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Daily Market Notes

Market Update :

DJIA:	**12050**
S&P 500:	**1235**
Nasdaq:	**2594**
10YR T-Note:	**1.90%**
EUR/USD:	**1.30**
VIX:	**23.32**
Gold:	**1616**
Crude Oil:	**97.13**

Prices Current as of 0:30 PM

Source: CNBC

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Special Comment – We sent out yesterday afternoon a very comprehensive report on high-yielding products and the reasons we feel that these are worthwhile investments in these trying times in the market. The areas covered include: international ETF's, mutual funds, domestic ETF's, municipal ETF's, U.S. blue-chip stocks, European blue-chip stocks and high-risk European stocks. It would seem that there should be something for people to get involved with among this extensive listing.

Oh, no – the week started out once again yesterday in the exact opposite way to what the old-time civil servants used to say when they were punching their time-clocks at the end of the day – "Another day, another dollar". The stock market lately has been producing the exact opposite, namely "Another day, another loss of dollars!"

And the same negative factors were present yesterday in what is becoming an almost demoralizing pattern, and here we go again.

1 – the market once again showed a complete inability to hold onto its best early gains of the session, a pattern that manifested itself every day last week and began the new week with as well. For instance, when the Dow was at its best early level with a gain of 59 points at 9:40am, it could not stand the temporary prosperity and as a result, it fell into negative territory by 11am. At 3pm it was lower by 40 points. As if this 99 point downside reversal was not enough further pain to inflict on investors, it ended lower for the seventh straight day relative to where it had been at 3pm, as this time the major averages went into another late downside swoon as the Dow turned that 40 point loss one hour before the close into a final 100 point decline and the Nasdaq did even worse, losing 32 points. Breadth numbers were horrendous at a negative 3.6/1 downside ratio and the booby prize with a capital B went to – you guessed it – the financials, which even from very low levels, decided to go even lower, bringing losses in some issues to as much as 62% in the case of what is now the second largest U.S. bank,

which had the ignominious distinction of falling below 5 to its lowest level since March 2009. Others in this beaten-down group also declined to multi-month or multi-year lows as well.

2 - the awful performance of the VIX, which has been working against the market, continued to end at a ratio that might not be conducive to further consistent gains, as it finished higher by only .63 relative to that Dow loss of 100. What made this VIX close even more perplexing was that it ended at the same price that it was at even when the Dow was 40 points higher at 10am, when at least it was trying to correct the bizarre relationship it has had with the market for the last seven trading days. And the totals read as follows – the Dow has lost a net 230 points while the VIX has declined by 5.67 points, which by traditional measures would imply a Dow gain of 567, and what else is new?

3 - and once again, what would a day be without the ongoing neurotic obsession by our stock market with the minute to minute fluctuations of the Euro, as when the Dow was at its best early level, the Euro got as high as 1.3040, then gradually declined to 1.3020 by 3pm when the Dow had given back that early gain to be 40 points lower as mentioned above. Then when the Euro decided to fall even further, down to the 1.3000 level, that was all she wrote on the downside for stocks, as they plunged more as mentioned above as well. And the reason for the late further decline of the Euro? Apparently it was investor selling ahead of today's Spanish debt auction, and why not.

And naturally as stocks went lower, the bond market had to rise even more, pushing yields close to record low levels, with the 30-year down to 2.79% and the 10-year close to its lowest yield ever, at 1.81%, which insures that a person who buys this investment loses money after taxes and inflation.

If today's upside moonshot is being attributed to the better November housing stars report, then something is wrong somewhere,

as how many times has the market collapsed to the downside on days when there were economic reports released here of greater significance than this one. This report pushed the reading to the highest level since April 2010 and building permits, an indicator of future activity, rose to their best level in more than a year. The reason that it is dangerous to use one good economic report as an explanation for higher stocks when the opposite dynamic has been at work lately as just mentioned is that – what is the explanation going to be on the next down day? In other words, let's just forget about a report that was the ostensible explanation for a rise in the market on a particular day which is then forgotten about on the next lower day for stocks.

In any event, today's classic and terrific so-far "Turnaround Tuesday" is a function of the fact that the outside markets such as the Euro and crude oil, which have basically been dictating which way stocks go on a daily basis, decided at least for today that the path of least resistance is higher. And the fact that the Euro, after reaching an 11-month low last week at 1.2944, is doing better today, reaching as high as 1.3130, is helping and it is interesting that for the time being, despite the overwhelmingly bearish sentiment against it, the Euro seems to be finding support just below the 1.3000 level. Apparently the reason for the strength in the common currency is that not only did those eagerly awaited Spanish bond auctions do better than expected, with the two-year notes rising now the for the eighth straight day, and you would never know that based on recent price action in the Euro, but Italian bond yields declined as well. And to top off the icing in the bullish Euro cake at least for today, the Ifo institute business climate index for Germany rose to a rousing 107.2 this month from 106.6 in November after the experts had predicted it would fall to 106, and once again can you imagine the nit-picking that these numbers and market reaction to them imply, as what is the difference between 106 and 107.2, but let's not complain as at least for one day the markets are doing very well.

And how quickly investors have forgotten about the death of the North Korean dictator Sunday evening which was ostensibly used as an excuse to sell the market off yesterday on the old "increased uncertainty and tensions in the region" excuse.

On a day when the Dow has gained 294 points at its best level, breadth numbers are excellent at a positive 8 to 1 ratio and the VIX at least is not going down as much as the Dow is up, currently lower by 1.50 relative to a 270 point Dow gain as this is being written. And how bad can it be when the second-largest U.S. bank as mentioned above, is up by .14 cents after losing more than 60% of its value this year alone?

A somewhat disturbing note as we keep moving into the fourth-quarter earnings season is that so far the number of negative pre-announcements has overwhelmed the number of positive ones by the large ratio of 97 to 26, a 3.7 negative relationship that is the largest in 10 years. However, this is subject to change as things keep going forward.

In this best time of the year for stocks, there is a sobering statistic that says since 1928 the S&P has rallied 80% of the time in the last two weeks of the year when it is already ahead for the year, but only 60% of the time when it is down for the year, as it currently is, so we should all hope that the nicest thing that can be said in this regard is that let us pray for the best.

Fourth-quarter earnings season continues to slowly build up and next week we will hear from the following important companies – tonight: NKE and ORCL; Wednesday: BBBY, FINL, WAG.

Economic reports might play a role this week as well, and the lineup is: Wednesday: November existing home sales; Thursday: final estimate of 3Q G.D.P., weekly jobless claims, final U. of Michigan Consumer Sentiment Survey; Friday: November durable goods orders,

November personal income and spending, November new home sales.

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, although this probability is getting less after the horrible start to November threw things off, and the recent weakness is not going to help as we approach the finish line.

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 10% and revenues are now projected to rise by 7%. 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.