

Daily Market Notes**Market Update:**

DJIA: 10405
S&P 500: 1102
Nasdaq: 2164

10YR T-Note: 3.34%

EUR/USD: 1.494

Gold 1167
Crude Oil: 76.24

Prices Current as of
 12:05 PM

Source: Bloomberg

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After Friday's options closeout session decline, the market yesterday did what it has done with great frequency lately, namely undergo a large upside Monday rally. This was the seventh up Monday out of the past eight, and it was the fifth time out of those seven up Mondays that the Dow finished with triple-digit gains or in the neighborhood of triple-digit gains. And the reason that we have seen this pattern is that for some reason the overseas markets decide that Monday is a good day for them to go up and also for some reason you get the influence of the outside markets such as the Euro, oil and gold. And naturally when these items rise, investors get turned on by the global economic growth story and also the decrease in so-called "risk aversion", which makes them rush into equities because of this scenario.

There was also a nice report on October existing home sales which rose to their best level in two and a half years, and this reversed the poor October housing starts report which was used as the excuse for the three-day market sell off late last week. The only problem with yesterday's gains, which put the Dow at a new 13 month high, was that the VIX has been drifting lower recently even as the market declined last week, and by yesterday's close, instead of going down much less than the Dow went up, which it was doing early in the session as the Dow was up by around +160 points and the VIX was down only -.80, by the close these two items had almost equalized to +133 and -1.30 respectively. This means that the VIX at 21.16 is starting to get too close for comfort to its support level of 20.10, which will indicate an overbought market and perhaps a resistance level to further market advances.

And this is exactly what we are seeing today, as the market started out mixed to slightly lower and has sort of deteriorated as the morning is moving on, although it is above its worst levels as this is being written.

Today is the type of day where market observers try to "fish" for explanations as to why the market is down, not that it is doing serious damage to the uptrend as this is being written, with the Dow showing a loss of -49 points after being down by as much as -91 points and making a recovery to being down by only -21 points before drifting back again. There is always the "excuse" of crude oil being down, but as we have

Daily Market Notes

pointed out so many times, this factor, which should really be friendly for stocks as it helps consumer spending, has been instead transformed into a proxy for supposed "worldwide economic growth." We have also pointed out that the supply/demand fundamentals in the U.S., still the world's largest consumer of energy, do not warrant prices even being this high, and crude oil has basically been used as one of those commodity proxies for the weak dollar. Unlike gold, which is in its own upside world, at least crude oil prices are trying to have some semblance of a relationship to the real world by at least not being able to stay too much above \$80 a barrel whenever they cross over it on the upside.

Another supposedly negative factor today is that the personal spending component of the revised G.D.P. number came in a little lower than expected. The revision itself was in line with a gain of +2.8% from the original estimate of +3.5%, and the decline was a function of a wider trade deficit as a result of imports surging by +21%, which was the largest since the second quarter of 1985. These higher imports were the result of oil prices rising during the third quarter. Also contributing to the decline in the overall number was less construction of non-residential structures, which is evidence of the weak commercial real estate market, and there was also a decline in business inventories. But overall the +2.8% gain was the best since 3Q of 2007.

The November Consumer Confidence number was mixed in the sense that it did rise a bit from the October reading, but the present situation component of this report showed its lowest reading in 26 years. For what it is worth, the November Richmond Fed Manufacturing Index showed a decline. The September CaseShiller Home Price Index declined -9.4% and this was a slight improvement from the prior month.

A potentially market moving number will be coming out later today at 2pm, and that will be the minutes of the November 4th F.O.M.C. meeting, where the tribulations of the participants will be revealed, to whatever effect.

So all of this data is basically mixed, and the explanations for whatever happens on the close will be a function of perhaps what the minutes show this afternoon. If the

Daily Market Notes

market does decline, perhaps another explanation that will be thrown in is that the dollar had the nerve to strengthen a bit, as the Euro once again is finding that resistance at 1.50 difficult to overcome.

Earnings are losing their impetus as the season winds down, but a Dow computer manufacturer is declining after its report, and that is restraining the Industrials to some extent. Other companies are showing small moves either way after their reports and are not really a market moving factor.

Earnings season really finishes this week with: tonight: JCG; Wednesday: DE, TIF; Friday: FRO.

In this holiday shortened week there are a number of economic reports and they are as follows: this afternoon at 2pm: 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 -14%, 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

Daily Market Notes

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.