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Daily Market Notes

Market Update :

DJIA:	**12166**
S&P 500:	**1251**
Nasdaq:	**2597**
10YR T-Note:	**1.94%**
EUR/USD:	**1.29**
VIX:	**23.47**
Gold:	**1561**
Crude Oil:	**99.79**

Prices Current as of 12:30 PM
Source: CNBC

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Special Comment – We recently sent out a very comprehensive report on high-yielding products and the reasons we feel that these are worthwhile investments in these trying times in the market. The areas covered include: international ETF's, mutual funds, domestic ETF's, municipal ETF's, U.S. blue-chip stocks, European blue-chip stocks and high-risk European stocks. It would seem that there should be something for people to get involved with among this extensive listing.

Early in the session yesterday I was quoted on Reuters saying that "the market will do nothing today because of how light the volume is", and did that ever turn out to be correct, as on the lightest trading day of the year by far the Dow ended with a closing nominal loss of two points and the S&P ended with a rousing gain of .10.

In a day that was sort of similar to the two days that ended last week, the Dow traded in a narrow range all day without the usual market histrionics that were certainly the hallmark of 2011. After a lower opening 24 points down, the Dow managed to reach its best level of the session with a 34 point advance right after the release of the December Consumer Confidence report that climbed to its highest level in eight months. From that point until the 3:15pm, things sort of drifted in place, as at 3:15pm the Dow was still ahead by 25.

Now raise your hands if you thought that the market would spurt higher into the close like it did on Friday, when a Dow gain most of the day of 85 points turned into a closing advance of 124 on very light volume as well. These last 45 minute shenanigans have become a hallmark of trading this year, and they are mainly a function of ETF's balancing and re-balancing their positions and have absolutely nothing at all to do with the fundamentals of long-term investing, but for better or worse, this is the world in which we now live and we all have to learn to deal with it.

In any event, since the Dow gave us a very late pre-holiday “gift” on Friday with that strange late upward spurt, it had to play the role of equal- opportunity fooling the experts most of the time by now declining by 27 points late yesterday to end with a closing loss of those two points as mentioned above.

The Nasdaq actually did better on some ongoing strength in several of the large technology leaders. Breadth numbers were slightly to the positive side and the VIX finally did what it should have done during the past two weeks, by moving further away from ultimate downside support levels, which then gives the market more room to rally. It ended at just about the same level that it traded at all day, a gain of 1.18 to 21.91, which is still much lower than it has been during the tumultuous market action of the last five months.

And what was not so good was that crude oil continued its relentless recent move higher, getting to $101.20 a barrel, up $1.50 on the day, and this was a function of those tricky Iranians once again threatening to bar shipments through the Strait of Hormuz if sanctions are imposed on its crude exports because of their nuclear program. About 15.5 million barrels of oil a day, a sixth of global consumption, flow through that waterway. Iran pumps 3.56 million barrels of oil a day, second only to Saudi Arabia.

The S&P at yesterday’s close was ahead for the year by 0.6%, which would be its smallest net change for a year since 1970, and how do you like that after all of the unprecedented wild swings that have been part of the 2011 landscape. And also as of yesterday’s close, the S&P is having its best fourth-quarter of the year since 1999, a gain of 12%. Let us also remember that 1999 was probably the greatest year ever for the stock market, as the Nasdaq advanced by an incredible 85%, the largest-ever advance for any major average, which set that index up for the historic collapse starting in 2000 and even today this index is only 52% of its best-ever level.

Not to compare this year with 1999, as the primary reason for the strong performance of the S&P this quarter is that it began the quarter down in the dumps after the awful months of August and September left it so oversold that it was due for a rally.

And for the third day in a row, the Euro made nice, staying around unchanged at 1.3070, and of course this allowed the market to concentrate on the improving fundamentals of the U.S. economy as opposed to the obsession of what is going on in that part of the world.

I guess it was too much to hope that our market would continue to ignore the goings-on in Europe, as after the common currency traded steady to slightly higher for most of the overnight session, allowing the S&P futures to gain as much as four points in the pre-market, things turned south badly, as the Euro underwent a steady decline, which then turned into a full-fledged downside rout. It broke that recent support level under 1.3000 and declined rapidly to as low as 1.2916, a large loss of .0155, and that was all she wrote for our market, as things opened steady and have proceeded to move lower, following the movements of the Euro once again. Making matters worse was that there were no economic reports here that might have ameliorated the downside pressure had they come in showing further signs of improvement for our economy. We will have to wait until tomorrow for that when a number of reports are scheduled for release (see below).

The Dow has sheepishly followed the Euro lower, and what else is new, reaching its worst level of the day so far with a loss of 137 points at 11:40am, and breadth numbers are horrible at a negative 1 to 4 downside ratio.

The VIX, which made that upward turn yesterday, is higher by just about what it should be relative to the Dow's current 120 point decline, a gain of 1.56 to 23.47 and once again my warning that the strange recent behavior of the VIX, which had been weakening more than it should have relative to the weakness in the markets before and even during last week's rally, was a sign that the upside for stocks would become more limited.

So what happened to cause the Euro to plunge once again? Apparently there was a report that the E.C.B.'s overnight deposits hit a new record, which means that European banks parked $591 billion overnight and this could be interpreted to mean that those banks are unwilling to take the risk of lending to each other in the short term, opting to earn low interest rates from the E.C.B. instead. The E.C.B. balance sheet expanded to a record $2.73 trillion Euros at the same time. This report overshadowed the fact that the widely anticipated auctions of two sets of Italian government debt resulted in much lower borrowing rates than last month, as the results raised hopes that strong demand from investors would enable Italy to avoid sinking further into a financial crisis. They auctioned 6-month bills at a rate of 3.25%, down sharply from the 6.50% rate last month, and unfortunately this supposed good news is being overlooked. Even the 10-year yield fell below the critical 7% level to 6.94%.

And in the sick world of oil prices in which we live, when oil prices were rising for the past several days, this was bullish for stocks, but today because of the weaker Euro, they are declining sharply and this is bearish in the twisted logic that this market follows. At least they are back below that $100 a barrel level, lower by over $2, down to $99.20. This naturally causes the oil stocks to trade lower, and since they are a large component of the Dow, this weak performance hurts that average. And naturally the financial stocks, which need no reason to be weak, continue to sell off after having had the nerve to advance a bit last week.

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This week's economic reports finish with: Thursday: weekly jobless claims, December Chicago Purchasing Managers survey, November pending homes sales and the Kansas City and Milwaukee NAPM Manufacturing reports as well.

As we approach the end of the current year and the start of the new one, there is the old statistic about the well-known supposed "Santa Claus" rally and here it is – since 1969, the S&P has gained an average of 1.6% on the last five trading days of the old year and the first two of the new year, and before today we were two for two on the first two days of this period, but today's awful market action is going to do away with that, which means that it will be up to the last four days of the period to tell the tale of whether or not history repeats itself here or not.
A somewhat disturbing note as we keep moving into the fourth-quarter earnings season is that so far the number of negative pre-announcements has overwhelmed the number of positive ones by the large ratio of 97 to 26, a 3.7 negative relationship that is the largest in 10 years. However, this is subject to change as things keep going forward.

In this best time of the year for stocks, there is a statistic that says since 1928 the S&P has rallied 80% of the time in the last two weeks of the year when it is already ahead for the year, but only 60% of the time when it is down for the year, as it was going into the last two weeks, and with two days to go it would now appear that this historical statistic will work out this year as well.

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. Fortunately this year, these statistics proved to be correct, as the S&P has risen by 11% with two days to go in the fourth-quarter after having fallen 20% in early October intraday from the late April highs.

The S&P trades at 11 times projected 2012 earnings of $108, 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 three-quarters of 2011, earnings gained +17% as reported by Bloomberg Financial and the 16% overall projected gain for 2011 would be the largest two-year advance since the period ended in 1995. Fourth-quarter earnings are projected to rise by 10% and revenues are now projected to rise by 7%. 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 $108 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.