

Daily Market Notes**Market Update:****DJIA:** 10405**S&P 500:** 1102**Nasdaq:** 2197**10YR T-Note:** 3.48%**EUR/USD:** 1.471**Gold** 1125**Crude Oil:** 70.35

The market showed amazing ultimate resiliency yesterday because it had a number of negative things thrown at it. Despite that negativity, the major averages actually fooled the bearish crowd in the last two hours by rallying to close at their best levels of the day.

Most of the early negativity came from overseas, as the credit outlook for Spain, another economic basket case in the E.U., was downgraded. This had followed a similar downgrade for the credit rating of Greece on Tuesday, which had contributed to the steep market sell off here. The third negative overseas news was from that financial mirage in the desert, otherwise known as Dubai, which saw further debt concerns surface.

Prices Current as of
12:28 PM

Source: Bloomberg

As if those negative overseas developments were not enough, there was also a poor 10-year Treasury note auction here, which derailed equities here at 1pm just when it appeared as if they were about to recover. Finally, there was the supposed "negativity" from gold prices, which declined from ridiculously high levels for the fourth straight day and have now fallen -100 dollars from their \$1,226 high and there was also negativity from crude oil prices, which have also been in a correct decline also from unrealistically high levels. This is despite the mantra of this year, which is that high oil prices are a good sign for "worldwide economic growth" even though lower energy prices benefit consumers whose spending constitutes 70% of G.D.P. There was also a negative reaction to the mid-quarter update from the global semiconductor and digital signal processing company, and how many times have we seen this before, and why they continue to come out with these estimates is beyond me. Finally, the consumer giant that operates worldwide beverage, snack and food businesses reported a profit outlook that was construed as negative.

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So what did the market do with all of these negative developments thrown at it? It put on its bullish hat at 2pm and underwent a nice rally to turn an intraday Dow loss of -51 points to a closing Dow gain of +51 points. What happened to turn things around was a slight weakening of the dollar, which is construed as bullish for certain types of stocks. In addition, the Nasdaq/Dow ratio, which had been poor for most of the

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session, turned itself around due to strong gains in some technology giants. In addition, there was some improvement from their worst levels in the financial stocks as one of the large financials said that they intend to repay its \$20 billion owed to the T.A.R.P.

So with a little upside momentum at its back, the market is extending yesterday's late comeback with a solid gain this morning. Adding to the bullish momentum was the fact that weekly jobless claims declined to a one-year low. In addition, the October trade deficit declined, as exports rose to their highest level since November 2008, and was the sixth straight month of increases in exports which could indicate a strengthening of world economies but are really a function of the weaker dollar.

The Dow/VIX ratio, which saw the VIX decline more than it should have yesterday after stocks themselves closed, is adjusting itself back today with a decline that is less than the Dow is higher. This ratio still points to a maximum near-term upside of Dow 10,600 but it must get over 10,500 first. Let us also remember that four times last week the Dow was turned back from this level intraday, so this will obviously be the first upside hurdle to overcome.

Tomorrow sees two economic reports that could move things one way or the other: November retail sales, December mid-month U. of Michigan Consumer Confidence Survey.

As the third quarter earnings season is over, profits are down -14%, as 80% of the S&P companies did manage to beat 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.

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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 +2.8% 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.