

**Daily Market Notes****Market Update:****DJIA:** 10315**S&P 500:** 1100**Nasdaq:** 2203**10YR T-Note:** 3.54%**EUR/USD:** 1.430**Gold** 1108**Crude Oil:** 73.07Prices Current as of  
2:08 PM

Source: Bloomberg

The market got blasted to the downside yesterday, as the fiasco over the botched sale of \$20 billion by the last of the four largest banks to pay back the T.A.R.P. has left the U.S. government unable to sell any of its stake. As is well known by now, the company was able to find enough buyers only by offering new shares at the discounted price of \$3.15, which was far below the level it had expected and had led the U.S. Treasury to hope for. Earnings per share forecasts had to be scaled back to account for the much higher number of shares that will now be in circulation. So now the government has a 26% stake in the company and will gradually sell its stock between March and the end of next year.

The bungling of this deal resulted from the fact that the bank should probably have allowed the government to sell its shares first before raising new cash to buy out the other \$20 billion taxpayer loan. If the government would have been allowed to sell its shares first, there would then have been a normal ownership structure, instead of the government stake in the company that exists now. Shame on both the management of the company and Washington itself for bungling this entire situation, at ongoing pain to the shareholders.

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The other supposed villain in yesterday's sell off was the U.S. dollar itself, which had the nerve to rally to a more than three-month high against the Euro, thereby continuing to further this year's mantra of a stronger dollar being detrimental to stocks. Remember back 10 years ago, when the stock market had its best year ever in 1999 when the dollar was king and the Euro was down to .80 cents instead of the 1.44 that it is today? Back then the strong dollar was considered beneficial to stocks because it showed the strength of the U.S. economy, so this obsession with the dollar getting stronger now as being negative for stocks is bizarre, as one would like to believe that if the economic numbers are coming in better, it would show that prospects for earnings of U.S. companies are also getting better, as we saw three very nice earnings reports today. If this twisted logic persists, then stocks really can never go up, because if the dollar gets stronger because of better economic news, then that must also be bearish for stocks because of that ridiculous increased "risk aversion" argument. If the dollar weakens because poor economic reports show the

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need for interest rates to stay at historically low levels, then that must be bearish as well because how then can company earnings improve if the economic situation stays poor?

And isn't it beneficial for stocks if gold declines in value, as this ancient relic is traditionally held onto during times of lack of faith in currencies and lack of faith in government policies? Is hysterical buying of gold supposed to be a sign of strength for stocks? This has also not been the main line of thinking this year as well.

Then there were the overseas issues that have arisen lately, and the latest villain was Greece, which had its debt downgraded once again. The largest freight and package deliverer came out with poor numbers and weekly jobless claims jumped for the first time in several weeks, and this is the most legitimate worry of all. Of course there were two very good economic reports that were ignored in the downward selling pressure, namely the L.E.I. and Philadelphia Fed Survey, which rose at its fastest pace in more than four years.

Of course, perhaps the best explanation for all of the downward pressure in stocks was that the VIX had gotten close to 20 both on Tuesday and Wednesday, and this was signaling once again an internally overbought condition for stocks and we urge people to pay closer attention to this, because it has predicted sudden downturns in the overall market very accurately lately.

Today's market started out nicely higher, with the Dow up as much as +64 points at its best level, and the Nasdaq/Dow ratio doing well because of strong results from two large technology companies. In addition, the large athletic footwear company came in with a nice report. Unfortunately, another mobile computing products company came in with poor numbers that sent its stock down sharply.

Then things turned around suddenly, with the Dow declining as much as -45 points, which meant that it dropped from its best level by more than -100 points. So what happened? The first thing to remember is that today is a quarterly options expiration,

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and oftentimes on these expirations many out of the money calls expire worthless.

As this is being written, the Dow has come back to about unchanged, and the best performers for a change, go figure, are the beaten down financials, led by all things, by the bank that looks as if it is sold out at these low prices, namely the 3.15 it hit yesterday on the old theory that the news is always the worst at the bottom. In contrast to that bank, the shares of another large one have risen for six straight days after they paid back the T.A.R.P. with a new offering at \$25, and similar to the one we talked about in the first paragraph, these shares did rise from that price. On the other hand, the shares of consumer staple and consumer discretionary stocks like retailers are declining, and one would think that they would be less sensitive to dollar fluctuations than the shares of materials, resource and energy stocks that are all down on the dollar's strength today. These swings in individual stocks and groups could also be a function of the quarterly rebalancing of the S&P 500, which will take place today as opposed to this traditional practice taking place close to the end of the year.

It would appear that the afternoon could get a bit volatile as the rebalancing plus the quarterly options expirations does its thing to various stocks and groups, and the best thing about the recent Dow declines means that the VIX has gone up as well, moving it away from the 20 support level and thereby allowing the Dow to try to challenge the 10,500 resistance level again and perhaps up to the 10,560 level that the Dow/VIX relationship is currently projecting as the theoretical top.

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

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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.*