

**Daily Market Notes****Market Update: DAILY MARKET NOTES – February 26, 2010**

**DJIA:** 10326  
**S&P 500:** 1104  
**Nasdaq:** 2236  
  
**10YR T-Note:** 3.59%  
  
**EUR/USD:** 1.362  
  
**Gold** 1116  
**Crude Oil:** 79.43

Prices Current as of  
1:36 PM

Source: Bloomberg

Yesterday had to be considered a victory of sorts in the sense that the Dow was able to erase a loss of as much as -189 points on the low, to end with a closing decline of “only” -53. The vicious early selloff was the result of a perfect storm of negativity from both overseas and here in the U.S. as well. It started with the first of the “unexpecteds”, which was that economic sentiment in Europe worsened in February for the first time in nearly a year. The next was that U.K. business investment declined in the fourth quarter. After that we had a report from Moody’s that it may downgrade Greek Debt. Then Standard and Poor’s joined the party by saying that it might lower Greece’s credit rating next month.

As if these overseas “surprises” were not enough, we also got bad economic news here as well, with the following “unexpecteds” – weekly jobless claims rose to a three-month high, durable goods orders fell by the largest amount since August if one excludes commercial aircraft sales. To make matters worse, non-defense capital goods orders excluding aircraft, which is a proxy for business spending, made the largest drop since last April.

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We discussed in yesterday’s notes that if the “experts” whose job it is to forecast these things were better at what they do and came up with projections that are a little closer to reality, then perhaps the market would not be so susceptible to these large downside thrusts when the worse than predicted results are released.

That is why yesterday’s ability of the market to fight back off of the worst intraday levels was encouraging. As to why the late rebound took place, it should be noted that on the low of the day, the VIX rose as high as 22.68, which was up by a large +2.41 points, much more than it should have been relative to the Dow’s decline. So this indicated a bit of a panic situation which was rectified by the market’s late advance. On a more fundamental level, there was a report that the mighty personal computer and mobile communication device giant will split its stock by 4 for 1, and this led to a turnaround in this one, along with some other large technology stocks which have been doing well lately. These performances helped the Nasdaq almost get into positive territory. And despite the fact that the major averages all ended

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lower, breadth numbers were actually nominally positive.

Finally, the Euro found support once again at what appears to be a strong double-bottom for the time being at 1.345. It rallied alongside stocks, and this leads to the question of who was leading and who was following – in other words, did the rebounding Euro lead stocks higher, or did the rebounding stock market lead the Euro higher, on that lower “risk aversion” theory? I guess this is one for the “experts” to figure out.

After so many “unexpected” results from economic reports yesterday, there were no less than five reports today, and mercifully only one of them was of the unexpected variety. The second estimate of fourth-quarter G.D.P. showed a slight increase up to a gain of +5.9% due to a slower rate of inventory liquidation and increased spending on equipment and software, which resulted in business investment growing for the first time since the second quarter of 2008. However, for all of 2009, G.D.P. declined at a -2.4% pace, the worst since 1946.

The February Chicago Purchasing Managers Survey, the N.A.P.M. Milwaukee Index and the U. of Michigan final February Consumer Sentiment Survey all came in close to projections. So this leaves the “unexpected” honors today to January existing home sales, which declined by the second most on record, a drop of -7.2%. Did the experts miss once again the negative influence of the awful weather last month?

So after a knee-jerk downward reaction to this home sales number, with the Dow spiking down to an intraday loss of -49 points on the low, things snapped back up just as quickly as they had declined, with the Dow showing a gain of as much as +32 before the major averages have fallen back to just around unchanged as this is being written. The upside reversal is being attributed to a report that Germany may consider buying Greek bonds. It would be constructive if things can hold their own on this lighter-volume snow-type day, so that the validity of this week’s lows can be more established. One worrisome aspect in this regard is that the VIX was once again in the high teens when the market was on its high, so this could be a restraining factor for the remainder of the session.

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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 basically winds down next week and we will list the remaining lineup in Monday's notes, but of greater importance could be next Friday's jobs report, which we will discuss in further detail as it approaches.

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 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.*