

Daily Market Notes**Market Update:****DJIA:** 10224**S&P 500:** 1091**Nasdaq:** 2207**10YR T-Note:** 3.65%**EUR/USD:** 1.350**Gold** 1103**Crude Oil:** 77.48Prices Current as of
12:47 PM

Source: Bloomberg

After two down days to start the week, the market finally got its act together yesterday, with a strong advance that came despite a weak January new home sales report. Stocks were saved by what was perceived as the market-friendly testimony of Fed Chairman Bernanke. What has been a little disturbing lately is the fact that when these economic numbers “unexpectedly” come in worse than the forecasts, people act shocked, so to speak. But perhaps the “experts” who make these forecasts are off in their thinking because obviously they are not the experts they claim to be, or the financial media makes them out to be, because how can you be an expert when your predictions are constantly off the mark. What purpose do these people serve when they cannot get these numbers correct? Of course, for many years we have seen this in the predictions for the monthly non-farms payroll report, where the reality of the number is constantly at odds with the experts’ projections. In fact, one would have liked to believe that the reality of the competition from home foreclosure sales and the still weak state of the labor market would have acted as a sobering influence for those experts who actually predicted a gain in new home sales instead of the largest decline in a year that was actually reported. This was also the third straight monthly decline as well.

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Despite this bleak news from the housing front, stocks were able to go the distance because Chairman Bernanke did say things that the market wanted to hear, as he repeated his prior assertion that a weak job market and lack of inflationary pressures would likely allow the Fed to keep rates at current record low levels for a long period of time, because the economy still needs these low rates to hopefully spur demand. He did say that the Fed will “at some point need to tighten monetary conditions”, but he has said this before, so no surprise here. He also mentioned that the “term deposit facility” would give banks a reason to park their money with the Federal Reserve, and that this program could be in operation in the next month or two. These comments did allow the market to recover from an intraday drop from the original highs that was brought about due to the aforementioned weak jobs report.

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Sure enough, just as stocks looked like they were about to stabilize after the early week declines, we got hit over the head today with a number of negative events. In

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fact, even last evening and throughout the overnight session, stock index futures were trading on the downside, indicating that yesterday's rally might have been a one-day wonder. The first piece of negative news was a report that economic sentiment in Europe (here we go again) "unexpectedly" worsened in February for the first time in nearly a year. This economic sentiment indicator fell to 95.9 from 96 in January when the experts had forecast a rise to 96.7. On the other hand, one can argue that these changes are so miniscule that they are somewhat statistically insignificant. In addition, U.K. business investment declined by -5.8% in the fourth quarter. Then there was the report that Moody's Investors Services said it may downgrade Greek debt. So what else is new in this regard? Moody's said that Greece's sovereign debt rating may be cut within months unless the country meets the objectives of its fiscal deficit reduction plan. If in fact Moody's does cut its credit rating to the same level as the other major credit rating agencies, Greek government bonds would no longer be eligible as collateral at the E.C.B., which would make it more difficult for that country to borrow. In addition, Standard and Poor's said it might lower Greece's credit rating by the end of next month.

So after these overseas negative influences put things in an early downward mood here, the weekly jobless claims also "unexpectedly" (here we go once again) rose to a three-month high instead of declining as the experts had predicted. Here we can perhaps cut the experts some slack because this increase was due to processing the backlog of applications in the mid-Atlantic and New England states as a result of snowstorms in those areas earlier this month. But shouldn't the experts have known that this could happen? And if all of these miscalculations by the experts were not enough, the January durable goods orders report showed an "unexpected" decline of -0.6%, the largest since August if one were to exclude commercial aircraft sales, which is always a volatile number. In fact, non-defense capital goods orders excluding aircraft, which is a proxy for business spending, declined by -2.9%, the largest drop since last April. Shipments of these goods are used in the calculation of gross domestic product, so this could perhaps lower the next estimate which is due out tomorrow, although there are many other factors that go into the final determination of this number.

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In addition, the price action of individual stocks is also hurting the averages based on specific news – for instance, the largest soft drink company and a Dow component is taking a beating on a takeover of the North American operations of its bottling subsidiary. And a wireless and mobile computing products company, which has been in a downtrend for a long while, made a negative profit warning, which is also hurting other wireless type stocks as well.

Chairman Bernanke mercifully concludes his two-day testimony today, and he did mention that the use of credit default swaps to destabilize a country is “counterproductive”, as the Fed is reviewing the arrangements that GS in particular had with Greece in this regard. Wow, another example of the Fed looking into a matter after the damage has been done and the horse is out of the barn, so to speak. Similar to Tuesday, it is incumbent that the market not go into a freefall at the end of the day, especially as there are five economic reports due out tomorrow (see below), so let us hope that this week’s complete misguidance by the experts does not extend into tomorrow’s numbers as well. Also, the fact that the VIX is rising could also put the market in a bit of an oversold situation, similar to what happened after Monday and Tuesday’s declines. In fact, the VIX is just about at the same level today as it was on Tuesday.

The earnings season continues to be a good one, with three-quarters of the 445 S&P companies that have reported so far having surpassed their earnings projections, and this compares to the historical percentage of 61% beating the numbers.

The earnings season is in the home stretch, and this is the lineup for the rest of the week, which still includes retailers: tonight: SHW, GPS, MHK, OVTI; Friday – HANS, MIR.

The economic lineup finishes with Friday: second estimate of 4Q G.D.P., February Chicago Purchasing Managers Index, final U. of Michigan Consumer Confidence Index, January existing home sales, NAPM Milwaukee Purchasing Managers Index. For the fourth quarter, the S&P companies are expected to show a profit gain of +80%, according to the consensus of analysts who follow these companies. But

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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.

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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.