NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update :

DJIA:	**12048**
S&P 500:	**1265**
Nasdaq:	**2701**
10YR T-Note:	**2.19%**
EUR/USD:	**1.39**
VIX:	**27.71**
Gold:	**1723**
Crude Oil:	**91.97**

Prices Current as of 12:45PM

Source: CNBC

Donald M. Selkin
Chief Market Strategist
(212) 417-8017
dselkin@nationalsecurities.com

Friday's mixed to higher day has now resulted in the S&P having advanced from the fast bear-market low that it reached for a few hours on October 4th at 1075 to as high as 1287, which was a phenomenal gain of 19.7%. During this brief span of three and a half weeks, the number of stocks in the S&P that were trading above their 50-day moving average went from around 5% to around 95% on Friday's close. In other words, an extremely oversold situation turned very rapidly into an extremely overbought situation. Of course there were other indicators of oversold conditions at the lows, such as the VIX reaching the historically high level of almost 47 on the market lows to as low as 24.4 on Friday, a loss of around half its unsustainable highs. This means that the extended market of the past few weeks was sort of cruising for a bruising.

On Friday, the Dow opened with a loss of 44 points at its early low, then chopped around in a very narrow range, which was sort of welcome after Thursday's upside moonshot, the 14th best ever Dow point gain at the highs. As a result of this narrow range, the Dow managed a gain of 43 points at its best level before ending 22 points higher while the Nasdaq finished 1 point lower. The former was helped by gains in a major pharmaceutical component on good earnings, the largest maker of computers did well for a change and its highest- priced technology component was strong, as it has done very well this year.

Breadth numbers were about even and the VIX declined slightly to 24.53. The market has now advanced for four straight weeks, making this the best month since October 1974. Of course we have to wait until today's close to get all of the historical statistics. And naturally as the market has done well, the other markets that it has been in this symbiotic relationship with also did well, as for instance crude oil, despite a slight decline to around $93 a barrel, advanced by $6 for the week, which was its largest weekly advance since February 2010.

Of course this means, as we have pointed out so many times in the past, that if one feels better because their stocks have gone up, it is going to cost them more to fill up their gas tanks and heat their homes.

Third-quarter earnings, which are starting to fade out as a potential market-moving item, have 71% of the 315 S&P companies to have reported so far beat their estimates, and this performance has been one of the factors that has allowed stocks to do so well lately, in addition to the market's perception of some progress toward resolution of the European debt crisis situation, as was detailed in last week's daily market notes.

And sure enough, just when things looked so good, the market is sort of taking it on the chin today after the tremendous advances of the past three and a half weeks as mentioned above, and last week's gain was the best one in two years for global markets. And naturally when things are lower, one only has to look at the outside markets for the explanation, and sure enough not only is the Euro weakening against the dollar, but so is the Japanese yen, which rose to a record high against the greenback earlier this morning before their government intervened, and this actually sent the dollar to a three-month high against the yen. This strengthening of the dollar is naturally bearish for stocks because, heaven forbid, it makes various commodities decline as well, and instead of being better for consumers and businesses who use these products, the interpretation has been for the past year that these lower commodity prices show slower economic growth.

In addition, the recent euphoria over Europe disappeared today, as China said that it cannot play the role of "savior", reversing last week's report that it was going to support the E.F.S.F. rescue fund. And despite the market ignoring those higher Italian and Spanish government debt yields late last week, today that negative chicken has come home to roost as well.

Daily Market Notes

The Dow opened lower by triple-digits and really does not have a chance to recover today, as breadth numbers are horrible at a negative 1 to 4 ratio, and the VIX is much higher than it should be relative to the Dow decline, currently at a 3.18 point gain to 27.71 as opposed to a 195 point Dow loss as this is being written. And guess what, the Dow just made this new low at the same time that the Euro also made its intraday low against the dollar, surprise, surprise. Leading the way lower are the types of stocks that usually do the worst on down-days because they tend to do the best on up-days, and these would include the industrial cyclicals, resource and today the financial stocks are included in this most negative group, and let us remember that until very recently, they do not always lead on the upside.

Economic reports today are being overshadowed by the outside markets, as the October Chicago Purchasing Managers' Survey slipped a bit to 58.4 from 60.4 last month but still shows expansion, while the October Dallas Fed Manufacturing Activity Index showed a very nice gain, not that this is going to help, at least for today.

As the earnings season is winding down for the third-quarter, economic reports are going to take center stage, and this week we have two major ones, namely Wednesday's F.O.M.C. interest rate announcement and accompanying statement and unfortunately Chairman Bernanke is going to hold a news conference after the release of their statement, and how is that event ever going to be positive for the market?. In addition, on Friday we get the release of the October non-farm payroll report, which is supposed to show a gain of around 95,000 jobs, and more on this as the week moves ahead.

In addition to those big ones, we also have – Tuesday: September construction spending, October ISM Manufacturing Survey, domestic auto sales; Wednesday: ADP jobs report estimate; Thursday: weekly jobless claims, October ISM Non-Manufacturing Survey, September factory orders, October chain store sales.

Earnings are starting to wind down, and this week we hear from – tonight: ALL, ED; Tuesday: Dow component PFE plus LF, PZZA, PCS and VLO; Wednesday: AOL, MA, TWS plus Dow component KFT; Thursday: CBS, CVX, DTV, K and SUN.

Technical types are focused on the 1220-30 S&P level, which had represented the high end of the recent trading range, and which has now been nicely breached on the upside, with Friday's 1285 close. This former resistance level should now act as support if things start to come down once again. It is interesting to hear those market touts who did not buy at the lows say that they are now waiting for the opportunity to come back into the market at the "lower end" of the recent range, which is at least 170 S&P points lower than where we are now, and a decline of that magnitude might not be forthcoming based on seasonal and historical patterns (see below).

For what it is worth, there is a statistic that says the S&P has gained on average 5% in the fourth-quarter after third-quarter losses of greater than 8% since 1924. There is another statistic that says when the S&P declines by 14% or more during the third –quarter, as what occurred this year, it has an 89% chance of advancing during the fourth-quarter. Let's see if history repeats itself this year.

Isn't it enough that around $10 trillion was wiped off of equity values worldwide in the quarter just ended, which one would like to think makes stocks look cheap at current levels, especially given the level of all-time record low interest rates. The argument for stocks being good values here is further enhanced by the fact that despite all of the turmoil on fears of slower economic growth or worse, analysts have actually raised their profit forecasts for the S&P companies for 2011 to a record $99.38 from $98.73 in late April when stocks were on their highs, according to Bloomberg. This is somewhat of a strange occurrence, because the rap against stocks lately has been that earnings estimates are too high. So we will have to see who is right on this one.

Daily Market Notes

The S&P trades at under 12 times 2011 earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are still projected to be $95 for 2011, according to the analysts who follow these companies. The average P/E multiple for the S&P going back to 1954 has been 16.2. Since 2006, the average P/E multiple has been 14.7

For all of 2010, earnings increased by +38%, which was the most since 1995. For the first half of 2011, earnings gained +18% as reported by Bloomberg Financial and the 18% overall projected gain for 2011 would be the largest two-year advance since the period ended in 1995. Third-quarter earnings are projected to now rise by 16%. The highest ever earnings for the S&P in one year so far took place in 2006, at $88. For 2012, earnings are still projected to be $104 for the S&P.

After four consecutive quarters of negative G.D.P. growth, we now have eight consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first three quarters of this year, although these numbers are weaker than earlier estimates, according to the Commerce Department. For all of 2010, G.D.P. rose at a 3% rate, which was the highest since 2006 after a worse than originally estimated decline of 3.5% in 2009 and an overall decline of 0.3% in 2008. For 2011, the prediction is now for G.D.P. growth of 1.8% and it is 2% in 2012, although estimates for this number vary widely and are constantly changing.

Donald M. Selkin

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.