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# Daily Market Notes

Market Update :

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| **DJIA:** | **12685** |
| **S&P 500:** | **1313** |
| **Nasdaq:** | **2778** |
| **10YR T-Note:** | **2.07%** |
| **EUR/USD:** | **1.30** |
| **VIX:** | **19.12** |
| **Gold:** | **1676** |
| **Crude Oil:** | **99.77** |

Prices Current as of 1:15 PM

*Source: CNBC*

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**The market ended the third week of the new year Friday doing what it had done in the first two weeks of the year, namely going higher. And once again, it followed that same recent pattern where it makes a fast early dip and then pushes higher as the session moves on and ends near the best levels of the day.**

**For instance, after a small negative move, the Dow kept pushing higher and higher as time moved on, adding a late upside acceleration to end right at the highs with a 96 point advance. The Dow was absolutely the upside leader, which was the result of three of its old technology warhorses reacting well to their earnings reports, namely IBM, INTC and MSFT, with the gains from these three components alone accounting for 76 points of that 96 point advance. This is why the S&P lagged somewhat and was only pulled into positive territory as a result of that late upside surge. On the other hand, the Nasdaq could not get its upside act together and as a result it ended with a 2 point loss. And this was due to the earnings picture as well, with such new age stocks as GOOG and ISRG getting blasted to the downside after their reports, but let us also remember that the former had made a multi-year high recently and the latter had reached best-ever levels recently, so both were vulnerable from their extended upside levels. In addition, for whatever reason, other high-priced Nasdaq stocks, which had done very well lately, such as AAPL, at a new all-time high early in the session, in addition to AMZN, NFLX and PCLN, all went lower, which kept the pressure on the this index despite the strong performance from the Dow.**

**Breadth numbers finished at their best ratio of the day as the major averages finished at their peaks, and the VIX fell to its lowest level since last July 22$^{nd}$, with a large decline of 1.59 down to 18.28. I have pointed out that this weaker performance from the VIX relative to recent market advances could prevent the major averages from continuing these advances, as on July 22$^{nd}$, the last time the VIX was this low, the S&P was at 1345 as opposed to Friday's close of 1316.**

**The reason for the late upside spurt, which added another 20 points to the Dow from 3pm into the close was that the financial stocks, which have done very well so far in 2012 from the low levels they started the year at after getting blasted to the downside in 2011, went from being negative for the session and got into positive territory, and this sort of behavior stands in sharp contrast to that of last year when they would be the first group to roll over intraday to the downside, so we absolutely have a revenge of the nerds situation developing.**

**There were also the usual options expiration dynamics present as well, as pointed out in Friday's market notes, with various stocks that have a high open interest in certain strike prices being maneuvered away from those prices in order to cause as much pain as possible to the buyers of calls and puts at those levels. And despite the Nasdaq not really participating in the upside on Friday, this index did put in its best performance in the last seven weeks, with a gain of 2.8%, primarily due to the strength of the high-priced leaders up until several of them sold off for whatever reason as mentioned above.**

**After the wonderful start to the new year, with the major indexes having been higher for 11 out of the first 13 days for advances of as much as 6.9% for the Nasdaq, the low level of the VIX, as mentioned above, is perhaps finally restraining things on the upside. For instance, even as the Dow rose to an intraday gain of 44 points at 10:15am, the VIX was having no part of it, as even at that best morning level, the VIX was still higher by .42 and as the major averages have sold off to the negative column as this is being written, the VIX has gone even higher.**

**What accounted for the better start was more optimism coming out of Europe, where there is hope that Greece and its private creditors can reach an agreement that will stave off a default on that country's debt.**

**As a result, the Euro has rocketed to a three-week high, at 1.3040, wreaking more havoc on the currency "experts" who have accumulated a record short position against it, even after it appears to have formed a double-bottom just above 1.2600 earlier this month.**

**As a result, from those best early levels, the Dow is currently down by 36 points, after having been 54 points lower at its worst level, but breadth numbers are slightly positive at a 15/14 ratio which is pretty good considering that the S&P and the Nasdaq are lower as well.**

**Some sort of brief respite is probably in order, as this is only the 5th time since 1950 that the S&P has gained for 11 out of the first 13 days and the various averages are off to their best start since 1987.**

**This week will be a huge one for earnings, and the scorecard so far for the 4Q is of the 70 S&P companies that have reported, 40 of them have beaten the estimates, which is a lower percentage than we have seen in recent quarters, but there is still a long way to go.**

**This week sees the following results, 119 S&P companies reporting, with the following lineup – tonight: GLW, CSX, KLAC, SO, TXN; Tuesday: ALTR, AAPL, BHI, COH, EMC, HOG, Dow components DD,JNJ, MCD and VZ, plus NSC, DGX, YHOO; Wednesday: ABT, ADP, Dow components BA, UTX, plus NFLX, ROK, SNDK, XRX; Thursday: Dow components 3M, T, CAT, plus CL, JEC, JNPR, LMT, NUE, QLGC, SHW, SBUX, TWC; Friday: Dow components CVX, PG, plus DHI, F, HON, MO**

**Economic reports include: Tuesday: January Richmond Fed Manufacturing Index, State of the Union Address; Wednesday: December pending home sales, F.O.M.C. interest rate decision; Thursday: December durable goods, weekly jobless claims, December L.E.I., December new home sales;**

**Friday: first estimate of 4Q G.D.P., January final U. of Michigan Consumer Sentiment Survey.**

**The S&P trades at 12 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.*