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Daily Market Notes

Market Update:

DJIA:	**10629**
S&P 500:	**1143**
Nasdaq:	**2305**
10YR T-Note:	**3.83%**
EUR/USD:	**1.451**
Gold	**1151**
Crude Oil:	**82.65**

Prices Current as of 1:00 PM

Source: Bloomberg

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Imagine if last Friday's jobs report was a good one instead of the poor one that it turned out to be, how much the stock market would have rallied! After a report that came in much lower than expected, with a loss of -85,000 jobs in December and a net loss of an additional -1,000 after the October and November revisions, the stock market basically took it in stride with the Dow down only -52 points at its worst level and even this worst level did not last too long, as the Dow basically was down around -25 points for most of the session. The negativity of this report was offset to some extent by the fact that November wholesale inventories unexpectedly jumped by the most in five years, which could mean that companies are increasing the pace of orders as sales rose by +3.3%.

Also helping get all of the major averages into positive territory by the close was the fact that during the entire session, the Nasdaq/Dow ratio was strong even when the Dow was negative, as gains in biotech companies and the large technology ones, which had softened somewhat earlier in the week, made a nice comeback.

In the sort of action that we saw in the holiday low volume week between Christmas and New Years', the market lulled around for most of the session until 3:30pm, when the old last half hour razzle-dazzle manifested itself once again. With the Dow down -25 points with 30 minutes to go, out of nowhere there was a very sharp rally which turned that loss into a closing gain of +11 points, as gains in one large technology member and the industrial components led the upside charge, and did the shares of steel stocks as well. The financial stocks also continued their gains for the week after having gone to sleep during the fourth quarter while the overall market was rising. And one major financial conglomerate finally awoke from its long slumber with a sharp gain, which helped the Dow to recover as well. These sharp gains in industrial and materials type stocks could have been a result of the dollar, which got sold off sharply on the perception that the weak jobs report means that the Fed is not going to be in nay hurry to raise rates until late this year or perhaps even into next year. One could see this change in attitude by the fact that the yield on the 2-Year Treasury Note fell back to less than 1% after having been as high as 1.2% recently on the misguided thinking that a Fed rate rise was coming sooner rather than later.

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And once again breadth numbers were positive at 18/12, which is the relationship we had seen for most of the week regardless of what the major averages had done, which once again shows that there has been broad upside participation on the part of the entirety of stocks in a general sense.

Other points of note include the VIX dropping sharply to its lowest level since June 2008, and this means that the range is probably now going to be lowered to the more traditional one of between 15 to 20, which prevailed for most of 2008 until the financial system imploded that September. As we have been pointing out all week, the VIX has been declining much more than the Dow has been rising, as for instance for all of last week the VIX dropped by -3.55 points while the Dow rose by +190 points, which is much more severe than the traditional 1/100 VIX/Dow ratio. This could mean that less volatile days are in store for stocks and there is nothing wrong with that.

Last week's market action was most important in the sense that the major average's gains of around +2% puts it in the important historical category of the fact that the last 36 times that the market rose in the first five trading sessions of the new year, on fully 31 of those prior occasions, the averages rose for the entire year as well. This confirms other statistics that we published last week about the importance of strong market gains in the mid-December to early January period and the implications that this has for the rest of the new year.

The market started out today with decent gains once again on the back of favorable overseas developments, the most talked about one being the fact that China, which has now assumed the surrogate role of the driver of worldwide economic growth, had record monthly gains in imports for December, up +56%. In addition, its exports rose by +18%, so if things are going well in China then all of the world's economic problems are over, according to this line of thinking. But then there was also the matter of the Venezuela currency devaluation, by 50%, and one has to wonder what this has to do with anything other than perhaps some minor effect on oil prices, which did decline a bit after reaching new highs close to $84 on the weaker dollar.

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The major averages are showing small changes with the Dow nominally positive after having been as much as +37 points higher on the knee-jerk reaction to the China news and also to the weak dollar, which has done a fast about-face in 2010 after finally showing some resiliency in the last month of 2009. This has helped the price of the industrial and resource components which are accounting for +30 points of Dow gains just by themselves when the entire Dow is up by +16 as this is being written. The Nasdaq is lower on renewed selling in the large technology leaders and also by weakness in the large biotechs after a poor report from one of them.

The big event, and only because it is the first Dow stock to report, will be the major aluminum mining company after the close, since there are no economic reports today. For the fourth quarter, the S&P companies are expected to show a profit gain of +62%, but without the financials, which are expected to report gains of +120% just by themselves because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.8%, according to the analyst's estimates. So there is going to be real distortion here, and it therefore will become more important to look at the earnings of each company on an individual basis. And we are certainly seeing this today, with gains and losses sort of balacning each other out as the major averages show small moves in either direction despite individual stocks going up or down by a good amount.

Another interesting dynamic, continuing the trend of last week, is the further collapse of the VIX, which is now at its lowest level since May 2008 when the world certainly seemed like a different place than what it went though in the months that followed. And if these minor changes in the major averages continue to manifest themselves, as they have so far for the first six trading days of the New Year, then the VIX could sink even lower, with the ultimate downside support at 10 perhaps coming into play. For whatever obtuse reasoning, the VIX cannot fall below this level for any extended period of time, and as Casey Stengel famously said, you can look it up. The VIX usually does decline during the options expiration week, which this week is, as buyers of options, puts in particular, throw in the towel on merchandise that is going to be worthless by Friday's close by salvaging out whatever reduced prices they can get for them, after holding out the vain hope for the prior weeks that some miracle is going to save them. This has the effect of traditionally knocking the VIX lower during expiration week.

The earnings calendar picks up this week with 3 Dow components reporting, with the lineup so far as follows; tonight: AA; Tuesday: LLTC, KBH; Wednesday: AMR, JEF; Thursday: INTC; Friday: JPM, MER. It will get really heavy the week after, and of course there will be huge options plays on INTC and JPM which report right before Friday's January options expiration.

Economic reports will not be as important as they were last week, but are always used as evidence of an economy that is recovering or not recovering: Tuesday: November trade deficit; Wednesday: Fed Beige Book; Thursday: December retail sales; Friday: December C.P.I., January NYState Empire Manufacturing Survey, December Industrial Production and Capacity Utilization and preliminary U. of Michigan Consumer Confidence Survey.

After declining for the first three quarters of 2009, which culminated an unprecedented nine straight quarters of profit declines, earnings for the fourth-quarter are expected to show a large increase of +62%, with the bulk of those gains in the financial segment, with comparisons to the disastrous 4Q of 2008 allowing for good upside. Without the financial contribution, which is supposed to be gains of +120% according to the analysts, S&P earnings would actually decline by -2.8%. According to the analysts, for 2010, earnings are projected to increase by +28%, followed by earnings increases of +22% in 2011.

After four consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008 and extended through the first two quarters of 2009, we finally got a positive growth period in the third-quarter, at a final gain of +2.2%.

Disclosures

Don Selkin is the Chief Market Strategist at National Securities Corporation, member FINRA/SIPC, (NSC) and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analyses concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, Recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {Bloomberg Financial, Reuters, Associated Press}. It is possible that at any given point in time, the author, NSC, or one or more of its employees or registered individuals associated with NSC, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report. This Market Letter is intended strictly for current National Securities Corporation customers only.