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NATIONAL SECURITIES

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Daily Market Notes

Market Update:

DJIA:	**12062**
S&P 500:	**1306**
Nasdaq:	**2762**
VIX:	**16.32**
10YR T-Note:	**3.66%**
EUR/USD:	**1.357**
Gold	**1347**
Crude Oil:	**88.96**

Prices Current as of 12:58 PM

Source: Bloomberg

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Special comment: We have now sent out two reports on the VIX. The first one explains its influence on how stocks behave and the second one is a graphic history of the relationship between the performance of the S&P and the VIX for the past 15 years, with explanations. I hope that these reports will help explain the importance of this indicator in understanding and predicting overall market direction.

Well, let's see now, when the market started out lower yesterday, with the Dow declining to its intraday low with a fast loss of 61 points around 10:30am, market experts were quick to push the "concern that the unrest in Egypt will spread through the region" explanation. In my opinion, it was those images of the present-day Lawrences of Arabia charging on their camels into Tahrir Square that must have gotten investors freaked out. But almost as quickly as the market declined, with the Dow falling below the 12,000 level on those lows, things turned right around to the upside. So now let's try to figure this out – when stocks decline on any occasion at present or in the near future, experts have the easiest excuse to fall back on, a no-brainer so to speak, pushing the Egypt explanation button for want of something better. But when things turn around to the upside like they did yesterday, Egypt is quickly forgotten and now we hear how wonderful the fourth-quarter earnings reports have been and how the economy is not only moving out of recovery mode, but into an expansion phase. So take that - you camel drivers!

After that recovery from the morning lows, the Dow meandered around with very small gains and losses for most of the session, when at 2:45pm it began an upward spurt which took it as high as a 36 point gain before closing with an advance of 20 points. And breadth numbers went from a 1 to 2 negative downside ratio when the averages hit their lows, to a closing positive ratio of 16/13.5, which means that the entire market was advancing as well in conjunction with the major averages.

There were three reports that fueled the upside, and they were another decline in weekly jobless claims, a better than expected December factory orders report and the fastest gain in six years in the January ISM Non-Manufacturing Survey, which covers around 90% of the economy. The Dow's gains came despite a poor report from a large pharmaceutical company, and were led by eventual advances in the energy components.

The real heroes of the day were the retail stocks, which did well on an astounding 4.8% gain in January same-store sales despite the awful weather that large parts of the country had to deal with last month. Many in this group showed strong advances, with various stores leading the upside charge.

The bond market continued to sell off, with yields reaching their highest since last April on perceptions of a stronger economy and also on anxieties about inflation creeping in as well, with record high prices for many food and energy items. The Euro got blasted big-time to the downside as the result of a changed perception about the E.U. raising interest rates after most currency experts thought that this was a done deal. It underwent its largest one-day deline against the dollar in two months after E.C.B. President Trichet said that risks from rising prices are "broadly balanced" even after Euro-area inflation accelerated the most in two years last month.

As the market here went from those early losses to closing gains, the VIX continued its decline this week after that panic push higher to 20.04 last Friday, and declined for the fourth straight day, with a .61 point drop to 16.69.

Raise your hand if you think that ADP should continue to be allowed to publish estimates for private payroll hiring two days before the actual release of the report itself. Once again, their estimates were way off the mark, as they got everyone excited that things were improving with a call for a 187,00 increase. Unfortunately they were only 137,000 too high, as the official January jobs report was a disaster in the sense that overall there were only 36,000 jobs

added, the fewest in four months. There were some brighter spots, as manufacturing jobs rose by the largest amount since April 1998 and the unemployment rate declined down to 9%, the lowest since April 2009. For a change, the size of the labor force did remain unchanged instead of declining, which distorts the unemployment numbers to make them look better than they really are, but it was estimated that 886,00 people were out of work because of the severe weather last month.

Instead of selling off on what has to be a poor report, stocks actually started out a bit higher, with the Dow chopping around between nominal gains and losses, rising by 16 points at its best level and declining by 36 points at its low. What is obviously supporting things from falling too far is a good Nasdaq/Dow ratio, with certain high-price and high-profile technology issues doing well, such as the large mobile telecommunications company, the largest cloud computing stock, which is making a nice recovery after its recent earnings-related beating and the Online move rental company, which has made another new all-time high, making its many detractors look foolish again.

Even as the Dow and S&P are slightly lower, the VIX is also a bit lower as well, pushing it closer to that 15.35 support area. In fact, when the Dow was at its high of the session, the VIX declined as low as 16.05, from which level it has risen somewhat. Something is going to have to give next week, as it would seem that the market should have a difficult time maker further strong advances with the VIX at these levels.

Crude oil prices are lower, as they should be, as only 4.5% of world oil supplies are shipped through the Suez Canal and the Sumed pipeline, which was built alongside the canal to assure that supplies go through if there are any disruption in that waterway. And 14% of liquefied natural gas apparently goes through this area as well, and look at how depressed those prices remain despite the record cold temperatures and storms we have had in most parts of the U.S. this year.

And the bond market continues to sell off, pushing yields to a nine-month high ostensibly on that lower unemployment rate. I do not agree with this interpretation, as this was a weak report which one would think would cause yields to decline. So it must be that the bond market is still getting obsessed with the potential for increased inflation down the road.

Earnings reports the next two weeks will virtually bring the earnings season to a close, and we do hear from the following Dow companies - Tuesday: DIS; Wednesday: CSCO, KO, among some other important companies as well. We will publish a more complete list on Monday.

The S&P trades at 13.5 times forward earnings, and 15.7 times current earnings, and this gets it to the highest level in the past year, if one assumes that this year's earnings are going to come in at $82 for the S&P and $92 for 2011. The average P/E multiple for the S&P going back to 1954 has been 16.2.

According to the sector analysts who follow these companies individually, for all of 2010, earnings are projected to increase by +30%, which would be the most since 1995, followed by earnings increases of +15% in 2011, as reported by Bloomberg Financial, and this would be the largest two-year advance since the period ended in 1995. First quarter profits rose by +52%. Second-quarter profits rose by +49%, the third-quarter rose by +28%. The fourth-quarter is supposed to gain by +24%. If these numbers do come to fruition, then S&P earnings should be around $83 for 2010 and between $93 to $95 for the S&P in 2011. This would equate to around a 15% gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have five consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce

Department. Economists now predict that G.D.P. expanded 3.2% in the fourth quarter, and for 2011, the prediction is G.D.P. growth of 3% and it is 3.2% in 2012.

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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.