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NATIONAL SECURITIES

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Daily Market Notes

Market Update :

DJIA:	**11936**
S&P 500:	**1247**
Nasdaq:	**2663**
10YR T-Note:	**1.99%**
EUR/USD:	**1.37**
VIX:	**31.56**
Gold:	**1784**
Crude Oil:	**95.19**

Prices Current as of 12:05PM

Source: CNBC

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After two disastrous downside days to start last week, with the S&P losing 5.2% during that time, and then two strong days that produced gains of 3.3%, the market decided that it wanted to end the week lower despite a decent October jobs report on Friday.

And once again it was events, or lack of events in Europe that dominated trading here. Before the opening, the initial market reaction to the jobs report was nominally positive, as the various stock index futures contracts were indicating a potentially higher opening of around 25 Dow points, but this early euphoria disappeared because the item that controls our markets, namely the Euro, decided to go lower at that point. In and of itself, the report was okay, as it showed that the unemployment rate hit a six-month low, edging down to 9% from 9.1% and jobs gains in the prior two months were stronger than previously reported, pointing to some improvement in the still-weak labor market. The overall number was a gain of 80,000, but the August and September numbers were revised upward by 102,000. Private sector payrolls rose by 104,000 but from this number one has to subtract 24,000 government jobs that were lost, and this has been an ongoing trend for months now.

And the reason for the Euro decline was that the G20 leaders apparently failed to agree on a plan to increase the resources of the I.M.F., which supposedly added to the concern that they will not be able to provide additional aid to deal with the crisis. Then the Greek political drama moved into high gear ahead of a vote of confidence in the existing government, as the Prime Minister is likely to step down even though he eventually won Friday night's vote. Apparently they backed him in Friday's vote on condition that he negotiates a coalition agreement with the conservative opposition. This coalition can then ratify the Eurozone rescue plan and apparently he would resign after that.

At its worst level, the Dow was lower by 194 points just after 10:30am and managed to improve from there, eventually closing with a loss of "only" 60 points, while breadth numbers were negative at an 11 to 17 ratio.

Despite the lower day, the VIX also declined a bit, which is not the best dynamic that one wants to see, because if the market is going to end lower, let the VIX rise in order to create more of an oversold situation from which stocks can rally. In an overall sense, there were not that many interesting features, although the Dow fast food restaurant chain component did hit a new all-time high, which is quite an accomplishment in this environment, but the financials, which showed some life earlier in the week, fell back down very badly once again.

So after that terrific October rally, which produced four straight weeks of gains and the best overall monthly market performance in almost 20 years, we saw a down week for the first time in five weeks.

And now the negative focus is shifting to Italy, as the I.M.F. is going to be monitoring their pension reforms, labor markets and privatization efforts, while the world is apparently going to be watching the yield differential between Italian bonds and the gold standard of Europe, namely the German bunds, to see if the difference continues to widen out in terms of higher Italy yields, and guess what, their 10-year yield did reach a Euro-era record high today, to 6.53% after getting as high as a record 6.68%, heaven forbid and that differential over the German yields got as wide as 491 basis points. The current Prime Minister's political majority is unraveling ahead of an important parliamentary vote tomorrow, with those who are deserting him increasing. And back in Greece, its two-year yields also rose to a record despite Prime Minister Papandreou agreeing to step down to allow for the creation of a new government.

After a slightly lower start today, the Dow was able to rally to a gain of 68 points at its best level just before 10am, and the reason was apparently that Prime Minister Berlusconi was going to step down within hours and push for early elections.

This caused the Euro to get to its best level of the day, up to around 1.381, and naturally a higher Euro is going to make stocks here rally as well. The key item in whether or not he would resign would be if he fails to win majority support in tomorrow's vote on the 2010 budget report.

But there were two problems with this advance, as everyone should have noticed and which eventually derailed it regardless of what is going on in Europe, and that is first and foremost, the Nasdaq was not keeping pace with the Dow, as it was able to produce a gain of only 8 points compared to the Dow advance of 68. This is obviously much less than it should have, and we all know who is eventually going to win that battle. And the second warning sign was that despite the Dow's gains, the VIX was higher right off of the opening bell, and was even ahead by .38 points when the Dow was on its high. These two warning signs unfortunately did what they usually do, namely turn things lower, and at its worst level of the day so far, the Dow has declined to a loss of 54 points while the Nasdaq is worse on a relative basis and the VIX is also ahead by more than twice as much as it should be relative to the current Dow loss of around 50 points or so. Breadth numbers have turned negative by worse than a 1 to 2 downside ratio. And to no one's surprise, the Euro has given up those early gains as mentioned above to currently trade lower at around 1.374, which is hampering the ability of stocks here to rally. Weakness in most of the high-priced technology stocks for whatever reason ahead of tonight's Internet price discount stock results have held the Nasdaq back all day, as was mentioned earlier.

Despite around 70% of the 433 of the S&P companies having beaten their estimates and showing earnings gains of around 15% on an 11% advance in revenues, these results are going to become less and less of a factor as the number of companies that still need to report winds down this week and next week.

The lineup for the week is as follows – tonight: PLCN; Tuesday: ROK; Wednesday: Dow component CSCO plus RL, M; Thursday: JWN, VIA, KSS and Dow component DIS; Friday: DHI. One can see that the last group to report, namely the retailers, is going to be bringing up the rear with several important ones reporting this week and next.

Economic reports this week are negligible, with later today: September consumer credit; Wednesday: September wholesale inventories; Thursday: September trade deficit, weekly jobless claims; Friday: November preliminary U. of Michigan Consumer Sentiment Survey.

For what it is worth, there is a statistic that says the S&P has gained on average 5% in the fourth-quarter after third-quarter losses of greater than 8% since 1924. There is another statistic that says when the S&P declines by 14% or more during the third –quarter, as what occurred this year, it has an 89% chance of advancing during the fourth-quarter. Let's see if history repeats itself this year.

Isn't it enough that around $10 trillion was wiped off of equity values worldwide in the quarter just ended, which one would like to think makes stocks look cheap at current levels, especially given the level of all-time record low interest rates. The argument for stocks being good values here is further enhanced by the fact that despite all of the turmoil on fears of slower economic growth or worse, analysts have actually raised their profit forecasts for the S&P companies for 2011 to a record $99.38 from $98.73 in late April when stocks were on their highs, according to Bloomberg. This is somewhat of a strange occurrence, because the rap against stocks lately has been that earnings estimates are too high. So we will have to see who is right on this one.

The S&P trades at under 12 times 2011 earnings, 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 half of 2011, earnings gained +18% as reported by Bloomberg Financial and the 18% overall projected gain for 2011 would be the largest two-year advance since the period ended in 1995. Third-quarter earnings are projected to now rise by 16%. 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 $104 for the S&P.

After four consecutive quarters of negative G.D.P. growth, we now have eight 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 1.8% 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.