

Daily Market Notes**Market Update:****DJIA:** 10370**S&P 500:** 1102**Nasdaq:** 2183**10YR T-Note:** 3.48%**EUR/USD:** 1.486**Gold** 1170**Crude Oil:** 75.86

After meandering around for most of the session on a mixed to positive note yesterday, the market went into a steep very late dive after 3:30pm. Apparently, White House Press Secretary Robert Gibbs said at that time that today's jobs report could show that the unemployment rate "might tick upward", and he based this prediction on the ADP estimate, of all things, when as everyone should know by now that their predictions have been completely off the mark. For instance, they had said that job losses would be -159,000 against the official estimate of -125,000. He claimed that he had not seen the report and did not know what it would show. So this is a classic example, if his lack of knowledge of the report was the truth, of panic selling based on the so-called "expertise" of someone who would be better off keeping their market insights to themselves.

Prices Current as of
1:32 PM

Source: Bloomberg

And the market certainly did sell off late yesterday, as at 3:30pm the Dow was down -17 points, about the level it had been for most of the day after declining from a best level of +55 points reached before the 10am release of the November ISM Non-Manufacturing Survey, which fell to its lowest level in four months. The broader market had been doing better for most of the day as well, similar to Wednesday, with the Nasdaq and S&P a little higher and the breadth numbers showing a positive ratio. But there was underlying weakness as well, with the financials acting horribly once again despite the initial sharp rally in the nation's largest lender after its T.A.R.P. repayment announcement. In addition, retailers were weak on the poor November same store sales report. But the tone was generally neutral to positive before the late sell off sent things crashing lower in the last half-hour as the smart money was sure that today's jobs report would be a poor one.

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com**Jason Wotman**

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

Let us also remember that the 20 support level on the VIX does not appear as if it is going to give way, as on yesterday's early morning stock market high it got as low as 20.61 before rocketing higher in the late market sell off. The only good thing about it was that it rose more than the Dow declined, namely +1.24 versus a Dow closing loss of -86 points, which at 22.46 gives the Dow another theoretical +250 points to go up from yesterday's close.

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In fact, the first resistance level for the Dow is now going to be 10,500 which it attained intraday on Tuesday, Wednesday and Thursday this week but could not close above that level. So if one takes yesterday's close of 10,366 and add the +250 points that the VIX was allowing it to gain based on yesterday's closing relationship, this gets the Dow to around 10,600 in a best case scenario. Combined with the 10,500 level at which it failed for the past three days not counting today, this gives the 10,500 to 10,600 area as the level to beat, despite many calls for the Dow ending the year at much higher levels. But it cannot be projected higher than the levels I have just mentioned given current dynamics, as there will be no earnings reports this month to propel it higher, and the continued inability of the stock market to go higher once the VIX gets close to 20. Of course this can change, but for the time being we have to respect what was just said.

So sure enough after all of the late panic selling yesterday, today's jobs report came in so good that it was almost difficult to believe the numbers that came out. The first major surprise was that the unemployment rate actually declined a bit, down to 10% from 10.2%, notwithstanding Press Secretary Gibb's sticking in his two cents, which turned out to be completely incorrect. The next was that during the prior two months of September and October there were 159,000 fewer job losses than originally estimated, which is why these reports should be released with a two month time lag because of all the inaccuracies which constantly develop.

Of course the most stunning number was the headline number itself which showed a decline of only -11,00 against the much worse numbers as mentioned above. Since December 2007, when the recession began, there have been job losses of 7.2 million but the pace of layoffs has slowed sharply from early this year when the January total by itself was a sickening -760,000. The economy has now shed jobs for 23 straight months, but the November number was the best one since December 2007, which was the last month of gains before the current losing streak began, and the New Jersey Nets have five more consecutive losses to tie this jobs losing streak.

Four sectors actually added jobs last month, which was the government, no surprise

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here, and the service-providing sector, professional and business services in addition to education and health services also added workers. Also of importance was that temporary help employment rose for the fourth straight month, and reached its highest level since October 2004. Rising temporary hiring and the slight gain in the average workweek suggest that companies may start to hire permanent workers in the future.

And the market certainly reacted positively to this report, with the Dow jumping out to an initial gain of +150 points to a new intraday year high of 10,516. The S&P and the Nasdaq also rose to their best intraday levels of the year as well. This was accompanied by a decline in the VIX to as low as 20.62, which virtually matched yesterday's low as well. And hello, once again the stock market cannot sustain advances when the VIX declines close to this critical 20 support level. And unfortunately from that level the market started to deteriorate very badly, with the Dow showing an intraday loss at its worst level of as much as -54 points, which meant that it declined from its best level by -200 points, would you believe it, after one of the best jobs reports relative to expectations ever.

So what happened after the Dow has now failed over 10,500 for four straight days, and our potential upside calculation for the Dow looks like it is becoming more and more of a reality. Not that I want the market to decline, but this is the reality of the situation. This huge decline after a great jobs report is being attributed to the fact that the report made the dollar get stronger on the incorrect assumption that the Fed could be forced to raise rates sooner than anticipated and as a result, the dollar got much stronger. The stronger dollar sent the prices of commodities tumbling, particularly gold, which had been in its own never-never land of prices, with every day predictions of ever higher levels to come. In addition, oil prices weakened as well, which one would like to think would be helpful for stocks but instead sent oil stocks down after being much higher to begin with.

Maybe I am not understanding the realities of the current situation, but if stocks cannot advance with gold at "only" \$1,170 and crude oil at "only" \$76 dollars, and

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the Euro at a "low price" of 1.49, then things are completely twisted, in my opinion.

At least one cannot blame today's meltdown off of the best levels on the usual whipping boy, namely the financials, as they have actually held up and even the large lender is continuing to build on yesterday's advance. The global chemical and life sciences company has been on a drag on the Dow even when it was at its best level of the day on a story about its seeds being short of standards for crop yields and their seed product will not be released next year as planned.

If the market cannot pick itself up and close higher after a surprisingly good jobs report, especially after yesterday's late decline, this will add more evidence to the fact that perhaps the aforementioned levels are not going to overcome this year for sure. And if the market does end lower today, then we are back to the pathology that good news is bad news for stocks, and if this mindset persists, then things could really get whacky.

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. 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.

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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.