

**Daily Market Notes****Market Update:****DJIA:** 10226**S&P 500:** 1090**Nasdaq:** 2156**10YR T-Note:** 3.48%**EUR/USD:** 1.485**Gold** 1107**Crude Oil:** 76.99Prices Current as of  
1:43 PM

Source: Bloomberg

For the sixth straight day, the Dow was able to advance, its best winning streak since August, as news of economic expansion from China and Japan as detailed in yesterday's notes, got our market off to a strong start. Naturally, this expansion, plus the comments that were also detailed in yesterday's notes from various Fed officials to the effect that they were cautious about the prospects for economic recovery, meant further weakening for the battered U.S. dollar because it also means that interest rates here are going to stay at these very low levels for an indefinite amount of time.

So the dollar once again fell to the over 1.50 Euro level, from which there does seem to be some support for it, and as a result the Euro did fall back a bit, but not by much. Naturally when the dollar weakens gold, oil and other commodities rise, which we have seen take place for several months now. So these dynamics constitute the bullish package for stocks, even though as we have been saying for the longest time there are inflationary implications to all of this. The positive stock market spin is that this "cheap" money currently available is creating an upward asset dynamic of sorts, which sometimes do not end well. But for the time being, the mantra on Wall Street is – "full speed ahead."

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The most interesting dynamic yesterday was the fact that as the major averages were staying in positive territory virtually all day, the VIX, which started out lower as it should have when the market jumped to its highest levels in the morning, reversed course and went positive just before 10:30am as the Dow was coming off of its best gains of +94 points. This seemed strange and all kinds of potential explanations abounded, the most common of which might have been that the "smart money" knew that a downward move was about to occur because there was obviously some heavy buying of puts to get the VIX from a loss of more than -1 full point to a gain of as much as +.84. Even though the major averages did give back half to almost half of their best levels of the day, they all finished positive, as did the VIX.

The primary reason for the fact that the higher VIX could not bring the major averages into negative territory was that the Nasdaq/Dow ratio was very positive for

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the entire session and ended with a very strong relationship, at +15/+44 respectively. This relationship is what assured that things go the distance, so to speak.

There did not seem to be much fundamental impetus here for stocks to do so well, rather it was just a continuation of the dynamics as described above, as there are no economic reports here until Friday and the earnings picture was mixed, with the large luxury home builder advancing on good news, which helped that entire group while the large department store retailer sold off on its report, which slightly hurt the shares of the retail group.

In addition to the Dow closing at its best level of the year, the S&P also closed at a 2009 high, and ironically the Nasdaq, which has been by far and away the best performer this year, did not quite make it to its October 19th high.

After the new market highs yesterday, the market is currently easing back a bit, as early attempts at rallies based on better earnings from the large Dow retail component and a takeover in the technology area, got the bulls in control briefly before 10am. But when the price of oil, heaven forbid, got sold off sharply after all of the pre-hurricane drama earlier in the week, the equities market decided that something that benefits consumers by making it less expensive to fill their gas tanks and heat their homes is NOT good for stocks. And to compound the supposedly negative influence for stocks, gold actually had the nerve to decline after hitting an overnight new all-time high in Asian trading of \$1,123. But the final ostensibly negative influence for stocks is that the dollar, also heaven forbid, really had the nerve to strengthen against the Euro, and once again that 1.50 level seems to be a strong stopping point on the upside, and the short dollar trade has gotten extremely crowded, as has the long gold trade as well. It is always bothersome when all of the experts and even the man on the street just "knows" that these three items – oil, gold and the Euro – have to go higher, and if stocks cannot advance without the help of these three outside markets pushing them along to the upside, then one has to call into question whether equities are also vulnerable to further corrections.

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It is somewhat ironic to note that one of the reasons being offered for the nominal decline in equities today is that China's premier said that the global economy is starting to recover but a total recovery will be a "slow and bumpy process." It is ironic that this quote is being offered as an excuse for today's stumble because only yesterday stocks moved nicely higher when China's industrial production rose more than anticipated, which ostensibly showed that global economic growth was firing on all cylinders. In addition to these comments from China, Treasury Secretary Geithner stuck in his two cents by saying that China is "leading the way" back to recovery.

One interesting dynamic today is that the VIX is up more than the Dow is down, continuing the recent move into the VIX which started yesterday. This is ultimately bullish because it raises the price target for the Dow to a theoretical potential 10,650 from the 10,530 top that was indicated at yesterday's close.

Tomorrow we finally get some economic numbers (see below) which might or might not provide some market impetus either way, and we continue to get further earnings reports from retailers, which have been a mixed bag so far.

The earnings season is winding down, with over 440 of the 500 S&P companies having already reported, and the week finishes off tomorrow with - ANF, A, JCP.

This week's economic numbers are on the light side, and this is a relief after all of the drama of the Fed statement and the jobs report last week – tomorrow: September trade balance and U. of Michigan mid-November Consumer Confidence Survey.

So far in the third quarter, profits are down -15%, as 81% of the 440 S&P companies that have reported have beaten the estimates, which is a record. 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, the expectation is for a rousing gain of +63% for the fourth quarter, when the comparisons to the fourth

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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. According to the analysts, 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. 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 extended through the first two quarters of 2009. Projections for the third quarter currently are for growth in the +3.5%. This is the first time that there have been four straight quarters of negative growth since records have been kept since 1947.

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### 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: {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.*