

Daily Market Notes

Market Update:**DJIA:** 10509**S&P 500:** 1125**Nasdaq:** 2283**10YR T-Note:** 3.79%**EUR/USD:** 1.435**Gold** 1103**Crude Oil:** 77.13Prices Current as of
11:44 AM

Source: Bloomberg

The fact that the Dow was virtually unchanged yesterday masked a lot of strength in the overall equities picture, as losses in the recent Dow laggards weighed on this index relative to the other major measures. And these laggards include the financials, which cannot seem to get going on the upside even as other parts of the market, particularly technology, are literally skyrocketing ahead. These financial issues are literally stuck in the downside mud, while high-priced technology stocks skyrocket to the upside. The Dow was also restrained by weak performances lately from its two energy components which are doing poorly despite oil prices moving higher this past week.

Technology has been helped lately by better earnings from some of its smaller members, and yesterday three companies all did better on their reports, and this was probably responsible for motivating the upside in their larger brethren. So this strong performance is one of the reasons why the Nasdaq has been the best performer this year, of the major market measures. Retailers were helped by a good report from a specialty athletic footwear seller, and this is another group that has done extremely well this year despite lingering concerns over consumer spending.

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And just to further illustrate the point made above, despite the Dow being virtually unchanged, breadth numbers were positive by 22/8 on the N.Y. Stock Exchange, so the Dow in a sense was out of synch with the broader market.

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The VIX did nothing yesterday, but is now comfortably ensconced below its old support level of 20, and as we pointed out in yesterday's comments in some detail, this could mean that the market might keep grinding higher. This was illustrated by the fact that on Tuesday there was a good advance based on the November existing home sales report which showed the fastest gain since February 2007, while yesterday's very weak November new home sales report really did not move things to the downside at all, in a sense.

Today's holiday-shortened session is continuing the recent pattern seen this week, namely steady gains to the upside led by those seemingly unstoppable large

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technology issues, along with some smaller ones as well, while the large financials in the Dow struggle to advance by two to three ticks.

A positive spin is being put on today's November durable goods report, because despite the small +0.2% advance, excluding the volatile commercial transportation equipment component, the gain was +2.0%, and this was twice as much as had been forecast. So this is another sign of economic recovery. In addition, weekly jobless claims fell to their lowest level in 15 months. In addition, there have been raised forecasts for economic growth in China and in India, which is fueling the worldwide economic expansion story as well, despite the recent market jitters caused by credit problems in certain European countries and the Middle East. These now seem to have been forgotten in the latest recent move upward movement in stocks.

As the major averages grind steadily higher, the VIX keeps trending lower, and it would now appear that 19 is the new support level. Of course, this is all subject to change depending on future market movements.

It would appear that next year could see the market return to its normal seasonal pattern, namely rise in the very early part of the year, then decline somewhat from the spring into the early fall, before ending the year at the projected high levels referred to above. These are the best explanations that exist at the present time, in our opinion.

And in a continuing turnaround from recent trends, the old scenario of a weaker dollar and higher commodity prices is back, as gold seems to have found some support at \$1080, right at some technical moving averages, and is rebounding a bit after its recent sharp sell off. And oil has been in its own little upside world once again after having fallen to the lower end of its recent range, namely the high \$60's.

Since there is a strong propensity for the market to advance in the week leading up to and even after Christmas, things should be able to maintain their recent gains going into the end of the year. In fact, the day before Christmas has an almost 70%

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probability of going higher, and these gains at this time of the year constitute the famous Santa Claus rally of stock market lore. Even in last year's market meltdown disaster, there was a rally at this time of the year, which fell apart right after the New Year until the early March bottom was reached.

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 +28%, 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.

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.