

Daily Market Notes**Market Update:****DAILY MARKET NOTES – November 30, 2009****DJIA:** 10298**S&P 500:** 1090**Nasdaq:** 2131**10YR T-Note:** 3.21%**EUR/USD:** 1.50**Gold** 1177**Crude Oil:** 77.46Prices Current as of
2:08 PM

Source: Bloomberg

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When the VIX declined to as low as 20.05 intraday on Wednesday, the Dow hit its best level for the year, up +48 points to a new high of 10,481. We had spoken about the fact that the VIX was going to have a very difficult time breaking below this level, and sure enough the major averages did ease off of their best levels of the day, and the Dow ended with a gain of +30, to 10,464. This was still its best closing level in 13 months, and the S&P also closed at its best level since that time as well. As the market eased off of its best levels of the session, the VIX rose a bit and closed at 20.48, still too close for comfort so to speak. In other words, the VIX was not giving the market too much room to move further to the upside after Wednesday's pre-Thanksgiving session did what it has done 40 out of the past 60 years, namely close higher.

There were some economic reports which we detailed on Wednesday that were construed as friendly, along with some earnings from retailers and equipment manufacturers that added to the positive tone as well. In addition, the Fed made a statement to the effect that interest rates will be kept at these record low levels with no end in sight yet, and of course this led to open season on the dollar, which fell to a new 15 month low as the Euro broke above the 1.50 resistance level. This pushed many commodities to new highs as well, and in a sense the Fed has potentially created an inflationary situation by not doing more to protect the value of the dollar, which they probably really want to keep declining, even as they pay lip service to a "strong dollar." And as we said, this policy could come back to haunt the markets if these trends continue.

And sure enough, just as people in the U.S. were settling into a nice Thanksgiving, a bombshell hit from overseas while the U.S. markets were closed for Turkey Day. As everyone is aware by now, it was a report of financial trouble in the Middle Eastern city-state of Dubai, with of all of its futuristic architecture, man made islands, the tallest building in the world, sort of a Middle Eastern Las Vegas in the desert, where 20% of the world's construction cranes have been located.

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Daily Market Notes

Their problems could upend a global economic recovery. Investors are now worried that a default by a government investment company in Dubai, called Dubai World (sounds like some sort of amusement park), could have a ripple effect on world financial markets. Apparently Dubai World is burdened by \$60 billion of liabilities and they are attempting to delay this debt repayment. They had borrowed \$80 billion in a four-year construction boom in an attempt to transform their economy into a regional tourism and financial center, but unfortunately for them they suffered the world's steepest property slump during the recent global financial meltdown. For instance, home prices fell -50% from their 2008 peak there

This brought back all of the bad memories that are still fresh in investors minds after the Lehman Brothers collapse last year and also because of the continued decline in commercial real estate prices, especially here in the U.S. The major concern is whether these Dubai troubles could usher in a new period of financial instability and put in danger the eight month rally in stocks markets worldwide. And sure enough, the MSCI Asia Pacific Index slid -3.2%, and this extended a rout in Europe on Thanksgiving day that sent those averages to their steepest one-day slump since April. The MSCI World Index's continued decline on Thanksgiving day brought its two-day slump to 3%.

And naturally as equities declined, the dollar strengthened, oil prices sold off sharply, other commodity prices tumbled as well, and even almighty gold was down as much as -\$57 dollars from its all-time high of \$1,195 reached in the early morning hours of Thanksgiving before the Dubai crisis was revealed.

U.S. stock index futures were indicating much worse declines at around 3am Friday morning than what they were indicating on the 9:30am opening, as European markets opened at their worst levels at the equivalent of 3:30am New York time. From those lows Europe actually rallied into positive territory which eased the pressure here, as the U.S. market did not have to catch up that much on the downside as it might have if Europe did not rally back.

Daily Market Notes

From a Dow loss of as much as -233 points, it was able to cut its losses to “only” down -155 points, with one of those holiday type thin market conditions of a very late sell off after being down by -110 about ten minutes before the close. The fact that things did not collapse to the lows lent some encouragement to the day’s action.

What was also an ultimately positive factor was that the VIX, which had been losing ground last week and actually called the near-term top in the market on Wednesday by declining all the way down to its support level of 20, went up more than the Dow went down, which reverses last week’s pattern. This VIX rise of +4.37 points while the Dow was down only -155 puts the relationship back to the point where the theoretical high for the major averages is higher than it was before Friday’s market sell off. Whether we actually get there or not is another story.

So after all of the weekend analysis over what the ultimate effect of the Dubai situation is going to be on world markets, things started out higher today. The positive story in this regard is that the United Arab Emirates has pledged to back Dubai’s banks to ease the region’s debt crisis. In addition, the November Chicago Purchasing Managers Survey came in better than expected, advancing to its best level since August 2008. The new orders component of the report rose to its highest level since May 2007. This got the Dow to a gain of as much as + 54 points before falling back to a loss of -35 points as this is being written. In perhaps an encouraging sign, the large bank stocks are the best performers so far. Despite the fact that U.S. consumers spent much less per person this year than last year, today’s “Cyber Monday” is supposed to show a large increase over last year, and the two largest online retailers, both made new highs for the year. Other traditional retailers are not doing so well.

There are a number of issues here as to whether the market can close with a gain today or not. The first is that the Nasdaq/Dow ratio is not favorable today, as when the Dow made its high for the day, the Nasdaq was only ahead by +4 points, which is below the 20% needed to sustain the advance.

Daily Market Notes

In fact, it would take about +20 Dow points to get the Nasdaq back to unchanged. Also, there is that strong tendency for the market to decline on the last trading day of the month, as today is, and even though the major averages are on track for very nice gains this year, the best since 2003, which was also the first year of a recovery after a horrible bear market, on seven of the 10 prior last days of the month in 2009, the market has declined. So we have to keep that in mind and we will once again go over the reasons for this phenomena in tomorrow's comments. On the other hand, if things do finish lower today, it would be contrary to the recent tendency of the market to do well on Mondays in October and November, and before today the averages had risen on seven out of the previous Mondays, with five of those advances being of the triple digit variety. So the drama will continue as the day moves on.

Earnings season is basically over, but this week once again brings with it a large number of economic reports, capped off by the all-important jobs number on Friday – Tuesday: ISM November Manufacturing Survey, October pending home sales, October construction spending, domestic auto sales, Wednesday: Fed Beige book, ADP jobs estimate; Thursday: November ISM Non-Manufacturing Survey, Bernanke testimony to the Senate on his potential re-appointment; ; Friday: the all-important November jobs report, with an initial estimate of -120,000, better than last month's -190, 00.

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.

Daily Market Notes

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.

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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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.