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Daily Market Notes

Market Update :

DJIA:	**12261**
S&P 500:	**1263**
Nasdaq:	**2615**
10YR T-Note:	**2.02%**
EUR/USD:	**1.30**
VIX:	**20.89**
Gold:	**1605**
Crude Oil:	**99.89**

Prices Current as of 1:00 PM

Source: CNBC

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Special Comment – We recently sent out 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.

After Tuesday's upside moonshot and Wednesday's tremendous intraday upside reversal, yesterday was almost a perfect kind of day for the following reasons:

1 – the market opened higher and stayed higher all day without the up and down drama that has typified trading for most of the year. For instance, the Dow opened around 40 points higher, reached its best level of the day with a 75 point gain at 2pm and then closed with a 62 point advance without those usual last hour gyrations.

2- the Nasdaq/Dow ratio was strong which assured that things would go the distance, as most large technology stocks were able to recover from their selling-induced misery on Wednesday after the terrible numbers from the largest software company. This relationship also helped breadth numbers to remain strong at a positive 3 to 1 ratio.

3- the VIX finally cooperated by going down less than it should have for a change, but not before some really bizarre action, such as the fact that when the Dow was up by 57 points at 10am, the VIX had the nerve to decline by twice as much as it should have relative to that advance, continuing a pattern that has been prevalent for the past two weeks and which will ultimately limit the market's upside, as the lower the VIX goes, the less room there is for stocks to rally.

On that low, it got down to 20.34, its lowest level since July 26th when the S&P was 1332 versus the 1254 level that it was at yesterday morning. But it finally cooperated and ended only .27 lower, which was ultimately about half of what it should have been relative to the Dow closing advance of 62 points.

4- for the second day in a row, the market ignored what was happening or not happening in Europe, as the common currency stayed around unchanged all day at 1.3050 and we did not have to hear that Italian and Spanish bond yields were a few basis points higher or lower, blah, blah, blah. In other words, the market is finally reacting to the better fundamentals that continue to present themselves in this country, such as yesterday's weekly jobless claims at the lowest level in 3 and a half years and the four-week moving average down to the lowest level since June 2008, the U. of Michigan Consumer Sentiment Survey at its highest level in six months and November durable goods orders rising for the seventh month in a row.

5 – the market finally had the leadership that one would like to see, namely from financials and technology, as the latter is the largest component of the S&P at 20% and the former has been beaten down so much that some sort of recovery from these bargain-basement prices should come about and if it does it will show that this country's banking system is getting into better shape. The only potentially negative is that the energy stocks also continued to do very well, as good old crude oil got as high as $99.50 as a result of the goings on in Iran and Iraq, which we addressed in yesterday's market notes.

And would you believe that with all of the tremendous volatility that we have seen this year, the S&P closed 0.3% lower for the year, as if nothing ever happened in 2011, as it is exactly at the level at which it began the year, confounding both the bullish and bearish experts who throw all of their self-serving "forecasts" out there.

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Today is turning out to be a carbon-copy (for those old enough to remember what the function of this antiquated procedure was) of yesterday, as the Dow opened higher and levitated to better levels as the day is moving on, obviously on very light pre-holiday volume. And believe it or not, we have exactly the same dynamics at work today as yesterday, as there were some good economic reports here such as November new home sales rising to a seven-month high and the supply of homes on the market at a five and a half-year low, November durable goods orders rising by the most in four months, led by a surge in aircraft orders.

Other similar dynamics to yesterday are that the VIX is declining by less than it should be relative to the Dow's advance, currently lower by .27 relative to the Dow's advance of 95 as this is being written. The Nasdaq/Dow ratio is lagging a little bit a technology stocks overall are not doing as well as yesterday, which is why breadth numbers are only 2 to 1 to the upside as opposed to the much better reading of yesterday. Financials and energy stocks are doing well again, and crude oil is getting closer to that $100 a barrel level, and how is that supposed to be any good?

If things can close at current levels or better, the S&P will now join the Dow in positive territory for the year, while the Nasdaq is 1.5% lower at the present time. Another technical note is that the S&P is once again above its 200-day moving average for the first time since mid-November, when it was able to hold this level, which sort of makes the obsession with this relationship a little meaningless, as it was not able to hold the relationship at the end of October as well, so in a sense instead of being a support level to higher prices, it has served the opposite purpose, namely a resistance level where things go lower, so we shall see if the pattern changes this time.

Next week's economic reports include: Tuesday: October CaseShiller Home Price Index, December Consumer Confidence, Dallas and Richmond Fed Manufacturing Index; Thursday: weekly jobless claims, December Chicago Purchasing Managers survey, November pending homes sales and the Kansas City and Milwaukee NAPM Manufacturing reports as well.

As we approach the end of the current year and the start of the new one, there is the old statistic about the well-known supposed "Santa Claus" rally and here it is – since 1969, the S&P has gained an average of 1.6% on the last five trading days of the old year and the first two of the new year, so let us see what happens this time.

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.

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.