
12	KMB	AGN	HSP	KMB	GIS	22.60
13	PEP	PEP	STZ	WAG	STZ	27.93
14	Q	MAT	CEPH	AGN	HSP	32.28
15	STR	WAG	WFR	CMS	RSH	35.62
16	SLM	STR	PEP	APOL	PEP	15.99
17	QLGC	RHT	WAG	RHT	AGN	27.15
18	MAT	KMB	RHT	AIV	STR	25.23
19	CLX	JEC	STR	RSH	GENZ	22.58
20	WAG	WFR	KMB	HSP	RHT	46.68
21	NKE	NKE	MAT	CF	PX	21.75
22	AIV	MKC	RSH	PEP	WAG	24.07
23	NOVL	RSH	IRM	CLX	MAT	29.84
24	JEC	SLM	VRSN	PX	CTL	17.02
25	PX	BMJ	CTL	MJN	CEPH	29.88
	DVA	PX	BMJ	CTL	MJN	
	MKC	NOVL	SLM	VRSN	CLX	
	YHOO	CLX	MKC	IRM	CF	
	ARG	QLGC	NKE	MAT	AIV	
	GRNZ	AIV	JEC	STR	CMS	
				CEPH	EFX	
				HSY	NOVL	
				Q		

BIGGEST MOVERS						
	Top 10	30-Day Implied Vol	Bottom 10	30-Day Implied Vol		
	Q	41.18%	29.32	CAG	-33.77%	25.97
	PHM	16.33%	17.50	EFX	-25.22%	20.83
	WDC	15.14%	22.30	AZO	-22.42%	25.38
	LEN	14.12%	28.34	SCG	-20.25%	30.09
	AMD	11.09%	30.87	GIS	-18.25%	14.30
	PCS	10.56%	28.73	GAS	-15.92%	23.62
	LSI	10.37%	29.00	PTV	-15.26%	20.20
	C	10.12%	17.09	PNW	-12.35%	19.02
	NWL	9.45%	27.88	XEL	-12.31%	25.36
	MTB	9.00%	29.89	DF	-11.53%	24.44

We ranked the S&P 500 companies from the highest to lowest 30 day implied to historical volatility ratio. Above we identify the 10 most positive and negative movers.

The table to the left represents the 25 highest 30 day implied to historical volatility ratios within the S&P 500 companies. The green represents names new to the list while the red represents names that have fallen out.

Exchange-Traded Funds/Indexes

Prior Day Performance of Largest ETFs by Assets

Name (Net Assets*)	Ticker	Category	Daily Return
SPDRs	SPY	Large Blend	-0.20%
SPDR Gold Shares	GLD	N/A	0.91%
iShares MSCI Emerging Markets Index	EEM	Diversified Emerging Mkts	-0.30%
iShares MSCI EAFE Index	EFA	Foreign Large Blend	-0.02%
iShares S&P 500 Index	IVV	Large Blend	-0.24%

Prior Day Top Volume ETFs

Name	Ticker	Category	Shares Traded
SPDRs	SPY	Large Blend	228,579,732
PowerShares QQQ	QQQQ	Large Growth	80,381,588
Financial Select SPDR	XLF	Specialty - Financial	66,633,017
iShares Russell 2000 Index	IWM	Small Blend	56,558,811
iShares MSCI Emerging Markets Index	EEM	Diversified Emerging Mkts	47,790,222

Prior Day Top Performers

Name	Ticker	Category	Daily Return
ProShares Ultra MSCI Mexico	UMX	N/A	9.79%
PowerShares DB 3x Long 25+ Yr Treasury Bond ETN	LBND	N/A	7.46%
Direxion Daily Real Estate Bear 3X Shares	DRV	Bear Market	4.67%
PowerShares DB Crude Oil Dble Short ETN	DTO	Bear Market	3.87%
Direxion Daily 30 Yr Trsy Bull 3X Shares	TMF	Long Government	3.83%

S&P 500 Sector ETFs

Sector	Ticker	1-Day Perf	YTD Perf	Sector	Ticker	1-Day Perf	YTD Perf
Energy	XLE	0.07%	-3.81%	Telecomm	IYZ	0.18%	8.44%
Health	XLV	0.07%	-2.28%	Technology	XLK	-0.17%	-0.48%
Industrials	XLI	0.19%	12.34%	Consumer Discretionary	XLY	-0.42%	11.66%
Utilities	XLU	-0.51%	0.26%	Financials	XLF	-0.91%	2.43%
Consumer Staples	XLP	-0.18%	5.02%	Materials	XLB	-0.46%	-0.61%

Currency ETFs

Currency	Ticker	1-Day Perf	YTD Perf	Currency	Ticker	1-Day Perf	YTD Perf
Australian Dollar	FXA	0.76%	6.13%	Mexican Peso	FXM	0.33%	2.52%
British Pound Sterling	FXB	0.44%	-3.53%	Swedish Krona	FXS	1.76%	3.78%
Canadian Dollar	FXC	0.25%	2.09%	Swiss Franc	FXF	0.80%	3.56%
Euro	FXE	1.31%	-7.75%	USD Index Bearish	UDN	0.95%	-3.74%
Japanese Yen	FXJ	0.77%	9.08%	USD Index Bullish	UUP	-1.10%	1.00%

VIX ETNs

Name	Ticker	1-Day Perf	YTD Perf
iPath S&P 500 VIX Short-Term Futures ETN	VXX	0.36%	-50.72%
iPath S&P 500 VIX Mid-Term Futures ETN	VXZ	0.02%	9.49%

Fixed Income ETFs

Bonds	Ticker	1-Day Perf	YTD Perf
Aggregate	AGG	0.43%	5.03%
Investment Grade	LQD	0.76%	7.86%
High Yield	HYG	-0.17%	1.22%
1-3 Year Treasuries	SHY	0.07%	1.68%
7-10 Year Treasuries	IEF	0.93%	11.15%
20+ Year Treasuries	TLT	1.39%	15.34%

Others

ETF	Ticker	1-Day Perf	YTD Perf	ETF	Ticker	1-Day Perf	YTD Perf
Gold	GLD	0.91%	17.43%	Crude Oil	USO	-1.71%	-16.88%
Silver	SLV	1.48%	24.49%	EAFE Index	EFA	-0.02%	-1.32%
Natural Gas	UNG	1.72%	-35.32%	Emerging Markets	EEM	-0.30%	4.99%
				SPDRs	SPY	-0.20%	2.28%

Major Index Changes:

None

ETFs in the Headlines and Blogs:

- ETF Targets Promising Software Sector - <http://www.thestreet.com/story/10866154/1/etf-targets-promising-software-sector.html>
- Could There Be a Run on an ETF? - <http://www.businessinsider.com/run-on-an-etf-2010-9>
- Is Silver Merely a Levered Gold Play? - <http://www.zerohedge.com/article/silver-merely-levered-gold-play>

Top Online Social Networking Stories

Calculated Risk

- State Unemployment Rates in August: "Little changed" from July - <http://www.calculatedriskblog.com/2010/09/state-unemployment-rates-in-august.html>
- Single Family Housing Starts increase slightly in August - <http://www.calculatedriskblog.com/2010/09/single-family-housing-starts-increase.html>
- Moody's: Commercial Real Estate Price Index declined 3.1% in July - <http://www.calculatedriskblog.com/2010/09/moodys-commercial-real-estate-price.html>

The Big Picture

- 10 Things Making Me Nervous - <http://www.ritholtz.com/blog/2010/09/10-things-making-me-nervous/>
- CrowdQuery: Can a 3rd Party Rise in US? - <http://www.ritholtz.com/blog/2010/09/can-a-legitimate-3rd-party-arise-in-usa/>
- Deleverage? No, Default! - <http://www.ritholtz.com/blog/2010/09/deleverage-no-default/>

Zero Hedge

- Hedge Funds on the Defensive as Hugh Hendry Sees 80% Reduction in Size of Industry - <http://www.zerohedge.com/article/hedge-funds-defensive-hugh-hendry-sees-80-reduction-size-industry>
- Must Read: Death to the Uber and Hyper Twins: Mother Nature's Humble Cures - <http://www.zerohedge.com/article/must-read-death-uber-and-hyper-twins-mother-nature%E2%80%99s-humble-cures>
- Charting Treasury Reactions to Prior QE Episodes - <http://www.zerohedge.com/article/charting-treasury-reactions-prior-qe-episodes>

Bespoke Investment Group

- Most Overbought Stocks in the S&P 500 - <http://www.bespokeinvest.com/thinkbig/2010/9/21/most-overbought-stocks-in-the-sp-500.html>
- Dow 30 Trading Range Screen - <http://www.bespokeinvest.com/thinkbig/2010/9/20/dow-30-trading-range-screen.html>

The Conscience of a Liberal

- The Anti-Dog Whistler - <http://krugman.blogs.nytimes.com/2010/09/21/the-anti-dog-whistler/>
- About "Small Businesses" - <http://krugman.blogs.nytimes.com/2010/09/21/about-small-businesses/>

Robert Reich's Blog

- Why There's An Enthusiasm Gap: An Illustration - <http://robertreich.org/post/1159406490>
- The Defining Issue: Who Should Get the Tax Cut - The Rich or Everyone Else? - <http://robertreich.org/post/1150695735>
- The Winds of Deflation - <http://robertreich.org/post/1138223105>

EconomistMom

- Well, Now That's Over - <http://economistmom.com/2010/09/well-now-that-thats-over/>

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