

Daily Market Notes

Market Update :

DJIA: 12906
 S&P 500: 1352
 Nasdaq: 2925

10YR T-Note: 2.06%

EUR/USD: 1.33

VIX: 18.44

Gold: 1742

Crude Oil: 99.89

Prices Current as of

1:00 PM

Source: CNBC

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

Oh, no – don't tell me, the market once again did yesterday what has become the recent norm, namely to be lower early in the session and then chop higher as the day moves along, to finally end up on the day. And then we have a new recent twist, namely the negative view that has been taken by the VIX, in not only refusing to go lower, but actually having the nerve to go higher at the same time that the major averages are rising as well!

For instance, for the past four days, the Dow had a net advance of 179 points, the S&P has risen by 24, yet the VIX is actually higher by .18 over that same period of time. This goes completely against any sort of rational analysis except for one thing – perhaps the double bottom in the VIX at 17.50, which is below its normal historical level in the low 20's, makes some investors think that there is low downside risk to the VIX at these prices in the high teens and that the market will one of these days have to undergo some sort of downside correction. On the other hand, as I have long maintained, if one wants to look at the bullish side of this argument, then one can say that this is the best possible combination for stocks, namely a higher market and a higher VIX, which puts it further away from its ultimate downside support level and allows the market to push higher.

As was said above, after a very fast move higher based on the you know which country that we are obsessed with lately, the one in the Balkan Peninsula that starts with a "G" and ends with an "E", and whose economy is smaller than the mighty state of Delaware, the Dow hit its low with a 61 point loss at 11:45am, from which level is began its usual choppy climb higher to end with a closing gain of 6. Other measures also did better, with the Nasdaq ahead by 12 at the close, which meant that the good ratio allowed for decent breadth numbers at a 17.5/12.5 positive ratio.

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Financial stocks, especially those of the beaten-down variety, continued to do well after taking the previous day off, and energy stocks did poorly after doing better the day before, so go figure. And how about the Euro, which hit as high as 1.3290 when the Dow made that brief early upside pop right out of the starting gate, then proceeded to decline as low as 1.3220 when the Dow made its late morning low, finally ended at 1.3280 as stocks rallied back. And this looked like a bad replay of the 2011 movie known as "Follow the Euro", especially on days when other factors such as economic reports and earnings reports are negligible.

So is the Greek news today bullish or bearish? So far things are chopping around in what has become a now familiar pattern, as the Dow rose to its best level of the day so far with an early gain of 41 points at 10am, from which level it proceeded to hit its low at 10:30am with a loss of 38, before rallying back once again to be ahead by 20 points as this is being written. Despite the fact that both the S&P and Nasdaq are a bit higher as well, breadth numbers are actually slightly negative at a 14/15 ratio, and the only explanation for that is the Russell 2000 Index of small stocks is lower. And to no one's surprise, the movements of the Dow are extremely closely correlated to the Euro again, as the early high was the result of the Euro reaching its best level at 1.3322 at 10am as well.

And once again the VIX is taking a cynical view of things, as it is currently ahead by .20 as both the Dow and S&P are up as well, and without sounding too repetitive, which I am going to sound nevertheless, this is the best possible combination of stocks, namely higher stocks and a higher VIX, for the reasons outlined above.

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The news from you-know-where is that the politicians finally reached a long-stalled deal on reforms and austerity measures in order to secure a second international bailout and thereby avoid a chaotic default. The final \$300 million Euro gap in the negotiations was closed in talks between the European Commission, the E.C.B. and the I.M.F. and this was also endorsed by the politicians as well.

There will now be \$3.3 billion Euros in budget cuts in addition to a deal with private creditors on a bond swap in which they would give up 70% of the value of their holdings, and this will now reduce Greece's \$350 billion Euro debt by around \$100 billion Euros.

For the Greek people, this is not such good news after all of the years of grand living, with the highest tax avoidance rate in Europe and a bloated public sector. It will mean a decline in the living standards for many Greeks, whose country is now in the fifth straight year of a deep recession. To illustrate their frustration over this deal, the two main labor unions have called a 48-hour strike tomorrow and Saturday. In fact, a top union official went so far as to say that there will be a "social uprising."

The minimum wage will be cut by 22% and there will be reductions in pensions as well. This is going to be difficult for a country that has fallen deeper into recession since it was first rescued in May 2010. In fact, the unemployment rate hit a record 21% in November and industrial production fell by 11% in December.

The goal is to get their debt down to 120% of G.D.P. from the 160% level that exists today. In order to do this, there will be spending cuts and tax increases worth \$13 billion for the next four years, which is double the amount that was originally proposed.

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Getting away from Greece for a while, the market is also being helped by another decline in weekly jobless claims, which fell by 15,000 down to 358,000. The four-week moving average is down to 366,250, the lowest since April 26, 2008, which is another reason why bond yields continue to rise, with the 10-year up to 2.07% from its recent 1.90% earlier this week.

And one final word about earnings here, namely CSCO, which once again reported better than expected numbers in both earnings and revenue, and the stock traded as high as 21.25 last night after the numbers were released. But once again, for how many times in the last few years, as soon as the C.E.O. opened his mouth, the stock started to decline, and it is currently lower on the day with a huge number of 21 calls for tomorrow's weekly expiration now being hung out to dry as worthless merchandise with the stock in the low 20's. And so what else is new?

Earnings season is mercifully drawing to a close, with 315 S&P companies having reported and 68% of them have now beaten their estimates, which is closer to the recent historical average, with a profit gain of 3.4%. These reports will become less of an overall market-moving factor as the season comes to an end, but the effect on individual issues, both positive and negative, is still there.

For what it is worth, let it be noted that Investors' Intelligence, which tracks investment newsletters and determines the proportion of writers who are bullish and bearish, reported that 52.1% of sentiment is bullish, which is the highest since the market topped out very early last May.

Earnings will be finishing up soon, as the lineup for the week is: tonight – EXPE; Friday: LH, NYX.

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Economic reports are on the light side with: Friday: December trade balance and preliminary 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 4%. 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. In 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, G.D.P. rose at a 1.7% rate, and it is projected to grow by 2.3% in 2012, although estimates for this number vary widely and are constantly changing.

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Disclosures

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