

Daily Market Notes**Market Update:****DJIA:** 10572**S&P 500:** 1136**Nasdaq:** 2303**10YR T-Note:** 3.82%**EUR/USD:** 1.438**Gold** 1133**Crude Oil:** 82.89Prices Current as of
1:16 PM

Source: Bloomberg

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com**Jason Wotman**

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

Following Monday's upside moon shot to start the new year, things sort of settled down a bit yesterday, with the averages ending mixed but once again the overall bias was to the upside. The Dow loss of -12 points was strictly a function of large declines in a few stocks, with one large tech company accounting for the entire Dow loss, and two other members accounting for another -17 points of decline. But the overall breadth numbers were 3 to 2 to the upside, with the S&P in particular showing strength to a new 15-month high and the Nasdaq made a 16-month high.

And the real winners were the financials, which had led the rally off of the March lows but had basically stalled out since hitting their highs in mid-October. From that point until the end of the year they were subjected once again to the negativity of many experts in this area and basically took the rest of 2009 off. But once the fourth-quarter earnings reports start to come in for these large banks, they are expected to show tremendous profit gains, albeit the comparisons to the disastrous fourth-quarter of 2008 will obviously be very easy to beat. A few of the largest banks have paid off their T.A.R.P. obligations, which had been controversial at the start due to the potential dilution of shares, but this now appears to have been overcome and they have made recent comebacks perhaps based on the earnings reports which we will see the week after next.

The economic reports released yesterday were mixed, with November pending home sales showing a large decline after nine straight months of gains, perhaps in anticipation of the April 1st end of the first time home buyers tax credit. On the other hand, November factory orders rose for the third straight month. Aside from these economic reports, the earnings calendar was virtually non-existent but will start to pick up today and then go into full gear next week and the two weeks after that.

The VIX continued to decline, after its large upward rally during the very late New Year's Eve plunge in stocks, which we discussed in detail in Monday's notes. It closed right at support at 19.35, and if it breaks below this, then we are in a new range with potential support not until the mid-teens, levels which were prevalent for the first eight months of 2008 before the financial system basically collapsed.

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After a slightly lower start today, things turned around to the upside, but a weak Nasdaq/Dow ratio has restrained the upside to some extent. The December ISM Non-Manufacturing Survey showed a reading slightly over 50, which does indicate expansion, but this number has been moving below and above this critical level for the past few months, so the number was neutral in a sense. We also got the ADP employment estimate, which is such a joke that it is not even worth paying any attention to, as last month they missed by 150,000 jobs and their number today called for a loss of -84,000 jobs when the consensus is for around a loss of between -20,000 jobs and unchanged..

The averages are slipping a bit as this is being written, with the Dow being dragged down somewhat by the weakish Nasdaq, but breadth numbers once again are strong, and this follows the pattern we have seen all week, in a sense showing that the broader market is doing better than the averages. As of now, the advance to decline ratio is 17 to 11, which is excellent on a day when the major averages are down.

We are seeing, unfortunately in my opinion, another one of those rushes into commodities similar to what we saw for most of 2009, from March to November until the dollar started to strength after the strong November jobs report. Now that the new year has started, the dollar is weakening once again and investors are rushing back into gold and crude oil, although the buying in energy products has been more a function of the extremely cold weather that is plaguing the entire country and even other parts of the world. For instance, for those sports fans out there, last night's Orange Bowl game in Miami was played in the coldest weather in its 76 year history, at 44 degrees, not the kind of weather that tourists go to southern Florida for. This is pushing up the price of energy products even though the weekly inventory report showed an unexpected increase in supplies, which had originally knocked the prices lower.

Industrial companies, especially those with large overseas revenues continue to do well, and this is also a function of the weaker dollar. And how about those financial

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stocks, which have done well this week after taking the prior three months off and are even slightly positive now after starting the day lower. The Nasdaq is lagging as one of its mighty leaders is finally succumbing to some selling after an almost uninterrupted rise these past few months. The introduction of its new touch-screen phone was less than inspiring yesterday and is being used as an excuse to cool the stock off after its relative strength had reached unsustainable levels recently.

Despite the small changes in the major averages, there are some large moves in individual stocks that are being masked by these headline changes, as for instance in addition to the largest Internet search engine stock, the other large Nasdaq technology leaders are also cooling off as well. And the Dow is being restrained by continued selling in the same stocks as yesterday after their recent strong performances.

Perhaps the VIX getting as low as 18.78, which was its lowest level in 16 months, was a sign that things needed to cool off a bit, although even though the major averages are all slightly lower, breadth numbers are still positive.

We do get more piece of information today, as at 2pm we will see the minutes of the December F.O.M.C. meeting at which the pontificating about the direction of interest rates and the strength of the economy will be revealed and stocks could or could not react one way or the other depending on what was said.

The fourth-quarter earnings lineup is still on the light side this week, with tonight: RT and BBBY; Thursday: APOL, LEN, Next week it starts to kick into somewhat higher gear.

Economic reports will hold center stage this week, with later today: minutes of the December F.O.M.C. meeting; Friday: the big one – December jobs report, expected to show a loss of only 4,000. More on this later in the week.

After declining for the first three quarters of 2009, which culminated in nine straight quarters of profit declines, which was unprecedented, earnings for the fourth-quarter are expected to show a large increase of +63%, with the bulk of those gains in the financial segment, with comparisons to the disastrous 4Q of 2008 allowing for good

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upside. 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%.

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Disclosures

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