

**Daily Market Notes****Market Update:****DJIA:** 10389**S&P 500:** 1104**Nasdaq:** 2190**10YR T-Note:** 3.33%**EUR/USD:** 1.485**Gold** 1138**Crude Oil:** 78.69Prices Current as of  
11:39 AM

Source: Bloomberg

For the sixth time in the last seven Mondays, stocks put in a very strong performance once again yesterday, and of the recent six Monday Dow gains, four of them have been of the triple-digit variety. Yesterday's strong performance came despite two obstacles that the market had to overcome during the session. The first was Fed Chairman Bernanke's discourse on various topics, and he chose to delve into policy related to the dollar, which is normally the territory of the Treasury Department. He said that "We are attentive to the implications of changes in the value of the dollar" and will continue to "monitor these developments closely." He also promised to keep interest rates at current record low levels, which of course is the primary reason why the dollar has been under such pressure in the first place. So this is the dilemma of U.S. policy makers, who cannot have it both ways, so to speak. If interest rates stay at these levels, then the dollar will continue to stay under pressure. At the same time, he cannot raise rates especially as he warned of "important headwinds that will restrain the recovery, including a weak job market and tight credit for small businesses and households." These forces "likely will prevent the expansion from being as robust as we would hope." In addition, he predicted that inflation probably will remain "subdued for some time."

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When these remarks were issued, the dollar went into a recovery for several minutes, which naturally pushed stocks off of the best intraday levels that had been reached before the 12 noon comments from the Chairman. Equities then recovered from this intraday decline and hit their highs of the day with the Dow showing a gain of +164 points just before 3pm, when the bearish banking analyst stuck in her two cents with very negative comments on both the banking sector and also on the economy in general. Her remarks on the economy are not worth repeating as they are just the opinions of one person, and as we all know, no one person has a monopoly on wisdom, so to speak, but her comments did have the effect of bringing the Dow down about -60 points from its best level, primarily due to the financial components selling off from their best intraday levels as well. A late recovery got the Dow to gain back around half of these losses to close with a gain of +137, a new 13 month high, and the other major averages also joined it to close at their best levels since October 2008 as well.

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The gains were led by industrial, energy and resource type stocks as the dollar weakened again, but did manage to find some support once again at slightly above the 1.50 Euro level, and this is perhaps what Bernanke might have in mind, namely to prevent a complete dollar free-fall by paying lip-service to the importance of a “strong” dollar, when that will not be possible given the record low interest rate structure in the U.S., which appears as if it will stay there for the bulk of 2010 as well. Treasury Secretary Geithner has also paid lip service to a supposedly strong dollar, which is another reason why it seems to be finding support at that 1.50 level.

And naturally as the dollar did weaken, gold hit another new all-time high and the crude oil market rebounded from a monthly low and joined in the upside party for no other reason than since other commodity prices were rising and the dollar was weak, then why not join in the upside party. There was certainly no evidence of any sort of increase in demand to justify this kind of strong rally in energy prices, although it was reported that Japan's third-quarter G.D.P. did rise by +4.8%, the fastest growth in more than two years and this new economic growth engine in Asia is used as the justification for higher oil prices even though the U.S. is still far and away the largest consumer of energy.

One other interesting note yesterday was that throughout the entire up move in equities, the VIX declined by much less than it should have, and when the Dow went into its post 3pm decline of -60 points as mentioned above, the VIX actually rallied back to almost unchanged. This is still a real anomaly and ultimately a bullish relationship as we explained yesterday. So by closing with a loss of -.56 against a Dow closing gain of +137, this still raised the theoretical upside potential of the major averages.

After all of the excitement yesterday to new yearly highs in the averages, things are cooling off a bit today, although not by much. The large home improvement retailer and Dow component is keeping that index from doing better after its weaker report (no surprise here given the state of the housing market and the home improvement market as well), and the dollar, heaven forbid, after finding support at that 1.50 Euro

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level, is making a strong recovery which is keeping pressure on the industrial and resource type stocks, whose strong gains yesterday were primarily responsible for the market advances. October Industrial Production came in weaker than expected, which is also being put forth as an excuse for some easing back as well. This weaker industrial output was primarily a function of a reduction in auto manufacturing after the summer surge due to various government programs.

October P.P.I. came in lower than expected, and the core rate excluding food and energy declined by -0.6%, the largest drop since July 2006 and gives credence to what the Fed chairman said about inflation being "subdued for some time."

It would appear that the best thing the market can do today is not go into a more steep decline than the -30 Dow points as this is being written. Earnings are becoming less of a factor as that season winds down, with other retailers mixed on their results. None of these would be considered market movers.

Third quarter results continue to come in better as the earnings season winds down this 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.

The earnings season is almost over, and this week once again the list is heavily weighted toward retailers, although there are a few technology type companies as well: 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.

This week's economic numbers are a little more frequent, and the schedule is as follows: 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

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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 Bloomberg Financial, 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.*