

Daily Market Notes**Market Update:****DJIA:** 10476**S&P 500:** 1111**Nasdaq:** 2213**10YR T-Note:** 3.60%**EUR/USD:** 1.451**Gold** 1119**Crude Oil:** 70.68Prices Current as of
12:27 PM

Source: Bloomberg

The major averages closed yesterday at 14 month highs, on a report that one of the United Arab Emirates, Abu Dhabi, was going to bail out its profligate spending relative, Dubai. This put to rest some of the anxieties that overtook the market on the famous Thanksgiving Day massacre, when overseas investors in particular got bent out of shape over the potential for a default, as the European banks in particular had the most exposure to that financial mirage in the desert. This also caused a large post-Thanksgiving Day sell off in the U.S. as well, but the damage was contained relative to what had taken place overseas.

In addition, there was some optimism over the fact that one of the large financial conglomerates, perhaps the worst bank of them all when it came to reckless strategies, was going to repay \$20 billion back to the T.A.R.P. As part of the deal, Treasury plans to sell as much as \$5 billion of common stock and will unload the rest of its stake within the next year. Despite this news, their shares fell to their lowest level since August.

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com**Jason Wotman**

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

Unlike Friday, when the Dow was the hero and the Nasdaq lagged, yesterday saw the reverse, as the Dow was restrained by a very poor performance from the largest integrated oil company after its purchase of the largest natural gas producer. Between the losses in the two Dow energy components, which amounted to the equivalent of -29 Dow points, this was the entire gain in the Dow. In other words, if these two stocks had been unchanged on the day, the Dow would have been twice as high. Despite the Dow being up "only" +29 points because of the distortion caused by the losses in these two energy components, breadth numbers were very strong at 22/8, and the Nasdaq was up over 20 points, which means in a sense that the overall market acted as if the Dow was up 100 points, on the 5 to 1 Nasdaq/Dow ratio relationship.

The VIX was actually down by more than the Dow was up for most of the session, but then right at the 4pm close and afterwards, the VIX cut its losses to close at an equivalent of what the Dow had gained, which means that the theoretical upside for the Dow still remains at 10,600.

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Despite the fact that the Dow did close just at that first resistance level of 10,500, which had turned it back four times intraday two weeks ago, that level is still presenting some obstacles to further advances, as things opened lower today. And the reason they opened lower is that heaven forbid, the dollar actually had the nerve to strengthen to its best level since early October on the back of the larger than expected gain in the November P.P.I. report.

We have constantly pointed out that the energy component of these reports is calculated from the middle of the prior month to the middle of the month under survey, so the fact that the heating oil and gasoline components of this report showed increases of +16% is a complete distortion. In fact, for the month of November itself starting from the first day of the month to the last, energy prices were unchanged. The fact that so many commentators are attributing today's market weakness to "inflation is back" is complete nonsense, in our opinion. The gasoline component of this report also distorted last Friday's November retail sales figure to the upside as well, and it is a virtual given that when the December retail sales, P.P.I. and C.P.I. numbers are reported next month, that the figures will come in lower than the consensus, and then these same observers who are getting so bent out of shape over the supposed "inflation" risks in this report will now have nothing to say about the fact that inflation is still well contained.

Let us also remember that since the dollar has been strengthening as a result of the stronger economic reports lately, oil and gold prices have taken a beating recently, so this certainly argues against inflationary perceptions when these two inflation-sensitive items plummet the way they have recently.

With today's nominal Dow declines, that 10,500 resistance level still needs to be decisively overcome in order for the 10,600 area can be tested. The Nasdaq/Dow ratio, after having started the session in a weak pattern, has actually improved once again, as some of the larger technology names have improved off of their worst levels.

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The other economic reports today showed a surprise decline in the December NYState Empire Manufacturing Survey in its largest monthly decline on record and back to the levels of July. November Industrial Production and Capacity Utilization came in slightly better than expected and this is further proof of the economic expansion underway.

We also got the start of the fourth-quarter earnings season, and the large electronics retailer easily beat its numbers but is selling off on a weaker forward outlook. There are other important companies reporting the rest of the week and we have listed them below.

The fourth quarter earnings season continues with some important technology companies that will report. The lineup is as follows: tonight: ADBE; Wednesday: JOYG; Thursday: FDX, GIS, NKE, ORCL, PALM, RIMM; Friday: CMX, DHI. These are companies whose fiscal fourth quarter ended in November.

In addition, there are important economic releases this week as well: Wednesday: November C.P.I., November housing starts and building permits, F.O.M.C. interest rate announcement; Thursday: November L.E.I., December Philadelphia Fed Index.

For the third quarter, profits were down -14%, but 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. 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

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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

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