

Daily Market Notes**Market Update:****DJIA:** 9981**S&P 500:** 1086**Nasdaq:** 2158**10YR T-Note:** 3.42%**EUR/USD:** 1.489**Gold** 1050**Crude Oil:** 78.03Prices Current as of
2:08 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

After meandering lower in the early part of the session yesterday, things accelerated in the final hour, similar to what they had done the day before, namely finish at their highest levels, as the Dow extended its gains above the 10,000 level to close at a new high of 10,062. We had pointed out yesterday morning that the VIX/Dow relationship was projecting a close to this area, as the VIX was still .70 points above its support level on Wednesday's close, so the Dow at 10,015 still had the ability to theoretically get as high as 10,085, which it almost did.

And once again, what actually got the market turned around from Dow losses of as much as -38 points to an eventual closing gain of +47 points was the fact that oil prices, which had been rising steadily for the past several days, continued their recent upside journey with another large price rise of more than \$2 a barrel to an astounding price of \$77.48. This most recent rise was the result of a surprise drawdown in the weekly oil inventory report when an increase was expected. And once again higher oil prices are supposedly a wonderful upside tonic for the stock market because these higher prices are symbolic of "worldwide economic growth", never mind their completely negative effects on consumers who have to now pay more to drive their cars and heat their homes. But these higher oil prices did cause the shares of most energy stocks to rise once again, and the Dow energy components, which have been laggards this year, as have most energy stocks, were what gave the index its upside push to the highs late in the session.

There was one troubling dynamic on the close, however, and just as Tuesday's closing VIX/Dow relationship allowed stocks to continue to move higher on Wednesday, which they did, yesterday's closing relationship was signaling a lower move for today, because as the Dow was up by +47 points, the VIX declined by a very large -1.16 points to a new low of 21.72. This indicated a very overbought situation and today we are seeing the effects of that.

The market is once again below the 10,000 level, just as I said it would be in the two interviews this week with CBSMarketWatch and Long Island Newsday. These round numbers are always a magnet for profit-taking but this does not mean that the bull

Daily Market Notes

market is over. The reason for today's declines are the dynamics already alluded to above, but also the back disappointing reports from two Dow financial components and the giant information technology company, and let us remember that all of them had rallied strongly into their numbers, so the fact that they are coming down is something to be expected and it is a little surprising that the technology member is getting sold off so much because it did beat on both the revenue and bottom line in addition to raising its outlook.

The economic reports today were both positive and negative, as September Industrial Production and Capacity Utilization were both better than expected, and in fact the former rose for the third month in a row, while the U. of Michigan mid-October Consumer Sentiment Survey showed a decline from the final September number, which was the highest this year.

As the market is declining, the VIX is increasing somewhat, and the new support level for it now becomes yesterday's low of 21.49.

And if you think this week was big on earnings, next week is even bigger, with Monday: AAPL, GCI, ETN, HAS, JEF, TXN; Tuesday: BK, CAT, DD, ISRG, PFE, STT, KO, UTX, YHOO; Wednesday: AMGN, EBAY, LLY, GENZ, BA, WFC; Thursday: 3M, T, BMY, CME, EMC, JNPR, LH, MCD, MRK, PM, POT, UPS, XRX; Friday: HON, MSFT, SLB.

So next week, 10 Dow companies report, in addition to the all-important AAPL. And just like this week, there will be much excitement because of these reports.

Next week also continues with economic reports, and they are: Tuesday: September P.P.I., September housing starts; Thursday: September L.E.I.; Friday: September existing home sales.

Of the companies that have reported earnings for the third-quarter so far, 80% of them have beaten their estimates, compared to 72% for the second quarter, so this is

Daily Market Notes

encouraging.

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. 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.

Daily Market Notes

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.