

## Daily Market Notes

### Market Update :

DJIA: 11829  
S&P 500: 1235  
Nasdaq: 2635

10YR T-Note: 2.03%

EUR/USD: 1.37  
VIX: 33.27

Gold: 1734  
Crude Oil: 92.64

Prices Current as of  
12:40PM

Source: CNBC

The month of November, historically a good one for stocks, has started out in nightmarish fashion, as for the second day in a row the Dow closed down almost 300 points, with yesterday's 297 point disaster coming on top of Monday's last day of October's 276 point collapse. These events certainly came as a shock after the euphoria that had developed last week over the apparent agreement on a rescue package for Greece and a plan for bank re-capitalization. What set the negative mood was Greece's shocking decision to hold a referendum on the E.U. bailout package. As pointed out in yesterday's market notes, in tones worthy, or not worthy, of the great orators of ancient Greece, the Prime Minister said "Let us allow the people to have the last word, let them decide the country's fate." To this, he added "the command of the Greek people will bind us. Do they want to adopt the new deal, or reject it? If the Greek people do not want it, it will not be adopted." He also said, in the great oratorical tones of the past, that "democracy is alive and well and Greeks are being called to rise to a national duty beyond the regular electoral processes." This spellbinding oratory had the effect of sending the Greek finance minister to the hospital with stomach pains.

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These developments sound like the old story of the beggar who comes around every year to a rich businessman asking for some charity, and finally one year the businessman tells the beggar that he cannot afford to give him a handout this year because business has taken a bad downward turn, to which the beggar then responds – "So I should suffer because your business is bad?"

This shocking news out of Greece came on top of an overnight negative tone in Asia, hurt by the China Purchasing Managers' Index which declined to 50.4, below the 51.8 estimate from the experts. In addition, South Korean exports and Taiwan's economy both expanded at the slowest pace since 2009. Then the Greek referendum news accentuated the negativity on the possibility of a disorderly default. Adding to the negative mix was the bankruptcy of MF amid a report that hundreds of millions of dollars may be missing from client accounts.

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Then for good measure, both the September Construction spending and October ISM Manufacturing Survey here came in slightly lower than expected.

Even the pleas from German Chancellor Merkel and French President Sarkozy, who issued a statement that carrying out last week's rescue plans is now "more necessary than ever", could not help the market, as the Dow attempted various comebacks during the day to trade with a 165 point loss at its best level three times during the session before collapsing to a 325 point loss three times during the day as well, and then ended down those 297 points.

And on a day of this awful magnitude, we got all of the accompanying poor inputs, as breadth numbers were a negative 5.7 to 1 and the VIX rose by more than it should have, gaining 4.81 to 34.77 after its slide as low as 24 during last week's strong market gains. Naturally, for the second time this week, stocks followed the Euro lower, as the common currency got blasted to the downside once again, with another large loss, this time by .0150 to 1.3705. And most commodity prices also fell along with the decline in stocks and the Euro, and what else is new here? And that other knee-jerk market, otherwise known as bonds, rallied very sharply for the second day in a row as well, with the 30-year down to a 2.99% yield, the 10-year at 1.99% and the two-year at .23%. This is certainly a dramatic turnaround after last week's large rise in these yields in reaction to the strong performance from stocks.

And for the second day in a row, the worst performers were the industrial cyclical, energy and resource issues and naturally the financials. At least the first two groups have the excuse that on good days in the overall market, these stocks invariably go higher, while the financials have declined much more often this year than they have risen, so they certainly do not have any excuse for doing so poorly.

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And now we have the specter of both Italian and Spanish bond yields rising to record high differentials against the gold standard, namely German bunds, and this also added to the anxiety that the contagion could spread to these countries as well if Greece goes down the drain.

And how about the fact that the S&P has now fallen back deeply into that important 1220-1230 area, which served as huge resistance after the early August market collapse until the middle of last month, when it was finally broken on the upside. Yesterday's intraday low as 1215 before a close at 1219 was not great, so the market must make a stand in this area if the uptrend is to reassert itself.

And re-asserting itself is something that is taking place so far today, as after the two downside disasters to start the week, with the S&P lower by an astounding 5.2%, things have taken on a better tone so far. And once again, all one has to do to see if stocks here are going to rise or fall is to look at the Euro, which is showing a decent advance after also getting blasted to the downside to start the week. These gains have come despite weaker manufacturing reports from Germany, France and Italy, so perhaps its large decline the first two days this week has discounted to some extent further bad news from that area. The gains also come ahead of a vote Friday on confidence in the current Greek government, and if the Prime Minister gets kicked out as a result of this vote, then the referendum currently planned for early December might be cancelled as well.

At its best level so far, the Dow advanced by 218 points and breadth numbers are showing a better than 7 to 1 upside ratio. Virtually all members of the Dow are higher today after being lower yesterday, and the VIX is down by just about what it should be relative to the current Dow gain of 185 points, as it is lower by 1.95. Stocks here got a boost from the ADP estimate for Friday's jobs report, with a projection of 110,000 private sector positions being created against the current estimate for around 95,000.

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Unfortunately, the market must now deal with the Fed interest rate statement at 2pm and a press conference with Chairman Bernanke right after that, and how is that supposed to help? There are all kinds of arguments both for and against another round of quantitative easing, or a QE3 program. We will not go into the details of these arguments, as if they do not do anything, that could be a sign that they feel the economy is doing alright on its own and does not need further stimulus. If they do something along these lines, then people can argue that the economy is weak, so take your pick as to how the market will interpret what they have to say.

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, today'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 – 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: Dow component KFT; Thursday: CBS, CVX, DTV, K and SUN.

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.

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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.

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.

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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.

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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.*