

Daily Market Notes**Market Update:****DJIA:** 10031**S&P 500:** 1067**Nasdaq:** 2141**10YR T-Note:** 3.64%**EUR/USD:** 1.371**Gold** 1068**Crude Oil:** 72.90Prices Current as of
11:42 AM

Source: Bloomberg

Similar to Monday, the Dow declined by around -50 points in the very late stages of the day yesterday, but it did not feel as painful as it did on Monday, because the -53 point decline in the last 15 minutes on Monday negatively accentuated what had been a lower day, while yesterday's -46 point drop from a 3:30pm gain of +196 points to the closing gain of +150 just made the advances a little less dramatic than they had already been. But this gain was the beset percentage one for the Dow in three months.

In fact, the entire day was filled with sudden dramatic moves in both directions, in the context of a day when the major averages did stay positive for the entire session, and this has been a bit of a rarity lately. From a gain of +163 points by 10:20am, the Dow went into a nosedive by 11:30am, losing -90 points to an advance of only +73 points at that time. What was more upsetting was that this decline took the Dow below the important 10,000 level once again, a level that it had not closed below since early November until Monday's downside debacle.

Then just as fast as it declined, the Dow turned around once again with an upside vengeance, and by 12:15pm it was showing a gain of +230 points. Then at 1pm, it fell sharply within a few minutes to a gain of "only" +150 points, and from this level it spent the rest of the session meandering between this level and gains of around +200 points before finishing at the lower end of the afternoon range as described above.

So the question is – what accounted for these very sharp swings in very short periods of time? And the answer to this question is – look at the intraday chart of the Euro! In other words, as the Euro went, so went our stock market. And the reason that the Euro swung around so violently is that it was reacting to every statement that came out of various countries and the E.U. itself about the possibilities of a rescue plan for that basket case of Europe, otherwise known as Greece. When German officials said they were only "considering" participating in a rescue plan, the Dow made its morning collapse as described above. Then when E.C.B. President Trichet said that he was cutting short his trip to Australia to convene a meeting on Thursday

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com**Jason Wotman**

Research Analyst

(212) 417-8264

wotman@nationalsecurities.com

Daily Market Notes

to consider a rescue package, our market made its noontime rally to the highs.

And how does a minor economy on the world stage deserve all of this attention? The answer supposedly is that investors fear that deteriorating government finances in this and the other PIIG countries (see yesterday's market notes for who they are) could derail the global economic recovery. The Thursday meeting in Brussels will take place against a wave of strikes scheduled for tomorrow in Greece that will shut down schools, hospitals and airports to protest the government's deficit-reduction plans. The reason these 600,000 civil servants are going on strike is that the government's plan includes wage cuts of 5.5% and a waiver on taxes for Greeks who repatriate funds held in foreign accounts. But let us also remember that E.U. law forbids the E.C.B. or national central banks from bailing out E.U. countries through buying their debt or offering loans. So this means that any plan would have to include bilateral aid or a package put together by a group of countries using the Euro.

Because of this strength in the Euro and its resultant positive effect on commodity prices yesterday, it was no surprise that the energy, resource, minerals and mining stocks did the best, while those pathetic financials were still struggling to eke out small gains in most cases. The volatility of our markets the past few days continues a recent trend lately, with 11 out of the past 17 days showing triple-digit moves in the Dow, with the scorecard unfortunately at 4 positive and 11 negative. These moves have been part of the -9.2% correction of the S&P from its high on January 19th to last Friday's intraday low.

The market started out today chopping around between small gains and small losses in the major averages, as once again the obsession with Greece dominated market action and every move up or down has become a function of what German officials in particular have to say about their efforts toward a potential Greek rescue. If this is not the strangest thing I have ever seen in terms of how stocks here should be doing, then I do not know what is.

Then at 10am, just as things were about flat, we saw shades of this time last year,

Daily Market Notes

when any statement by either the President, Secretary Geithner, or Fed Chairman Bernanke would knock stocks lower. Unfortunately we have seen a bit of that this year as well, as one of the contributing factors to the current market correction was the President trying to ride the wave of populist outrage against the bankers on Wall Street after the Republican victory in the Massachusetts Senate race, as he proposed restricting their proprietary trading activity. So today Chairman Bernanke, whose testimony to the House Financial Services Committee was postponed until February 22nd due to the blizzards that have shut down the government in Washington, D.C., could not wait to get his statement out anyway.

And sure enough, stocks sold off in reaction to what he said, namely that the Federal Reserve could begin pulling back its unprecedented stimulus for the U.S. economy by first removing some cash from the financial system and then raising interest rates. He did make it clear that the time for tightening monetary policy was still far away, even though the Fed's thinking on its exist strategy is leaning more in this direction. "Although at present the U.S. economy continues to require the support of highly accommodative monetary policies, at some point the Fed will need to tighten financial conditions," the statement said.

The exit steps include potential sales of assets from the Fed's balance sheet and the likely widening, soon, of the gap between the discount rate the Fed charges banks for emergency loans and the overnight interbank federal funds rate, which is its main policy tool. Ultimately, the Fed would increase the rate it pays on reserves that banks hold at the Fed as its way to take its foot off the monetary accelerator pedal. Raising this discount rate would encourage banks to park funds with the Fed, which then takes money out of circulation. He did signal that a move in the discount rate will not signal any change in the outlook for monetary policy, as he repeated the F.O.M.C. statement at the last meeting that low rates are warranted "for an extended period." So as if the market did not have enough to worry about with Greece, it now has a new concern, as Bernanke said it may raise the discount rate on these direct loans to banks "before long." The only stocks that are trying to advance are actually the large banks that have been the main laggards recently, and the stocks that are declining

Daily Market Notes

the most are the resource, energy and mining stocks that did so well yesterday on the strong Euro and the rise in oil, copper and gold prices. These commodities are coming down once again today as Bernanke's comments have had the effect of further strengthening the dollar against the Euro, which had been slightly weaker after a German official said that aid for Greece is not on the agenda for tomorrow's E.U. summit meeting in Brussels.

So after a nominal Dow gain of +8 points was wiped out by Bernanke's statement, it slumped to a loss of as much as -95 points. It has since clawed its way back somewhat as this is being written, so the task of the market for the remainder of the session is to at least hold these lows, and heaven forbid if we get negative news about Greece this would not be well received. We will assume that nothing further will come out of that situation until tomorrow's meeting.

So now we have to add a new negative factor that the market has to overcome, in addition to the others it has had to deal with these last five weeks – China restricting bank lending, the President's attack on the banks, and the Greek debt situation. Unfortunately the overall good earnings for this quarter are being completely overlooked as around 300 of the 500 members of the S&P have already reported and since the major ones have come out with their results, how are what the remaining 200 members have to say going to help? So the best we can hope for is the market to try to dig in its heels at the recent lows and try to rebuild from there. The best that the market can hope for now is some good news from Europe, and it is possible that we could get this at the week winds down.

The December trade deficit as reported by the Commerce Department unexpectedly widened in December, reflecting a jump in petroleum imports that swamped an eighth consecutive gain in exports. The gap widened to -\$40.2 billion, the largest in a year, from -\$36.4 billion in November. For all of 2009, the trade gap shrank to \$380.7 billion, the smallest since 2001, from \$695 billion the prior year. This greater than expected widening could subtract from the +5.7% first estimate of 4Q G.D.P. when the next revision of this figure comes out later this month.

Daily Market Notes

Perhaps some indications that stocks have worked off their very overbought conditions of five weeks ago is that the number of stocks trading above their 50-day moving averages has declined sharply from 85% to only 23%. In addition, the number of bullish investment advisors has declined to 40% from 70% a few weeks ago. These statistics are hopefully a sign that stocks can dig in their heels from current levels and actually go up somewhat.

Earnings are becoming less of a factor, as the market has declined while earnings have beaten the forecasts in around 80% of the companies that have reported, and more importantly, revenues have also beaten forecasts in around two-third of the companies that have reported so far. As mentioned above, the earnings season is starting to wind down.

Earnings continue this week, and these earnings are taking a back seat to the macroeconomic issues swirling around: tonight: ATVI, BSX, XRAY, MAS, ALL, Thursday: BEC, BWR, BWLD, CEPH, CMG, CGNX, FLIR, MAT, PNRA, PEP, RTP, STRA, VIA; Friday: DUK, IR

Economic reports are also a bit on the light side as well, with: Thursday: January advance retail sales, December business inventories; Friday: U. of Michigan mid-February Consumer Sentiment Survey. For the fourth quarter, the S&P companies are expected to show a profit gain of +76%, according to the consensus of analysts who follow these companies. But without the financials, which are expected to report gains of +120% just by themselves, according to analysts who follow financial firms because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.5%, according to the analyst's estimates. So there is going to be real distortion here, and it therefore will become more important to look at the earnings of each company on an individual basis. According to the analysts, for 2010, earnings are projected to increase by +29%, followed by earnings increases of +22% in 2011, as reported by Bloomberg Financial.

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 now have gotten two consecutive quarters of positive growth, with the third-quarter at +2.2% and the first estimate of G.D.P. growth for the fourth-quarter at +5.7%, according to the Commerce Department.

Daily Market Notes

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.