

Daily Market Notes**Market Update:****DJIA:** 9819**S&P 500:** 1050**Nasdaq:** 2076**10YR T-Note:** 3.40%**EUR/USD:** 1.472**Gold** 1031**Crude Oil:** 77.56Prices Current as of
2:12 PM

Source: Bloomberg

Despite the Dow being up slightly yesterday, this was not representative of the overall market which once again showed a decidedly negative tilt. For instance, the closing gain of +14 points was entirely due to the up moves in just two Dow stocks, namely the oil giants, both of which report later this week. If you add in the gains that the global payment and travel company had, then these three stocks alone accounted for +23 Dow points, which meant that if these three were unchanged, then the Dow would have also joined its fellow other indexes in the minus column.

So now for the fifth day in the last six, the overall market has declined after all of the hoopla and bullish enthusiasm that had developed when the Dow crossed over the magical 10,000 level exactly two weeks ago. Unfortunately, the move above 10,000 to the high close of 10,092 on October 19th could not be sustained because of the various factors that we had been warning about and that had accompanied stocks on their merry way to the upside these past seven months.

The first was that the VIX had reached a point which I believe indicated an overbought condition when it got down to 20.10. I have seen other commentators say that the low VIX was supposedly "good" for stocks because it indicated the fact that investors were not buying protective puts.

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

As I have said before, the lower the VIX goes the more potentially bearish it is for stocks, and the higher it goes the more potentially bullish it is, because a higher VIX generally indicates a more oversold condition. Let us remember that when this historic rally began in March, the VIX had reached over 50, which is the rare sign of a historically oversold condition.

Jason Wotman

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

Other reasons why we believe stocks had reached unsustainable levels is that this rise to the highs two weeks ago was accompanied by new lows in the dollar as the Euro hit over 1.50, a new record high in the price of gold, and new highs in oil prices at \$82, plus strong gains in the prices of other commodities like copper and grains.

Daily Market Notes

And as we have been saying for weeks and weeks now, if anyone thinks that higher oil prices are good for the U.S. consumer, whose spending makes up almost 70% of G.D.P., and who has been financially strapped due to falling home prices, the weak jobs market, and the overall loss of wealth effect that has taken place over the past year, then they have completely misinterpreted what they hear in the financial media about the supposedly wonderful things that a weak dollar and sky-high commodity prices can bring.

So here we are again today, in a day somewhat similar to yesterday in the sense that the Nasdaq/Dow ratio is unfavorable, which, in our opinion, will prevent the Nasdaq from gaining on the day although the Dow tried to stick its head into nominally positive territory earlier in the session. And breadth numbers are worse than yesterday when they were 2 to 1 negative, as the current reading is almost 4 to 1 to the downside. It is a few Dow members that are doing alright, such as the telecommunications and consumer components, for some reason (lower oil prices?). But the big technology giants, which seemed unstoppable, are now stalling out at the higher levels. Financial stocks continue their recent weakness, which is also restraining the Dow to some extent. And there are four Dow stocks which are now lower than where they were before their supposedly wonderful earnings kicked the Dow to above 10,000 two weeks ago.

In my opinion, the last thing the market needed was another poor economic report after yesterday's weak October Consumer Confidence data. And unfortunately, this is what it got as the September new home sales came in with a decline of -3.6% when a gain was expected. Even the fourth gain in the past six months for durable goods could not stem the decline. These recent equity losses of now -3.5% in the S&P have come about as an astounding 86% of the 236 companies that have reported have beaten analyst's estimates, and this is a record. This shows that the stock market rallied in anticipation of this good news but is now selling off after the fact, which reminds us all of the old truism that the news is best right at the top of the market and it is the worst at the bottom.

Daily Market Notes

After all these declines, which will now be six out of the past seven days unless we get a miraculous recovery in the afternoon, tomorrow's first look at third quarter G.D.P. takes on more than the usual importance, because it is supposed to show the first gain after four consecutive G.D.P. declines, which has never happened before. The consensus is for a gain of +3.2%, but one prominent house has lowered its estimate to 2.7%, so one would imagine that this lower number is now in the market, so to speak, and that as long as it does not come in lower than that, I believe that the market could probably handle it.

The earnings parade continues this week with the following lineup – tonight: AKAM, ARBA, ESRX, FSLR; Thursday: AET, AGN, ABX, CL, COCO, DB, EK, ETH, EXPE, K, MET, MHK, MOT, MYL, NBL, ODP, Dow components PG and XOM, and STRA; Friday: ACI, Dow component CVX, CVH, DUK, WY.

Economic reports include: tomorrow: first estimate of 3Q G.D.P.; Friday: last trading day of the month, September personal income and spending, October Chicago Purchasing Managers Index, U. of Michigan final 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. Keep in mind that past performance in no guarantee of future results

So far in the third quarter, profits are down -19%. During the second quarter, profits declines for stocks in the S&P 500 were -29%. This is after a first quarter decline of -33%. According to the analysts surveyed, the expectation is for 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

Daily Market Notes

from financials, because the comparisons to the disastrous 4Q of 2008 should allow for good upside. According to analysts surveyed, 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. According to Bloomberg Financial, 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 +2.7 to 3.2% 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.