NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update:

DJIA:	**10014**
S&P 500:	**1092**
Nasdaq:	**2166**
10YR T-Note:	**3.45%**
EUR/USD:	**1.492**
Gold	**1051**
Crude Oil:	**77.59**

Prices Current as of 2:09 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

The market finally hit the nice round juicy number of Dow 10,000 yesterday and this was the culmination of the historic rally off of the March 9th lows, an astounding gain of over 50% for the major averages in this time frame. The gains in stocks were accompanied by new yearly highs in the Three Amigos as well – the Euro, oil and gold, and the latter actually reached an all-time record high. This marching in lockstep for equities, the Euro and various commodities has been a feature of financial markets since the rally began, but it cannot last this way, as this freefall in the dollar and commodity prices that keep going up regardless of the fundamentals will some day bring the chickens home to roost, so to speak, in large declines in at least in one of them, if not in all of them.

But for the moment, the bullish crowd has had the last laugh, as good reports from two Dow components led the charge higher. In addition to the two Dow stocks, the Dow Transports also made a tremendous gain, helped in large part by good earnings from a railroad company, which motivated that entire group to the upside. And even the large investment banking and securities firm, which had sold off the day before on a downgrade from the financial analyst who gets a lot of publicity when she makes a recommendation, rallied 8 points from its worst level on Tuesday when the downgrade was released. As we said yesterday, what was accomplished by that recommendation?

After lingering below the magic number for most of the session, things accelerated a bit to the upside after the 2pm release of the minutes of the last F.O.M.C. meeting on September 23rd, which said that "the economic recovery was likely to be quite restrained" and that "slack in both labor and product markets would be substantial over the next few years, leading to subdued and potentially declining wage and price inflation." This obviously means that interest rates will remain at current levels for the next year, and this also means that the dollar will remain weak, so it appears as if these higher commodity prices could remain, although there will obviously be fluctuations in both directions, especially from these higher price levels.

What actually has the potential for the market to move higher was the strange close of the VIX relative to the Dow advance, in the sense that the VIX declined "only" by a small -.13 points while the Dow made a large advance of +145 points. So this means that the configuration of the two items theoretically is projecting another advance close to the 10,100 Dow level because the VIX is still .70 points above its support while the Dow closed yesterday at 10,015.

This morning saw other important earnings reports from two financial giants, and even though both of them beat the numbers, they are trading lower, and this is not surprising considering that both of them had rallied strongly into their reports. And of course the excuse for the declines in these two is that the "expectations got a little ahead of themselves", which in plain English means that when a stock rallies into a major event, the bar is set too high and therefore it becomes more difficult to surpass it. I have long maintained that the best that can happen to either an individual stock or to the overall market is that they decline going into major events, as this sets the bar for success much lower.

After trading slightly lower today for the major averages, with the Dow losing -38 points at its worst level, things have improved slightly, and the reason, would you once again believe it, is that when oil prices rallied after the release of the weekly inventory report, which showed declines when gains were expected, the energy components of the Dow went positive, and both of these stocks, which have been laggards this year, have started to show signs of life lately. So once again, higher energy prices are good for the stock market, which is supposed to be projecting the status of the economy in the future!

Of course there will be more earnings drama tonight, with technology giants IBM and GOOG reporting, and then tomorrow morning, we hear from financial giants BAC and GE.

What could be restraining things today is that the Nasdaq/Dow ratio is not good, so that any attempts to advance might be held in check, and it should be pointed out that the major averages are also doing better than the broader advance/decline situation.

And the fact that the VIX is declining as the major averages are slightly lower is also restraining the upside to some extent. Otherwise, the battle over 10,000 will be fought all day as the Dow stays just above and just below this number.

The various economic reports released today are not seeming to have much of an effect on the proceedings, as weekly jobless claims continued their recent declines, the September C.P.I. report came in at the low expectations, the NYState Empire Manufacturing Survey came in better than expected, and the Philadelphia Fed Manufacturing October Survey came in lower – go figure.

The earnings for the rest of the week are as follows: tonight: IBM, GOOG; tomorrow: BAC, GE, HAL, MAT. And the lineup for the week after next is even more loaded with important companies as well.

What will make tomorrow particularly exciting is that these important earnings reports will be combined with the October options expiration series, so this will make for some dynamic moves, especially with those companies who report tonight, the day before the expiration.

And let us not forget that there are a number of economic reports that will add to the excitement tomorrow as well – September Industrial Production and Capacity Utilization, U. of Michigan preliminary October Consumer Sentiment Survey.

It should also be pointed out that when the S&P has been 20% above its 200-day moving average, as it was only in 1932, 1938, 1975, 1985 and 1986, and as it was recently, the market underwent an average decline of -12% over the next three months before being higher by +13% a year later.

During the second quarter, stocks in the S&P 500 reported profit declines of -29%. This is after a first quarter decline of -33%. The projection is for a -23% decline in the third quarter, before a rousing gain of +63% for the fourth quarter, when the comparisons to the fourth quarter of 2008 should be somewhat easy to overcome.

Daily Market Notes

The only problem with this projected gain is that the bulk of it is supposed to come from financials, because the comparisons to the disastrous 4Q of 2008 should allow for good upside. For 2010, earnings are projected to increase by +26%, followed by earnings increases of +22% in 2011.

We have now seen eight straight quarters of profit declines for companies in the S&P 500, starting with the last two quarters of 2007, all four quarters of 2008 and the first two quarters of 2009. Earnings have never been down for eight consecutive quarters. If earnings do come in lower for the third quarter of 2009, this will be the first time ever that there have been nine consecutive quarterly profit declines.

We now have four consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008, and has now extended through the first two quarters of 2009. Projections for the third quarter are for growth in the +2 to 3% range. This is the first time that there have been four straight quarters of negative growth since records have been kept since 1947.

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: {PROVIDE SOURCES}. 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.