

**Daily Market Notes****Market Update:****DJIA:** 10263**S&P 500:** 1101**Nasdaq:** 2224**10YR T-Note:** 3.62%**EUR/USD:** 1.409**Gold** 1099**Crude Oil:** 74.91

After last week's brutal selloff, which resulted in the worst week for the market since the bull market began last March, things settled down a bit yesterday. The huge rise in the VIX in just one day alone created such an oversold condition that some sort of upward movement was inevitable. The VIX blew completely out of proportion relative to how much the market had fallen, rising by 55% for the week, the largest increase in such a short period of time since February 2007. Just to show how whacked out it had gotten, on Friday alone, with the Dow declining by -213 points, the VIX rose by +5.04 points, which would imply a Dow decline of -500 points. This was the old rush to "buy downside protection" (i.e. – buying puts, no matter what ridiculously high prices were paid for them). And sure enough, yesterday those put prices shriveled as the VIX declined by much more than it should have relative to how much the Dow rose, -1.90 for the VIX relative to a Dow gain of only +23 points.

Prices Current as of  
12:30 PMSource: *Bloomberg*

This does not mean that the market was out of the woods on the downside, because at 3pm the Dow was up by +70 points before selling off to lose most of its gains by the close, at only +23 for the day. But at least the Nasdaq/Dow ratio did improve as the day wore on, which lent some overall support when things fell into slightly negative territory.

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Apparently the main upside motivator for the market was the fact that it now appears as if embattled Fed Chairman Bernanke has enough votes to be confirmed for a second term. This was one of the reasons advanced for the market meltdown on Friday, namely the fact that two Democratic Senators came out against him, which the stock market incorrectly interpreted to mean that his reconfirmation was doomed. There was also the tendency of the market, as we have pointed out, to rise on the first trading day of the new week, and yesterday's nominal advances did raise the record to 19 gains out of the past 21 weeks.

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Lost in Friday's downside massacre was the fact that we finally saw some large companies actually react positively to good earnings reports on that day, as two Dow components were doing well before the afternoon downside onslaught left them with very small gains, which could still be construed as a victory given the overall market

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bloodbath.

The market started out today with a negative slant, as once again developments in China cast their downside influence, as the government there ordered three large banks to restrict new loans as of today. This sent chills through the Asian markets, which have now declined for seven straight days, and in Europe, which has declined for five straight days. And of course the dollar had the nerve to advance as the European economies overall seem to be in worse shape than ours, particularly evidenced by the situation in Greece. Then there was the old "risk aversion" dynamic as a result of China tightening faster than expected. Of course the dollar weakened on Friday when this information was known as well. Of course, positive developments such as German business confidence rising to its highest level in 18 months was ignored and also ignored was that the I.M.F. raised its target for global economic growth to 3.9% this year from 3.1%.

But a better than expected January Consumer Confidence report, the best since September 2008, and the third straight monthly advance, has stemmed the downside tide, as has the November Case/Shiller Home Price Index for November, which showed a slight increase and the smallest year over year decline in two years.

We also a few companies advancing on their better than expected earnings report, such as the Dow component that provides commercial property casualty insurance and the mighty stock that produces computers and mobile telecommunications devices, which reported its best quarter ever and is up a little after a strong rally yesterday. And the beaten down largest internet search engine stock, which had declined 90 points from its recent high earlier this month, is finally finding some support after this plunge. But there is also the situation where companies that do better than expected just sit there and do nothing.

What could impede a better market advance is the fact that the Nasdaq/Dow ratio is poor and breath numbers are negative even though the Dow in particular is doing the best of all the major averages. But the ratio has definitely improved from its worst

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levels similar to what took place yesterday. And some of the beaten down members that had fallen after their earnings or had just fallen on their own, particularly the energy components, are actually rising at least for today.

The trick today is to go the distance and not succumb to the late selling that we saw even in yesterday's positive session. This might finally show that the latest market correction is hopefully behind us. This could give a better tone to things going into what is probably going to be the most important day this week tomorrow in terms of economic influences, which includes the Fed statement and the President's State of the Union address.

The economic lineup is as follows: Wednesday: December new home sales, F.O.M.C. announcement, State of the Union speech; Thursday: December durable good orders, Friday: first estimate of fourth-quarter G.D.P., January Chicago Purchasing Managers Survey, U. of Michigan Consumer Confidence number.

This week will see a real onslaught of earnings, with at least 10 Dow companies reporting, and this is the lineup: tonight: ALTR, GILD, QLGC, YHOO; Wednesday: ABT, ATI, BMC, CAT, CXTS, COP, GD, FLEX, HES, LRCX, NFLX, QCOM, ROK, RYL, SAP, STJ, TER, BA, UTX, VLO, WLP; Thursday: 3M, MO, AMZN, T, BTU, CAH, CELG, CL, CY, LLV, ETH, JNPR, BDX, KLAC, LMT, MSFT, NOK, OXY, PG, RTN, SNDK, ZMH; Friday: AET, CVX, HON.

For the fourth quarter, the S&P companies are expected to show a profit gain of +73%, according to the consensus of analysts who follow these companies. But without the financials, which are expected to report gains of +120% just by themselves, according to analysts who follow financial firms because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.5%, 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. According to the analysts, for 2010, earnings are projected to increase by +29%, followed by earnings increases of

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+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%.

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### 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.*