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Daily Market Notes

Market Update :

DJIA:	**12311**
S&P 500:	**1267**
Nasdaq:	**2625**
10YR T-Note:	**2.00%**
EUR/USD:	**1.30**
VIX:	**22.02**
Gold:	**1596**
Crude Oil:	**101.07**

Prices Current as of 12:00 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.

Friday was a day very similar to Thursday for the following market dynamics, and was also a perfect sort of day for the following reasons, as some of them sound exactly like what happened on Thursday as well:

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 50 points higher, then glided up to be ahead by 85-90 points for most of the session and then in the last half-hour it pulled a bit of a surprise on the bearish crowd with an upside acceleration to end at its best level with a 124 point advance on the lightest volume of the year.

2- the Nasdaq/Dow ratio was not quite as strong as the day before and basically kept pace with the Dow rather than lead it. Breadth numbers as a result were good at a 2 to 1 upside ratio, not quite as good as Thursday's 3 to 1 ratio when the Nasdaq was the clear leader.

3- the VIX cooperated once again by going down less than it should have for the second day in a row, closing lower by only .43 to 20.73, which once again is starting to correct that terrible relationship that it has had with the major averages and could have prevented the market from going consistently higher if it were to stay at these low levels.

4- for the third 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 1.3060 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 November durable goods orders reaching their highest level in four months and November new home sales reaching a seven month high with supplies on the market falling to their lowest in over five years.

5 – once again, the market 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 crude oil got as high as $99.70 as a result of the goings on in Iran and Iraq, which we have already addressed.

And would you believe that with all of the tremendous volatility that we have seen this year, the S&P closed 0.6% higher 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.

And as the market did better last week, bond yields did their knee-jerk reaction in the opposite direction to stocks, as they rose from their recent lows of 2.85% and 1.85% respectively for the 30 and 10-year maturities to trade as high as 3.05% and 2.02% respectively, making those investors who rush into this losing investment at the low end of the yield spectrum wondering what happened to their supposed "flight to quality" trade.

Today is turning out so far to be a day that I predicted it would be in my quote to Reuters, that the market would do "nothing" after both the Dow and S&P rose for four straight days in a row for the first time since September, as it began the so-called period of the Santa Claus rally on the fifth from final trading day of the year with gains on Friday. The Dow started out with a decline of 24 points at its low level of the day so far and then spurted to a gain of as much as 34 at its best level so far after the release of the December Consumer Confidence report which rose to an eight-month high. From that best level, it declined to just around unchanged and has meandered slightly higher as this is being written. The October CaseShiller Home Price Index showed a 3.4% decline in prices, up from a 3.5% decline the month before, so this was sort of a non-event. The Richmond and Dallas Fed Manufacturing Surveys sort of cancelled each other out as the former rose a bit while the latter declined by a small amount.

One interesting and long overdue dynamic is that the VIX gapped open higher and has remained higher even as the Dow and S&P have been positive for most of the session. This is good because that relationship is the best possible one, namely higher stocks and a higher VIX, because it pushes the VIX further away from its ultimate downside support level and theoretically gives equities more room to rally on the upside, and this is a welcome reversal of the recent trend where the VIX was going lower as stocks were going lower as well, which is the worst possible combination.

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The Euro is steady to slightly higher once again, basically doing nothing but also frustrating all of the currency experts who are shorting it in anticipation of a clean break below the 1.3000 level, which so far has turned out to be support. The supposed big event for the common currency is an Italian bond auction tomorrow, and there was also dismay today as the 10-year yield once again rose above the 7% level, which is the benchmark for being bailed out as per Greece, Ireland and Portugal. And heaven forbid, it was reported that Italian retailers have suffered their worst Christmas in 10 years, so if any Americans are fortunate enough to be spending the holiday season in that country, perhaps they can snatch up some bargains at lower price levels.

And naturally crude oil is once again in its own upside world, and how is that supposed to be good for stocks, as those tricky Iranians once again have threatened to bar shipments through the Strait of Hormuz if sanctions are imposed on its crude exports because of their nuclear program. About 15.5 million barrels of oil a day, a sixth of global consumption, flow through that waterway. Iran pumps 3.56 million barrels of oil a day, second only to Saudi Arabia.

This week's economic reports finish with: 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, and so far we are one for one as the major averages closed higher on Friday, the first day of this seven-day period.

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.