

Daily Market Notes

Market Update :		New Comment – We released this morning a short report going over what took place in the market this year and also what might be in store for 2012, with a very good graphic to explain why stocks could move higher. And Happy New Year to the readers of these daily notes!
DJIA:	12256	
S&P 500:	1261	
Nasdaq:	2613	
10YR T-Note:	1.88%	After Wednesday’s downside rout, the market decided to play nice yesterday, and started out higher and never looked back, as the Dow kept going and going as the session moved on to end close to its best level, with a 135 point gain, and added to the merriment with an additional 27 point upward spurt in the last hour. This of course could come back to haunt us today because there is a statistic that says since 1986, the market has gone down on the last trading day of the year 68% of the time, and of course this number is somewhat consistent with the tendency of the market to decline on any last day of the month for reasons we have discussed many times in the past.
EUR/USD:	1.29	
VIX:	22.98	
Gold:	1576	
Crude Oil:	99.31	
Prices Current as of 12:15PM		
Source: CNBC		

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

Every member of the Dow ended higher and overall breadth numbers were at a 4 to 1 positive ratio. Meanwhile the VIX did its part by declining by less than it should have relative to the Dow’s advance, ending lower by .87 to 22.68.

What was most encouraging about yesterday was that the market was able to start out higher and continue moving up even as the Euro fell to its lowest price since September 2010, reaching 1.2858 at its worst level. What was also interesting is that for no change in the fundamentals it decided to rally off of those levels to end a bit higher, with a closing gain of .0021 to 1.2962, which just goes to show how maneuvered this entire relationship with our stock market has become. In other words, when the Euro saw that stocks were rallying, it had to justify the “risk-on” scenario like yesterday or “risk-off” like it did on Wednesday when stocks got sold off for no other reason than that the Euro was lower for whatever blah,blah was put forward to “explain” the decline.

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Of course, the initial “explanation” for the Euro’s decline yesterday to those lows was that the Italian 10-year Treasury note had the nerve to trade up to 6.98%, close to the 7% level that has been fixed in trader’s minds as an alarm going off because that is the point at which Greece, Ireland and Spain requested bailouts.

And in another example of how sick these relationships have become, crude oil, which initially sold off to as low as \$98.30 a barrel, down a \$1 because of a bearish weekly inventory report from the Energy Department, also rallied back to end a bit higher at \$99.65 for no other reason than the recovery in the Euro and the higher stock market, bearish inventory levels be forgotten!

Perhaps the reason for the Euro coming back from the lows was that on second thought, those Italian 10-year note yields at 6.98% were actually much better than the 7.56% rate that buyers demanded last month, and the fact that we have to pay attention to these things in the first place just shows how bizarre our stock market has become this year. But on a more optimistic note, the fact that Europe was sort of ignored was most likely a function of other economic reports which show that our economy is doing better, with November pending home sales at their best level in a year and a half, the December Chicago Purchasing Managers’ Survey continuing to show expansion and the four-week moving average of weekly jobless claims down to its lowest level since June 2008.

Another market worth mentioning is almighty gold, which declined for six straight days for the first time since March 2009 and at yesterday’s low of \$1,523 had completed a 20% correction off of the all-time high price of \$1,920 an ounce reached in early September. It has since recovered from those lows late yesterday and today, so we might have a situation similar to the S&P declining by 20% intraday off of the late April highs on October 4th but never closing that low, and gold has probably done the same thing.

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It is also laughable to hear all of the T.V. touts who were falling all over each other to buy it all the way up to the highs, shaking in their boots when asked if they would buy gold now. This will be its first quarterly decline in three years but let us also remember that it has now advanced for 11 straight years and will probably continue that streak next year as it will be starting 2012 at a weakened level, which probably gives it some room to advance a bit going forward.

And the best statistic of all is that the S&P, which has gone through one of the most volatile years ever, as the Dow has risen or fallen by 200 points or more on 38 occasions this year, is ahead by 0.4% as of yesterday's close, which would be the smallest one-year price movement for this index since 1970, when it was at a price of 92.

The final trading day of the year today began with the various stock index futures showing slight pre-opening gains, which disappeared at the 9:30am start due to - would you believe it, "concern" that Spain reported that its budget deficit will reach 8% of G.D.P. this year rather than its previous forecast of 6%, perish the thought. As a result, the Dow has declined to its low of the day with a loss of 35 points at its worst level so far and has meandered around with a downside bias at slightly better levels since then. The Nasdaq, which has advanced on the final day of the year only once in the last 11 years, is trying to eke out a small gain, but breadth numbers are actually positive at a 17/12 ratio.

The Euro is trading slightly higher despite the supposedly ominous Spain situation, as the government did announce some spending cuts and tax hikes to narrow their budget deficit, and gold is rebounding after its recent declines and has probably put in a near-term bottom as mentioned above. Crude oil is down slightly on end of year positioning. The VIX is slightly higher for the same reasons.

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For the first four days of the Santa Claus rally period, the S&P is ahead by .07%, below the average gain of 1.6% for the entire period, with three days remaining in it including today.

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 just today remaining, 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 12%, 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

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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.