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Daily Market Notes

Market Update :

DJIA:	**12130**
S&P 500:	**1255**
Nasdaq:	**2643**
10YR T-Note:	**2.06%**
EUR/USD:	**1.34**
VIX:	**27.84**
Gold:	**1717**
Crude Oil:	**100.89**

Prices Current as of 12:10PM

Source: CNBC

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After last week's very strong market performance, with the Dow achieving its second best weekly point gain of all time, for the second day in a row, the various stock index futures were sharply higher in the overnight session early yesterday, and once again it was Europe that dictated what happened here, as the new Italian prime minister, Mario Monti, proposed budget cuts of $30 billion Euros. In addition, both the French and German leaders pushed for a re-write of the E.U.'s governing treaties in order to assure greater economic cooperation as an initial step in trying to bring the debt crisis to a satisfactory resolution. The German government said that they will allow the Bundesbank to help fight the crisis through loans channeled through the I.M.F.

As a result of this friendly European news background, the Dow gained as much as 167 points at its best level at 10:30am despite a report that the November ISM Non-Manufacturing Survey fell to its lowest level since January 2010 with a slight loss when a small gain was expected. On the other hand, the reading over 50 still showed expansion. October factory orders came in about as expected.

From that high, also for the second day in a row, things were not able to hold their best morning levels, through no fault of their own, as once again just as Europe gives, Europe also takes away. From those morning highs, the Dow gave back virtually all of its gain and was only ahead by 10 points at its 3:15pm low, but instead of giving back the entire gain as it did on Friday, it was able to partially get its upside act together and end with a closing advance of 78 points. Part of the reason it was able to make this comeback was that the Nasdaq/Dow ratio was very strong, which ultimately was able to provide support. For instance, when the Dow was on its 167 point high, the Nasdaq was ahead by 48, or more than it should have been, and when the Dow was on its 10 point low, the Nasdaq was higher by 15, again more than it should have been. This broader participation was able to eventually carry the day, as the Nasdaq ended ahead by 29 points. And breadth numbers were excellent at a 3.5 to 1 positive ratio.

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The one item that was not cooperating was the VIX, as even when the Dow was on its best level of the session, the VIX was only down by 1 point, less than it should have been and it actually had the nerve to go positive at 1:45pm when the Dow was still ahead by 75 points, and what was that about? When the Dow hit its low with that 10 point gain, the VIX really flexed its muscles with a gain of .79 points and finally ended with a closing advance of .32, again an unusual relationship relative to the overall market's good performance.

And for another day, those beaten-down financials were able to hold onto gains despite the negativity that overcame the market after 1:30pm when there was a report that good old Standard & Poor's, which was asleep at the switch during the financial meltdown of 2008, was going to continue to be extremely pro-active in 2011, this time with various European countries by putting them on review for possible downgrades. And sure enough, after the market closed, it was announced that Germany, France, Netherlands, Austria, Finland and Luxembourg, the six AAA rated countries, are in fact among the nations being placed on "credit watch negative", pending the results of this Friday's all-important E.U. summit.

In a joint statement, the governments of France and Germany said that they "recognize" the move by S&P and that they "affirm their conviction that the common proposals made today will strengthen coordination of budget and economic policy, and promote stability, competitiveness and growth", amen to that.

The only positive effect of the downgrade was that the price of crude oil, which had been ahead to more than $102 a barrel, cooled off as stocks came off of their best levels as the Euro came down, to end unchanged at around $101 a barrel after being over $102. The Euro also fell due to the credit downgrade situation and ended unchanged at 1.34 after being almost 1.35 when stocks were at their best morning levels as well, and merrily we roll along.

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After yesterday's late S&P announcement, things got a bit bent out of shape last night, as the various stock index futures declined because of the supposedly negative implications of what they did. As a result, the S&P futures declined by almost 10 points at their worst level during the Asian session. From that level, they improved to as much as a gain of 5.50 points ahead of today's opening, reflecting the uncertainty that exists in the market as it awaits the results of the important E.U. summit meeting this Friday.

The Dow opened mixed and was ahead at its best level with a gain of 62 points at 10:40am but the problem was that the Nasdaq, after a higher start, has decided to go lower for whatever reason, due to weakness in the high-priced technology stocks which did well during last week's historic rally and yesterday as well. Therefore, we have a classic case of a higher Dow and a lower Nasdaq and unfortunately we all know who usually wins that battle.

As a result, the Dow has cut its best gain to 40 points as this is being written and the Nasdaq keeps sliding further with a loss of 10. And one can see that the Dow is sort of flying solo today because even when it was on its best level, the breadth numbers were negative, and as things have deteriorated somewhat off of those early highs, breadth numbers are getting worse, currently at a negative 1 to 2 ratio, so how is the Dow's advance supposed to mean anything as the broader market is decidedly on the downside. In fact, just two Dow stocks – the maker of Scotch Tape, among other products, on better forward projections and the insurance component on a share buyback - are providing all of the point gains for the Dow, so today is one of those days when the Dow is not at all representative of what is going on. On the other hand, if the Euro by some miracle does strengthen in the afternoon, then perhaps things can at least maintain themselves at current levels or better.

Otherwise, the Euro is slipping a bit, which is obviously responsible for the downward movement in stocks here from their best levels, and most commodity prices are lower as well,

with crude oil slipping back closer to "only" $100 a barrel, hip, hip, hooray and let us remember that in this sick symbiotic relationship with all other markets to the ups and downs of the Euro, the only way we are going to get lower oil prices is if the stock market sells off as well, which is the bizarre relationship we have been in for over a year now.

Otherwise, with few earnings reports of consequence and no important economic reports this week, our market will be strictly a function of what goes on in you know where, as apparently today the yields on French, Spanish and even Austrian bonds were higher (and when is the last time that anyone cared about Austrian bond yields?), but will miracles never cease, yields in Italy have continued to move lower.

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, but there has obviously been a strong improvement starting last week and moving forward.

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 11%. 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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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.