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Daily Market Notes

Market Update :

DJIA:	**11536**
S&P 500:	**1194**
Nasdaq:	**2530**
10YR T-Note:	**1.95%**
EUR/USD:	**1.35**
VIX:	**31.47**
Gold:	**1701**
Crude Oil:	**98.05**

Prices Current as of 1:45PM

Source: CNBC

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After last week's downside disaster, the worst week in two months, things continued to deteriorate yesterday, as the Dow put in just an awful performance, reaching an intraday loss of 342 points at 11:45am. From this downside misery, it managed to come off of this worst level to be lower by "only" 195 points at 3:15pm before giving it up again into the close and ended with a final decline of 249 points. This awful performance on top of last week's miseries resulted in the S&P declining by 5.2% in the past four days, which was its worst performance for this period of time since September, which had the dubious honor of being a very poor month itself.

Breadth numbers were horrible at a negative 1 to 5.7 ratio and as mentioned in yesterday's comments, a big problem for the market during these past several days of moving to the downside is that the VIX is going up less than it should be relative to the Dow's decline, which does not produce the oversold condition from which things can then rally. For instance, it was pointed out that during last week's loss of 358 Dow points, the VIX rose by only 1.96, which is about half of what it should have, thereby creating a situation where stocks could continue to go lower. And sure enough yesterday we saw the same dynamic at work, namely the VIX not rising enough to keep pace with the declines in the major indexes. So what happens is that despite the awful performance of stocks, the VIX is broadcasting that these declines can continue. The VIX rose by only .91 points to 32.91 relative to that 249 point closing Dow decline, and this was only a third of what it should have risen by.

In addition to the European woes, which seem to never end, with particular emphasis shifting to France on large rises in their bond yields, we also had an additional negative factor, namely the failure of the congressional super-committee to reach any sort of agreement on those $1.2 trillion in budget cuts, which would have paved the way to extend the stimulus that is in the system.

In addition, there was the fear that the ratings agencies might once again lower the U.S. government's credit rating, which fortunately did not happen as last night the major agencies said that the U.S. credit rating was unaffected by the news, but Standard &Poor's also said that its current rating is based on the expectation that automatic cuts will begin in 2013. And as has been their role lately, the Republicans continued their obstructionist tactics by saying that they would block any cuts in defense spending.

Yesterday's declines resulted in the S&P falling to its lowest level since October 7th, when it was coming off of the intraday lows for the year on October 4th. It is down by 5.7% this month, led by an 11% decline in financial stocks alone. About $3.3 trillion has been wiped off equity values worldwide this month.

As has been a recent pattern evident lately, after yesterday's downside disaster, the various stock index futures were actually higher throughout most of the overnight and early morning session, but gave back these gains when the second revision of the third-quarter G.D.P. was released, as growth was lowered from the original estimate of 2.5% down to 2%, which was still the best quarter of the year. And most of the decline was attributable to the first drop in inventories in two years, to the tune of $8.5 billion. But this means that there will be the need to re-build inventories in coming months and this should allow G.D.P. for the fourth-quarter of this year and into the first-quarter of 2012 to increase by perhaps more than is currently projected.

Then of course, borrowing from that old movie – "If This Is Tuesday, It Must Be Spain" (instead of Belgium in the original title), as what would a day be without a little agita from that part of the world, and today Spain had the negative honors, as it was forced to pay sharply higher interest rates at a short-term debt auction, to the tune of 5.1% for three-month bills, more than double the rate of 2.3% last month.

These results show that investors are skeptical over whether that country can get its budget act together despite a new center-right government taking control this week. And for good measure, Spain's 10-year note is getting closer to that 7% crisis level, as it is currently at 6.6%.

As a result, the Dow, which had the nerve to actually show an 8 point gain early in the session, fell to its intraday low with a loss of 113 points at 11:40am, from which level it made a sharp turnaround, apparently the result of a story that the I.M.F. has revised its credit-line program to encourage countries facing short-term financing needs to turn to the fund for assistance. As a result, the Dow has cut its loss to only 5 points as this is being written.

But once again, the VIX is not cooperating at all, as when the Dow was on its low of the day with that 113 point loss, the VIX rose by only .20 points, and as the Dow is struggling to get back to unchanged, the VIX is currently lower by 1.21 points. Helping is a turnaround in the price of energy stocks and the Nasdaq is a bit higher as some of the recently beaten-down leaders are making decent comebacks. Hurting the Dow is a negative reaction to the results from what was until recently the largest computer maker. Breadth numbers are about even as the major averages are on either side of unchanged.

The next hurdle for stocks will be the 1:30pm release of the minutes of the last Fed meeting, and when is the last time that what they had to say helped stocks to rally? It is a given that they will make a downbeat assessment of the U.S. economy and the world situation as well, and let us hope that the recent equity declines have already discounted what they might have to say.

The Euro is coming off of its worst levels of the day and is currently nominally ahead, which could be helping stocks as well. There does seem to be a support level around 1.345 which for the time being is preventing further declines.

And naturally as the Euro is up a bit, both gold and crude oil are also rising, and as has been pointed out on many occasions, the price rise in the latter item is not going to be helpful for either consumers or businesses going forward. The Euro has probably risen on that I.M.F. report as well.

Economic reports hopefully will continue to show improvement and the lineup for them is – later today: minutes of the last Fed meeting; Wednesday: October durable goods orders, October personal income and spending, weekly jobless claims and the final November U. of Michigan Consumer Sentiment Survey. One can see that there is a rush to get these reports in ahead of the Thanksgiving holiday and semi-holiday the day after.

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 third-quarter, 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 projected to be $99 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 15%. 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 nine 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 1.6% and it is 2.6% 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.