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Daily Market Notes

Market Update :

DJIA:	**12377**
S&P 500:	**1279**
Nasdaq:	**2675**
10YR T-Note:	**1.94%**
EUR/USD:	**1.27**
VIX:	**21.25**
Gold:	**1611**
Crude Oil:	**100.52**

Prices Current as of 1:20 PM

Source: CNBC

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Comment – Barron's reproduced part of last Wednesday's Daily Market Notes (January 4th) in this week's issue, dated January 9, 2012 in their "Market Watch" section on page 24.

Last week ended with the market selling off on Friday despite the December jobs report which actually came out above expectations, with the overall number of 200,000 including a loss of 12,000 government jobs, which continues an ongoing theme for the past several months. The unemployment rate inched down a little further, to 8.5%, which was the lowest since February 2009. There were 1.64 million jobs created in 2011, compared to 940,000 in 2010 and this number meant that 2011 was the highest in five years but there are still 6.1 million fewer jobs since the recession began three years ago. In addition, both the average work week and average hourly earnings rose a bit as well.

The market sort of chopped around without really ever showing the ability to get moving sharply in any one direction, as the Dow hit its low at 10am with a loss of 83 points from which it rallied to its best level of the day at 11:30am with a 10 point decline, from which level it slipped once again to end with a 55 point decline.

Breadth numbers were slightly negative at a 14/16 ratio but the Nasdaq was able to eke out a small gain of 4 points due to ongoing strength in AAPL and newfound strength in that old standby MSFT and beaten-down NFLX, which now has the honor of being 2012's best performing S&P issue after the first week of the new year.

Energy stocks sold off again on crude oil prices cooling off from their recent Strait of Hormuz obsessed highs, down to $101.56, while the red-hot 2012 financials also took a breather after their strong coming out of the gate performance last week. The VIX declined by much more than it should have with a .85 loss down to 20.63, and its low level is not conducive to consistent market advances, especially with the fourth-quarter earnings season upon us.

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Bond yields declined once again on a statement from a Fed governor to the effect that "more monetary accommodation is appropriate", and as a result both the 30 and 10-year yields slid close to their lows, still within the recent range. The Euro continued its decline on the various miseries in that part of the world which start to get a little too boring to repeat every day, and the latest ones were gone over in Friday's market notes, with the main culprit now being that non Euro user but still E.U. member Hungary, of all places. The common currency declined further, down to below 1.2700, which is the lowest price since September 2010.

Despite Friday's down-day and inability to react more positively to a good jobs report, the first week of the new year did have the honor of beating the historical performance of the S&P during this time period, as since 1928 it has averaged a gain of .61% in this first week with positive returns being achieved 65% of the time. For those historians out there, this is 47 basis points better than the average change of .14% for all five-day periods since 1928. It ended the first week of the year with a 1.6% advance, while the Dow started out the new year with a 1.2% gain and the Nasdaq was the hero by ending 2.7% better.

Today the market has been chopping around in both directions, and the price movements seem to have nothing to do with the plight of the beaten-down Euro, which actually had the nerve to rally a bit from its current weak condition. And the excuse being offered for this little move higher was that the leaders of France and Germany were holding "discussions" to plan the rescue of the Euro, and haven't we heard that old song and dance so many times in the past, so why should it have so much credibility now?

In any event, the Dow got as high as a 41 point gain at its best level so far at 10am and reached its low so far with a loss of 25 points at 11:20am. Breadth numbers are decent at a positive 17/11 ratio and the VIX is atoning for its ridiculous decline on Friday while the market also declined, gaining .68 to 21.31 as the Dow is currently ahead by 17 points as this is being written, so this is somewhat of an equalization process.

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The supposed "big" event of the day will be the AA report after the market closes, and if there was ever a weak lead-off batter, this one certainly qualifies in that regard, having declined by 44% last year and probably having very little upside potential in any event, so why the experts obsess over this one is beyond me.

Of more importance is that certain stocks are continuing recent trends that they have started out the year with, such as technology giants GOOG and IBM suddenly getting weak and NFLX continuing its 2012 strength after taking a 60% beating in 2011. Most financials are maintaining themselves ahead of JPM's report on Friday morning and AAPL has been upgraded to a new all-time high by a large financial institution after the stock had been ahead for 12 of the prior 14 days on its own, so why not join the upside party that has been well underway before this erstwhile organization sticks in their two-cents?

Otherwise, this could be a less eventful week than recent ones, as earnings reports really do not begin in earnest until next week and the economic reports (see below) are not of the market-moving kind. Of course, this does not mean that some unexpected event will not work its influence on the market either way and that event could be the start of the first-quarter refunding in Italy and Spain, which begins this Friday and which could produce results that the Euro, and therefore the entire market here as well, could either approve or disapprove of as the case may be.

This week sees the "official" start of the fourth-quarter earnings season, where profit growth is projected to be 6%, which would be the lowest since the third-quarter of 2009. The lineup is as follows: tonight– AA, and talk about a perennially weak lead-off batter; Tuesday – MTB; Wednesday: LEN and SVU; Friday – JPM, which means that we hear from two Dow components. Of course, the week after next and the one after that is the real heart of the reporting period and let's take it one week at a time.

Economic reports see: later today – November consumer credit; Tuesday – November wholesale inventories; Wednesday – Fed beige book; Thursday – December retail sales, weekly jobless claims, November business inventories; Friday – November trade deficit, January preliminary U. of Michigan Consumer Sentiment Survey.

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 6%. 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.