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Daily Market Notes

Market Update:

DJIA:	**12258**
S&P 500:	**1330**
Nasdaq:	**2816**
VIX:	**15.86**
10YR T-Note:	**3.61%**
EUR/USD:	**1.349**
Gold	**1363**
Crude Oil:	**85.35**

Prices Current as of 1:14 PM

Source: Bloomberg

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For the fourth time last week, on Friday the market opened lower, the VIX started out higher courtesy of frustrated bears, but stocks eventually advanced once again and drove the VIX lower by the close. There appears to be natural profit-taking at the start of each session or new short selling, and this strategy gets upended by the close, as bullish investors come in on any kind of setback.

For instance, on Friday the Dow was lower by 48 points early, then went positive around 10:45am when news of the Mubarak resignation came out. From those just about even levels, things continued to push higher as the afternoon wore on, with an eventual Dow close of 44 points higher. The fact that the Nasdaq was doing better than the Dow, which produced a strong Nasdaq/Dow ratio, ensured that things would go the distance on the upside. This was evidenced by the Nasdaq advancing by 19 points. In addition, it also ensured that breadth numbers would be strong, and they were at a very strong positive ratio of 3 to 1. And the VIX buyers got fooled again, as when the major averages were lower at the start, the VIX immediately shot up to a gain of .44, to 16.53 before fizzling out as stocks improved as the day wore on, and ended with a closing loss of .40, to 15.69. This puts it closer to its ultimate downside support level of 15.35, which could set up some sort of showdown this week if stocks continue to advance.

In addition to the Mubarak resignation in Egypt, the market was also helped by a preliminary reading for the February U. of Michigan Consumer Sentiment Survey, which rose to its highest level in eight months. On the other hand, the December trade deficit widened out for the second straight month, primarily because of the higher costs for imported oil, which resulted in record imports. For all of 2010, the deficit widened by 43%, and this should subtract some points from the final estimate of fourth-quarter G.D.P.

As a result of Friday's gains, the Dow has now advanced for the 10th time in

11 weeks. Even though breadth numbers were very strong as mentioned above, the Dow's gains were all the result of three members contributing large gains, and they were two manufacturing companies and one financial stock. Also helping was a decline in crude oil prices to their lowest level in 10 weeks, as they should have, because their initial rally on the supposed Egypt crisis was nonsense because as we have pointed out many times, only a small fraction of world oil supplies go through the Suez Canal and the neighboring pipeline. And the bond market, which has been on a yo-yo pattern of rallying strongly one day, then declining equally and strongly the next day, only to turn around the following day, continued that pattern with a very vigorous advance, pushing yields back to basically where they have been for the past couple of weeks.

The primary reason for the market's ability to advance has been that the VIX has refused to decline relative to how much the Dow has risen. And this is very clearly illustrated by what occurred last week. For instance, on February 4th, the Dow closed at 12,092 with the VIX at 15.93. Yet last week the Dow rallied by 181 points to 12,273. At the same time, the VIX only declined by .24, to 15.69. This is much less than it should have relative to a Dow advance of this much, and this refusal of the VIX to decline down to its support level at 15.35 is what allowed the market to advance so nicely.

Today is typical of what we have seen lately, with the major averages starting out lower and then trying to improve. Since there are no economic reports today, but many later in the week and no really important earnings, stocks are vacillating on their own buying and selling patterns, with no dominant themes evident. The Dow has been lower all session, reaching its worst decline of 39 points at 11am and has improved by more than half of that loss as this is being written. Helping to stabilize it to some extent is strength in its energy components. The Nasdaq is higher based on ongoing strength in those high priced components which are in their own upside worlds, either making new all-time highs or new 52-week highs. The S&P is sort of caught in the middle, showing virtually no change at all. And proving once again that the VIX does not want to yet get down to that 15.35 support level, it is currently higher by .20, to 15.89 as this is being written.

The bond market is continuing to make large gains, and this is part of the recent pattern of haphazard moves one way or the other and basically keeping yields exactly where they have been for a while. This could change as there are many economic reports this week, which could be the main market focus as the earnings season winds down. The lineup includes the following – tomorrow: February NYState Empire Manufacturing Survey, January retail sales, December business inventories, February NAHB housing market index; Wednesday: January housing starts and building permits, January P.P.I., January Industrial Production and Capacity Utilization, and the minutes of the last F.O.M.C. meeting; Thursday: January C.P.I., weekly jobless claims, January L.E.I. and the February Philadelphia Fed Manufacturing Index. So this large number of reports will give investors a newer reading on where the economy has been lately.

The S&P trades at 13.5 times forward earnings, and 15.8 times current earnings, and this gets it to the highest level in the past year, if one assumes that this year's earnings are going to come in at $83 for the S&P and $95 for 2011. The average P/E multiple for the S&P going back to 1954 has been 16.2. This current level of the S&P could be used as the "excuse" for any market selloff that we see, if in fact we see one the rest of this month.

According to the sector analysts who follow these companies individually, for all of 2010, earnings are projected to increase by +29%, which would be the most since 1995, followed by earnings increases of +15% in 2011, as reported by Bloomberg Financial, and this would be the largest two-year advance since the period ended in 1995. First quarter profits rose by +52%. Second-quarter

profits rose by +49%, the third-quarter rose by +28%. The fourth-quarter is supposed to gain by +37%. If these numbers do come to fruition, then S&P earnings should be around $83 for 2010 and $95 for the S&P in 2011. This would equate to around a 15% gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have five consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce Department. Economists now predict that G.D.P. expanded 3.2% in the fourth quarter, and for 2011, the prediction is G.D.P. growth of 3% and it is 3.2% in 2012.

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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.