

**Daily Market Notes****Market Update:****DJIA:** 10473**S&P 500:** 1119**Nasdaq:** 2252**10YR T-Note:** 3.74%**EUR/USD:** 1.426**Gold** 1087**Crude Oil:** 73.47

The market started out the home stretch of the year with a solid rally yesterday, as the Nasdaq closed at a 15 month high and the S&P closed at its best level in 14 months. Only the Dow has been lagging a little bit, as its financial components have been weak lately, which has impeded its upside progress to some extent. The rally was led by health insurers, which did well as a result of the new revised health care bill that the Senate voted on, and which apparently will be less detrimental to those insurers than previously thought. In addition, the retailers rebounded from last Friday's sell off after the blizzard that hit some parts of the East Coast was not as detrimental to holiday shopping as initially feared. Finally, the Dow was helped by upgrades to two of its components in hopes for better results in those respective areas, namely materials and semiconductors.

Prices Current as of  
1:10 PM

Source: Bloomberg

And once again the VIX declined more than the Dow rose, and this has been a trend lately. This type of action pushed it closer to the 20 level and which if it does not break through on the downside below this 20 number, should prevent the Dow from making too much more upside progress. On the other hand, a VIX below 20 could signal further gains.

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And once again the dollar continues to find new friends, forcing the long-time dollar bears to run for cover as those very popular carry trades are getting unwound at great pain to those who were late to put them on. This refers to the practice of borrowing "cheap" dollars to buy more exotic high-yielding currencies from countries like New Zealand and South Africa. And also of great importance is the fact that stocks have been able to advance lately WITHOUT the help of a weaker dollar and higher oil, gold and other commodity prices. In fact, that entire commodity bubble, exemplified by gold's dramatic rise to an all-time high price of \$1,226 earlier this month, is now being undone very rapidly as prices are falling to more realistic levels. In other words, these commodities are now closer to reflecting the true supply/demand fundamentals instead of being jumped on by trend-following funds who just trade them as "numbers", so to speak, instead of looking at what underlies those numbers. And as we pointed out in the Bi-Weekly Commodity report yesterday, central banks have a very poor track record over the years in terms of

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buying and selling gold. I guess what finally put in the top of the gold market was when the central banks of Mauritius (how many people know where this place is) and Kazakhstan (of Borat fame), decided to jump into the gold market with purchases right at the highest prices. These purchases were made because the experts in these countries wanted to “diversify” out of the dollar and into gold just when the dollar started to strengthen and gold prices started to collapse.

The market once again has moved higher today, and the big drama occurred when the major averages achieved their best levels of the day around 10:30am when the Dow was up +65 points. At this time, the VIX declined to as low as 19.76, the first time that this has taken place since late August 2008, just before the roof caved in on the financial system. Since those early highs, the major averages have eased off somewhat and the VIX is currently just above 20 as this is being written.

The market got an upside impetus from the November existing home sales report, which showed a large gain of +7.4%, the fastest since February 2007. These sales are now up 44% relative to last year, obviously helped by the home purchase tax credit that is still in effect. The final revision of third-quarter G.D.P. came in lower than prior estimates, with a rise of +2.2%. This was due to the subtracting effect of lower business inventories, which could set the stage for a rebound in this number during the fourth-quarter as demand picks up. The lower revision was also due to greater declines in business investment than originally estimated. The final gain was the best G.D.P. number since the third quarter of 2007 and follows four straight consecutive declines in this number starting with the third quarter of 2008 that has now hopefully come to an end.

And once again the market is rallying alongside the dollar, which is continuing the knock down the prices of oil and gold, and once again that entire earlier in the year mantra of stocks can only go up when so-called risk aversion decreases and the dollar weakens and commodity prices go up is hopefully being put to rest, as the stronger housing report is further evidence of an improvement in economic conditions which is making the dollar strengthen. Also of note is that bond yields continue to rise

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in the longer maturities, also continuing a recent trend, as the bond market is trying to force the Fed's hand with these higher yields. The chorus for rate increases to come sooner rather than later will continue to be heard as a result of this.

The main drama this afternoon will be whether or not the VIX closes below the 20 support level. If that does in fact take place, then the market should be able to continue the recent gains it has attained. If not, then perhaps more resistance will develop at current levels. In order to verify this potential up move, what we do not want to see is a close below 20 on the VIX today and then a sharp down move in stocks on one of the two remaining days this week. That would set up a new support level for the VIX in the very high teens instead of at 20 where it has been all year.

Earnings between now and the end of the year will be very quiet, and for this week we have tonight: MU, tomorrow: FINL. The fourth-quarter reports will resume heavily in January.

Economic reports in this holiday-shortened week are as follows – Wednesday: November personal income and spending, November new home sales, final December U. of Michigan Consumer Confidence Survey; Thursday: November durable goods orders.

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.

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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.

After 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, we finally got a positive growth period in the third-quarter, at a final gain of +2.2%.

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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.*