

Daily Market Notes**Market Update:****DJIA: 10290****S&P 500: 1088****Nasdaq: 2140****10YR T-Note: 3.36%****EUR/USD: 1.485****Gold 1144****Crude Oil: 77.05**Prices Current as of
1:12 PMSource: *Bloomberg***Donald M. Selkin**

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com**Jason Wotman**

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

After making new highs for the year in all of the major averages this past Tuesday, things have slipped the past three days, and this should not come as too much of a surprise because let us all remember that stocks invariably decline going into an options expiration because as we have repeated so many times, the function of an options expiration is to cause as many owners of call options to go home with worthless merchandise, and this is why stocks accommodate them by declining at this time.

After Wednesday's nominal losses in the major averages, stocks took a major beating yesterday, and various reasons were put forward for the sell off. The first reason offered was that the beaten down U.S. dollar, heaven forbid, had the nerve to strengthen once again, and it now appears as if that 1.50 Euro level will now become a strong resistance area for continued dollar declines beyond that level. This dollar negativity has been the most crowded trade this year, as the dollar has become the "funding currency" to borrow and beat down relentlessly as investors move into more exotic high-yielding currencies in search of better returns. The question is, how much longer is this supposed road to easy street going to go on? This does not mean that there is going to be a bull market in the U.S. dollar, primarily because interest rates here continue to stay at record low levels, but perhaps a floor has been put in to how much further the greenback is going to decline. And of course, in today's investing mindset, the better that the dollar performs, the worse it is for stocks because of that entire "risk aversion" scenario which we have discussed many times.

Another reason for the poor performance of stocks yesterday, particularly the financials, was a report that a record one in every seven homeowners in the U.S. is either in foreclosure or at least one month past due on their mortgage payments in the third quarter. This could hurt the profitability of the large banks.

Technology was weak on a downgrade of the semiconductors, and as we said yesterday, where was all of the goodwill that was generated last month when the largest semiconductor manufacturer of all, came out with a report that was construed as wonderful and they even raised their forward guidance, only to get sold off once

Daily Market Notes

again as this stock continues its role as a perennial underachiever. This took its toll on the entire group.

In addition, the health insurers got sold off as the Senate is moving close to taking a vote on the health care reform bill this weekend.

For most of the session, the VIX was up by much more than the Dow was down, and this was an attempt to correct the imbalance from Wednesday, when both the Dow and the VIX were lower, which is the worst combination possible. But by the end of the day, the relationship sort of equalized, with the Dow down by -94 and the VIX up +1.00, which had to be disappointing in light of the previous day's action.

Today's options expiration session is also moving to the downside, as a weak Nasdaq/Dow ratio is weighing on things trying to turn to the upside, courtesy of a poor report from the third largest U.S. computer maker, which has done well this year from low levels. This is keeping technology under pressure. In addition, there were comments from E.C.B. President Trichet to the effect that policy makers in Europe will withdraw emergency stimulus measures gradually, which could mean further wakening of the Euro, heaven forbid, and this could put pressure on stocks in the environment which we have discussed so often.

And believe it or not, the yield on the U.S. three month Treasury Bill actually did what it had already accomplished back in December, when it gave its holders the honor of a negative return yesterday, and this is almost beyond comprehension that an investor would be so foolish to buy this instrument at this price. One financial service praised this strategy because, in their words, "financial institutions are buying the safest assets to improve balance- sheet quality as 2009 draws to a close." Is this balance- sheet quality, to own assets that give you an automatic negative return from the get-go? Today the yield rallied back to a rousing .005%, and would one think that this type of yield would weaken the dollar, but the dollar is rallying some more today, which puts further pressure on the stock market.

Daily Market Notes

And as stocks weaken because of the strong dollar, oil prices continue to fall, which is putting pressure on the energy and resource stocks, and if falling oil prices are not beneficial to the consumer, then what is, but the equities market is in this mindset that only higher oil prices are good for the stock market. The only market that is immune to dollar movements lately is gold, which is in its own upside world and intraday declines do not last very long. We will discuss some interesting dynamics of the gold market and why it has been moving higher as we head into the end of the month in Monday's bi-weekly commodity report.

The only Dow stocks that are holding up today are the large defensive ones that can do better in a slowing economic scenario. These gains are masking the fact that the breadth numbers are negative 2 to 1 to the downside.

Not helping either is the fact that the VIX is up less than the Dow is down as this is being written, and it took literally 35 negative Dow points to even get the VIX into positive territory in the first place.

With earnings season literally over, the calendar is light in this regard next week, but we will publish on Monday those companies still left to report. But in the holiday shortened week there are a number of economic reports and they are as follows: Monday: October existing home sales; Tuesday: second estimate of 3Q G.D.P., CaseShiller Home Price Index, November Consumer Confidence, minutes of November 4th F.O.M.C. meeting; Wednesday: October personal income and spending, October durable goods orders, October new home sales and U. of Michigan final November Consumer Sentiment Survey. So these reports will obviously set the tone for next week.

Third quarter results have 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.

So far in the third quarter, profits are down -15%, as 80% of the 440 S&P

Daily Market Notes

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.

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: {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.