

**Daily Market Notes****Market Update:**

\*\*\*Special Comment: The Daily Market Notes will resume again on Monday, November 30th – happy holidays to all.\*\*\*

**DJIA:** 10452**S&P 500:** 1108**Nasdaq:** 2174**10YR T-Note:** 3.29%**EUR/USD:** 1.501**Gold** 1186**Crude Oil:** 77.12

After Monday's large upside move, the market ended a little lower yesterday, based on some components of economic reports that did not satisfy the bulls, at least for yesterday. For instance, the bearish crowd pointed to the personal spending component of the revised 3Q G.D.P. number as lower than they would have liked to see. This resulted in the Dow being down by as much as -90 points at its worst level of the session, but things did get a late boost when the minutes of the last Fed meeting were released and they included an observation that they are confident that the economic recovery is "sustainable". In addition, they raised their growth expectations for 2010.

Prices Current as of  
1:14 PM

Source: Bloomberg

What was most interesting for those who follow the ideas in these comments was that the VIX ended lower even as the major averages ended lower as well. This is in line with what we saw last week as well, namely a lower VIX with lower market averages. At least last week's action in this regard could be attributed to the November options expiration week, where holders of calls and puts that are going to go out worthless try to salvage whatever they can by selling out. This selling of options puts downward pressure on the VIX.

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So after being down on Monday when the Dow put in a triple digit higher performance, the VIX declined by a large -.69 points as the Dow declined by -17 points. So this raises the question of what this weak action in the VIX is telling us.

The bearish argument would be that as the VIX gets close to its support level at 20, the upside potential of the market starts to become less and less. The other argument is that perhaps the VIX is going to break below 20 and settle into a new lower trading range. Let us all remember that in the decade of the 1990's, the VIX basically stayed between 10 and 15. In the decade of the 2000's, the range became higher because of all the shocks to the market, such as 9-11, the bursting of the Internet bubble which culminated in the bear market of 2001-2002. Then we had the

## Daily Market Notes

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historic market meltdown of late 2008-early 2009, which also put tremendous upward pressure on the VIX.

The question going into today was that if the market went higher today, as it has in 40 out of the past 60 years the day before Thanksgiving, then this would surely push the VIX below 20. Let us remember that the day before and after this holiday do show a strong propensity for the market to advance, as illustrated by these statistics.

So what happened today is that the market started out unchanged but because of some friendly economic statistics like the weekly jobless claims which slid to the lowest level since September 2008, a slightly better than expected U. of Michigan Consumer Sentiment Survey, October personal spending and October new home sales reports, the Dow advanced to a gain of as much as +48 points before easing back a bit. This follows its traditional tendency to advance the day before the holiday. But the lowest the VIX got down to was 20.05, right into its support level and since that level, it has moved up a bit, and is down only nominally as this is being written. So the best thing to happen today is for the averages to end a little higher and the VIX to also go higher, which gives stocks a little more room on the upside to advance. But even if that did happen, the upside potential of the market still looks like it is limited to the VIX right at the 20 level.

What is also supposedly helping is that the Fed basically has thrown in the towel on the dollar, even though ostensibly Treasury Secretary Geithner is in favor of a strong dollar, which is nonsense. They issued a statement saying that the dollar's decline was "orderly", which basically gave the dollar bears more reason to pound the greenback. It has now broken above that 1.50 Euro resistance level which had turned it back on so many prior occasions, and this is another bearish sign for the U.S. currency. The persistence of record low interest rates and a very weak dollar, which could encourage continued buying of commodities, might come back to haunt the equities markets one of these days.

So now the drama will be put off until Friday, and either things are going to set back

## Daily Market Notes

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or the VIX will seek a lower level once we get into the final month of the year next week.

Earnings season is basically over, but next week once again brings with it a large number of economic reports, capped off by the all-important jobs number on Friday – Monday: November Chicago Purchasing Managers Survey; Tuesday: ISM November Manufacturing Survey, October pending home sales, October construction spending, domestic auto sales, Wednesday: Fed Beige book, ADP jobs estimate; Thursday: November ISM Non-Manufacturing Survey; Friday: November jobs report, with an initial estimate of -120,000, better than last month's -190,000.

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 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.

## Daily Market Notes

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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

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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.*