

## Daily Market Notes

Market Update : Special comment: We sent out a follow-through report on dividend paying stocks recently that is a continuation of the original report sent out last month on high-yielding opportunities.

DJIA: 12688

S&P 500: 1312

Nasdaq: 2782

10YR T-Note: 2.02%

EUR/USD: 1.29

VIX: 19.31

Gold: 1664

Crude Oil: 98.97

Prices Current as of

12:45 PM

Source: CNBC

The market kept rolling along to the upside yesterday, continuing the best advance coming out of the starting gate for the S&P since 1987. And similar to Wednesday, it followed the same pattern whereby the Dow made a brief early dip that was overcome due to the strength of the Nasdaq/Dow ratio. As a result, the latter ended with a 45 point closing advance, near its best level of the session while the former closed with an 18 point advance, and this relationship attested to the always positive influence that the broader-based Nasdaq has on the market when this situation presents itself.

The Dow made that little fast dip into negative territory when the January Philadelphia Fed Manufacturing Survey rose by less than expected, even though it reached its best level in three months. One of the major motivating upside factors was that weekly jobless claims continued on their downside path, falling to their lowest level since April 2008.

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And how could some better news from Europe not be cited as a reason for the gains as well, as that despised Euro, with the largest short position ever lined up against it, caused additional agita for its bearish participants, as it rose all the way up 1.2970, the highest in two weeks after the French and Spanish bond auctions were well received, with yields on the latter's 10-year notes having now declined from that potentially toxic 7% level reached in November to as low as 5.4% at yesterday's auction, down from 6.9% last month, so three cheers for them.

Breadth numbers were good at a 19 to 10 positive ratio and the VIX declined by more than it should have relative to the Dow advance, ending lower by 1.02 down to 19.87, the first close below 20 since July 25<sup>th</sup>, when the S&P was 1337 as opposed to the 1314 level that it closed at yesterday.

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We have been pointing out that the VIX has generally been declining at a greater rate than it should be relative to the movements in the major averages, and ultimately this is going to limit the upside potential of the overall market.

There was some support from two large financial companies doing well after earnings, as BAC and MS continued their strong showing so far in 2012, with both of them ahead by more than 20% for this year, albeit from very low levels. In addition, there were some nice earnings in technology issues FFIV and EBAY, which helped support the Nasdaq.

Well it looks like the calendar is back to the 1980's or 1990's today, as three of the old technology warhorses are doing well on their reports, namely IBM, INTC and MSFT. On the other hand, more trendy "new-era" stocks, namely GOOG, whose call buying was apparently the highest ever as it had done well lately, in addition to medical device company ISRG, got shellacked to the downside. In addition, some of the financial stocks also sold off on their reports, namely GE, COF and FITB, making the picture today very mixed after three straight up days to start the week.

As a result, the Dow is ahead by 62 points as this is being written, while the Nasdaq is lower by 5 points and the S&P is also down. Breadth numbers are just about even, and the old mantra of a weak Nasdaq ultimately pulling the Dow lower might not work today as the Dow strength is coming from the three old-time technology stocks as mentioned above, while the Nasdaq is also under some pressure from profit-taking from several of its high-priced members after their strong showings earlier this week. IBM is accounting for 59 points of Dow gains just by itself while MSFT is adding another 10 Dow points.

The VIX is lower again, down to 19.47 for a loss of .40, which is about what it should be relative to the Dow's gains but also against a lower S&P, which is going to ultimately limit its theoretical upside performance as well.

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The Euro is slightly lower today despite the fact that the parties are getting close to a Greek bond-swap deal with holders of their debt having to take losses of as much as 70% in order to prevent a default. An official announcement is going to be made later today.

And let us not forget that today is a major options expiration, and there are some striking examples of the foolishness of call and put buying, and let us start with the biggest one of all, namely the SPY, which will see almost 5 million puts and almost 1 million calls go out worthless, and this is the one that the “professionals” such as hedge funds and other sophisticated investors use to “protect” their downside, and these statistics show that the buying of these puts is basically like throwing money away because the holdings of a portfolio do what they do, and now one has to subtract from any gains for these holdings the losses that the put buying represented. In addition, we will see something today that will probably never happen again, namely a record number of calls going out worthless in one individual stock for one expiration, and the booby prize in this regard goes to BAC, which will see no less than 5 million calls expire worthless today and the reason for this astounding amount is the low price of the stock itself, which allows people to participate in options that are really low in price, accounting for the humongous number of worthless merchandise at the end of today.

The earnings scorecard for the fourth quarter is as follows – with 51 S&P companies having reported, there are 33 that have beaten their estimates, or 65%, which is a little lower than what we have seen recently, but there is still a long way to go, and so far we have had some good ones and some bad ones.

Next week is another huge one for earnings, with the following lineup – Monday: MO, GLW, CSX, HAL, KLAC, SO, TXN; Tuesday: ALTR, AAPL, BHI, COH, EMC, HOG, Dow components JNJ, MCD and VZ, plus NSC, DGX, YHOO; Wednesday: ABT, ADP, Dow components BA, UTX, plus NFLX, ROK, SNDK, XRX;

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Thursday: Dow components 3M, T, CAT, plus CL, JEC, LMT, NUE, SHW, SBUX;  
Friday: Dow components CVX, PG, plus HON, TWC.

The S&P trades at 11 times projected 2012 earnings of \$105, 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 6%. The highest ever earnings for the S&P in one year so far took place in 2006, at \$88. For 2012, earnings are projected to be \$105 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.*