

Daily Market Notes**Market Update:****DJIA:** 10295**S&P 500:** 1096**Nasdaq:** 2169**10YR T-Note:** 3.43%**EUR/USD:** 1.492**Gold** 1115**Crude Oil:** 76.82Prices Current as of
1:06 PM

Source: Bloomberg

After a nominally higher start yesterday based on the continued decline in weekly jobless claims and some enthusiasm for a large technology merger, stocks weakened as the day wore on and finished with Dow losses almost at triple digits. What were put forth as reasons for the decline really almost boggle the mind, as a sharp drop in oil prices ostensibly showed that consumers were not buying energy products, instead of the real reason that supplies are too large for this level of demand and that the entire rise in oil prices lately has been a function of a weak dollar and not the supply/demand fundamentals. The fact that energy prices are coming down should be construed as positive for consumer spending. And the fact that most energy stocks hit their highs in mid to late 2007 when crude oil prices were between \$50 to \$60 a barrel, lower than where these oil prices are now, shows the absurdity of this argument that lower oil prices are bearish for oil stocks. In fact, as the stock market is rallying today, oil prices are lower and most oil company stocks are up.

Another ostensible reason for the decline in equities yesterday was that the dollar, heaven forbid, actually had the nerve to rally as the Euro seems to be having a difficult time remaining above the 1.50 level. And to top off the supposed reasons for stocks coming down was that almighty gold, also actually had the nerve to decline from all time record highs reached overnight in Asian trading.

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

Financial stocks were weak on a report from the Federal Reserve that will prohibit banks from charging overdraft fees on automated teller machines or debit cards, unless a customer has agreed to pay extra charges for exceeding account balances. Banks and other lenders collected almost \$37 billion in overdraft fees last year, so the thinking was that this could cut into their profits.

Jason Wotman

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

The VIX, which had been much higher relative to the Dow, declining by more than one full point when the Dow was down only nominally for most of the morning, finally equalized itself with the Dow by day's end as it rose by +1.20 against a final Dow decline of -97 points, which is within the correct boundary of where this relationship should be.

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Today the market is doing well in the sense that it is overcoming two negative reports and rallying on the back of good earnings from the largest Dow media component and some retailers as well. The two economic reports were negative because the September trade deficit widened by 18%, the most in a decade, and reached its widest level since January, due to higher imports from China, the negative effect of higher imported oil prices (this is another reason why the argument that higher oil prices are somehow good for equities really should be put to rest) and increased auto imports. In fact, imports rose by +5.8% while exports increased by only +2.9%. This widening of the September trade deficit will subtract some in the next estimate of third-quarter G.D.P. growth which was originally estimated at a gain of 3.5%.

The other weak economic report was the mid-November U. of Michigan Consumer Sentiment Survey, which showed a decline from the end of October number of 70.6 to the current one of 66. Both the current conditions and future expectations component declined, which does not bode well for the upcoming holiday shopping season, so it is somewhat ironic that the retailers that reported today did so well.

But the overall mood is still upbeat for stocks and as we have seen so many times in the past, price declines are used as buying opportunities, as third quarter results continue to come in better as this earnings season winds down next week. Around 80% of S&P companies have beaten the analyst's estimates, and this is the highest since records began being kept on this in 1993.

And as was mentioned above, stocks are higher despite oil prices continuing their recent decline, so this is the best possible combination possible, as the lower energy costs should be beneficial to consumers, whose spending makes up 70% of G.D.P. And for the second day in a row, financial stocks are lower, and this is disturbing as they are not doing well on an otherwise up day in the market.

The earnings season is almost over, and next week once again the list is heavily weighted toward retailers, although there are a few technology type companies as well: Monday: LOW, PSUN; Tuesday: ADSK, Dow component HD, JEC, LAZ, SKS,

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TGT, TKX; Wednesday: BJ, CHS, GYMB, HOTT, LTD, NTAP, PETM; Thursday: BONT, DKS, DBRN, FL, GPS, INTU, KLIC, PDCO, SHLD, SCVL, SSI, PLCE, ZUMZ; Friday: ANN, DHI, SJM.

Next week's economic numbers are a little more frequent than this week's were, and the schedule is as follows: Monday – October retail sales, NYState Empire Manufacturing Survey; Tuesday: October P.P.I., October Industrial Production and Capacity Utilization; Wednesday: October C.P.I., October housing starts and building permits; Thursday: October L.E.I., November Philadelphia Fed Manufacturing Survey; Friday: November options expiration.

So far in the third quarter, profits are down -15%, as 80% 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 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 nine 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 three quarters of 2009. Earnings have never been down for nine consecutive quarters.

We have had 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 are currently for growth in the +3.5% range. According to the analysts, 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.