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Daily Market Notes

Market Update:

DJIA:	**10114**
S&P 500:	**1084**
Nasdaq:	**2176**
10YR T-Note:	**3.66%**
EUR/USD:	**1.397**
Gold	**1080**
Crude Oil:	**73.40**

Prices Current as of 1:08 PM

Source: Bloomberg

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The early negativity over that bond yields in Greece that rose to their highest levels in 10 years, a weak December new home sales report and the political furor surrounding the questioning of Treasury Secretary Geithner all had the market on the defensive for most of the session yesterday, with the Dow slipping to losses of around -50 points for the better part of the day. At the time of the crucial Fed announcement at 2:15pm, the Dow was lower by -35 points. Then, as we always say before a Fed announcement, and it was in yesterday's comments – "As usual, the swings will get crazy in both directions until the market decides which way it wants to go into the close."

And was this ever true, because as soon as the statement was released, the Dow declined sharply to a fast loss of -90 points before rebounding from that level to a gain of +20 points, then declined to a loss of -35 points before climbing back to end with a +42 point closing gain. The gains were attributed to the fact that the Fed statement did contain some encouraging language, such as - "economic activity has continued to strengthen and the deterioration in the labor market is abating". This contrasted with their statement last month which said that economic activity had "continued to pick up."

In other dramas related to that statement, Kansas City Fed President Hoenig was the only dissenter because he wanted the elimination of the phrase vowing to keep rates exceptionally low for an extended period. He believed that economic and financial conditions had changed sufficiently to drop the pledge.

In addition, the Fed said that it was closing a number of emergency lending programs on February 1st and that its dollar swap arrangements with overseas central banks would also end on that date. This had the effect of strengthening the dollar, which caused commodity prices like gold, copper and oil to continue their downtrends. It also re-iterated its March 1st ending date for lending programs for banks to obtain short-term loans.

The Dow was restrained by poor earnings reports from two of its industrial components, but there were enough good reports from smaller companies to offset that to some extent. But the fact that the market had to battle back from another session of losses is not a good sign, as it will take more than one day of a decent close to bring more confidence back in.

And sure enough, today started out with the Dow actually having the nerve to start out with a gain of +22 points, but the best that the Nasdaq could do was decline by -1 point, which meant that the Nasdaq/Dow ratio was poor, never a good sign for upward stock market progress. Stock index futures had initially rallied after the President's State of the Union address last night and because of good earnings reports from the large consumer products Dow component, in addition to other good reports from various other companies. But for some reason the market chose to concentrate on the shortfalls in two cellular companies, and another large Dow industrial component is off sharply after beating its numbers as well, a pattern we have unfortunately seen much of during this earnings season. In addition, the large computer maker and mobile telecommunications giant is getting blasted once again, right after the introduction of its new iPad, and this also follows the pattern of this stock declining after new product introductions.

Other reasons offered for today's sharp setbacks are that the December durable goods report came in with a smaller than expected overall gain, but excluding transportation equipment, these orders actually did better than expected. For all of 2009, durable goods orders declined by -20%, the largest drop on record going back to 1992. Initial jobless claims rose again, but continuing claims declined. And heaven forbid, that new rationale for every market decline, Greek bonds, fell once again as worries about their budget deficit continue. And once we are on the theme of weakness in European financials, there was a report from Standard and Poor's that it no longer considers England among the "most stable and low-risk" banking systems. This also caused the dollar to move higher, and naturally this hurt the prices of commodities.

The vote to confirm Fed Chairman Bernanke is supposed to take place today at

3:20pm, but the first vote will be a cloture vote to try to limit a filibuster, followed by the actual vote itself.

The economic lineup finishes the week with: tomorrow: first estimate of fourth-quarter G.D.P, January Chicago Purchasing Managers Survey, final January U. of Michigan Consumer Confidence number.

This week ends with earnings from: tonight: AMZN, JNPR, KLAC, MSFT, SNDK; Friday: AET, CVX, HON. So we have two very important Nasdaq (and one Dow) report on the docket this evening – AMZN and MSFT.

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 +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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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.