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# Daily Market Notes

**Market Update:**

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| **DJIA:** | **12047** |
| **S&P 500:** | **1305** |
| **Nasdaq:** | **2751** |
| **VIX:** | **17.49** |
| **10YR T-Note:** | **3.47%** |
| **EUR/USD:** | **1.379** |
| **Gold** | **1330** |
| **Crude Oil:** | **90.42** |

Prices Current as of 1:15 PM

*Source: Bloomberg*

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**Special comment: Yesterday, we sent out an updated report about the VIX and its implications for how the stock market behaves because of it. This will be updated with graphs that show what the VIX did and what the S&P did at the same time over the past 15 years or so.**

**The recent strong tendency of the market to do extremely well on the first day of the month manifested itself once again yesterday, and basically took the entire Egypt situation out of the picture, as it should have, because as I said yesterday, what does Egypt really have to do with anything? For those oil traders who actually know where it is, but use it as an excuse to push the price of crude oil to levels that are completely removed from the supply/demand situation, we mentioned that only 2% of the world's oil supplies move through the Suez Canal, which runs through Egypt and connects the Mediterranean Sea to the Red Sea. In fact, no less an authority on oil prices than the Saudi Arabian oil minister said that the "appropriate" price for crude oil should be in the $70-$80 range, and it appears as if it is just the speculative crowd that tries to run the price up for their own benefit. It also appears as if the major oil producing countries in the Middle East, which are Saudi Arabia, Iran, the UA.R. and Kuwait, are such repressive dictatorships that the kind of street protests that are taking place in Egypt could never happen there, and we all remember how the pro-democracy protests in Iran were ruthlessly suppressed two years ago. The point I am making here is that the flows of oil out of the Middle East are not going to be negatively impacted because the main producing countries should not have their supplies disrupted. I know there is always talk about Israel or even the U.S. bombing the Iranian oil fields, but this is an extremely remote possibility and more of a pipedream fantasy by the anti-Arab hardliners.**

**The point to all of this is that basically what has taken place in Tunisia, Yemen and Egypt recently has nothing at all to do with how the U.S. stock market should behave, even if you get these temporary dislocations such as what took**

**place on Friday, and that selloff disappeared fast, because the market's gains on Monday and yesterday more than overcame the losses from Friday, and made those investors who sold at Friday's lows or bought ridiculously overinflated puts come to regret those foolish decisions. And yesterday's extremely strong upside performance follows a recent tradition, as mentioned above, of the market doing very well on the first day of the month. For instance, on the first trading day of August, September, December, January and yesterday February, the Dow produced gains of 208, 254, 249, 93 and 148 points respectively. How's that for coming out of the starting gate with a rush?**

**What got the bullish juices flowing once again yesterday were a function of the ridiculous Egypt- blamed selloff from Friday which had to be corrected, some stronger economic reports out of China and Europe (and how about the new investment hero, namely the Greek stock market, which is ahead 18% for 2011 so far), good earnings reports and a January ISM Manufacturing Survey which rose at the fastest rate in seven years.**

**Similar to Monday, things came out of the starting gate on the upside and never looked back, with the major averages all ending close to their best levels of the day, and breadth numbers were a very strong 5 to 1 to the upside. And the poor VIX, which gave its bearish adherents a short reason to salivate on Friday with its largest percentage gain since the depths of the so-called European sovereign debt crisis last May, collapsed as the major averages underwent such strong gains. It ended with a loss of 1.90 to 17.63. This puts it in the middle of its now recent trading range of 15.35 to 20.00, which means that the market theoretically still has another 200 Dow points to move up before stocks would get extremely overbought once again. And by the way, with yesterday's gains, the Dow closed at its highest level since June 2008, making the Lehman Brothers (who?) bankruptcy seem once again like a bad dream that basically resulted in investors being forced to sell at generational low prices in late 2008 and early 2009, and look at how many stocks have**

**literally increased by 300 -400% since those lows, for shame on the market to have inflicted such ruinous losses on investors during that crash, and now look at where the Dow is as if nothing bad had ever happened.**

**And regarding this question of how January goes so goes the rest of the year, since 2000, the figures look like this – from 2000 to 2010, the S&P rose in January four times: 2001, 2004, 2006, 2007, and declined the other seven: 2000, 2002, 2003, 2005, 2008, 2009, 2010. For the years that the S&P rose in January it declined for the entire year only in 2001 and rose in the other three years. In the seven years that the S&P declined in January, the market also declined in 2000, 2002, 2008, but rose in 2003, 2005, 2009 and 2010. So in a sense the January barometer has a very mixed track record recently. And for the record, the S&P rose last month.**

**Today seems like one of those hangover days after the big upside party of the past two days to start the week, with extremely light volume because of severe weather disruptions in large parts of the country. All of the major averages have swung between very small gains and losses and breadth numbers are also just about even. There are stocks reacting to their earnings as the case may be, and so far of the 226 S&P companies that have reported, 72% have beaten their estimates, which is in line with the trend of the past four reporting quarters. And if the market does close lower, then experts will say that it is the renewed violence in you know where that is the reason, and if it ends higher, then the experts will say that the economic expansion continues and earnings have been better than expected.**

**The VIX is nominally lower and the bond market is selling off once again, ostensibly because ADP, whose predictions are almost always way off the market ,came out with an estimate for an increase of 187,000 private payroll jobs for this Friday's report against the official estimate of 140,000. Remember last month they came in with an estimate for a gain of 297,000 private payroll jobs, which was a mere 184,000 above the official number of 113,000, so what**

do they know? And their track record going back over the past two years is equally as off-base, so if the bond market sells off because of what ADP says, perhaps the bond traders slipped too many times on the ice this morning on their way to work, which sort of disoriented them a bit.

Earnings reports continue this week, with over 100 S&P companies reporting, and we hear from the next Dow component tomorrow, with MRK reporting its results. We also get the January payroll report on Friday, with preliminary estimates for a gain of around 140,,000 jobs and we will discuss this in greater detail in tomorrow's daily notes.

The S&P trades at 13.5 times forward earnings, and 15.2 times current earnings, if one assumes that this year's earnings are going to come in at $82 for the S&P and $92 for 2011. The average P/E multiple for the S&P going back to 1954 has been 16.2.

According to the sector analysts who follow these companies individually, for all of 2010, earnings are projected to increase by +30%, 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 +24%.  If these numbers do come to fruition, then S&P earnings should be around $83 for 2010 and between $93 to $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.

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**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.*