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Daily Market Notes

Market Update :

DJIA:	**12174**
S&P 500:	**1257**
Nasdaq:	**2643**
10YR T-Note:	**2.06%**
EUR/USD:	**1.34**
VIX:	**28.68**
Gold:	**1738**
Crude Oil:	**100.91**

Prices Current as of 12:40PM

Source: CNBC

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Special comment: We distributed an important story on Bloomberg in which I was quoted, among others, about the sycophantic connection between our stock market and the price movements of the Euro on a daily and intraday basis as well, a theme that I have been mentioning in the daily market notes for months now. It gives interesting statistics on how this relationship has affected our stock market all year and we urge people to read it.

Early yesterday morning, the various stock index futures traded lower due to the Standard & Poor's downgrade on Monday evening that Germany, France, Netherlands, Austria, Finland and Luxembourg, the six AAA rated countries, are 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.

Then by some miracle, most stock index futures decided that the path of least resistance was higher, and when this happens, market experts always give explanations such as "optimism that Friday's important E.U. summit meeting will come up with a solution to the debt crisis."

For whatever reason, the Dow chopped around early, then rose to a range of 40 to 60 points higher for a good part of the session, when at 2:30pm came a story in the Financial Times of London that E.U. leaders will consider increasing the size of the Euro-zone rescue fund and will create two separate rescue facilities in order to increase the effectiveness of their actions.

As a result, the Dow shot up to its best level of the day with a 117 point advance at 3:15pm but could not hold these gains and from that time until the close it gave up half of the gain to finally close 52 points ahead.

The reason for the inability to hold the best gains was something that everyone should have noticed all day, namely that the Nasdaq/Dow ratio was extremely weak, courtesy of large declines in those high-priced technology stocks for whatever reason.

For instance, when the Dow was drifting in that plus 40 to 60 point gain range for most of the day, the Nasdaq was lower by around 5 to 10 points. And when the Dow did shoot up to that 117 point gain the Nasdaq reluctantly came along for the ride and was ahead by only 7, which had the ultimate effect of forcing the Dow to give up half of its best gain as mentioned above. So in a sense this was one of the worst 52 point Dow gains imaginable, as breadth numbers were just about even and the VIX rose for the third day in a row despite the fact that the Dow and S&P have advanced the past three sessions. One could see that the VIX was not cooperating because even when the Dow was ahead by those 117 points, the VIX was only lower by .43, half of what it should have been and finally ended higher by .29, certainly a strange development with both the Dow and S&P nicely higher.

But as I said, this was one of the worst Dow 52 point advances ever, as five of its components accounted for the entire gain, with the energy components, in addition to the hamburger chain, the insurance component and the highest-priced technology stock (at an all-time high) doing the heavy lifting.

In a sense, the market felt as if the Standard & Poor's downgrade was sort of a non-event and just traded on its own dynamics for whatever reason in what turned out to be a sort of inconsequential day, which really did not accomplish anything and just marked time ahead of the important E.U. summit meeting on Friday.

And once again and to no one's surprise, what happened before the market opened today was also strictly a function of the comings and goings of the Euro, as at around 3am this morning,

the S&P futures were ahead by 13 points because the Euro rallied from its 1.340 close to as high as 1.345 on, you guessed it, "optimism" that European leaders will step up efforts to contain the debt crisis and why not throw in a little Asian explanation also, and that was the speculation that China will ease monetary policy next year amid signs that inflation is receding.

Then as the clock ticked toward Europe, the stock index futures decided to decline due to a report that Germany had rejected proposals to combine the current and permanent European rescue funds, and also that they had expressed some pessimism about the outcome of this week's summit. Apparently Germany will oppose any attempt to change the permanent European Stability Mechanism from taking over the current rescue fund.

Then the stock futures recovered from their worst losses as another report said that the E.C.B. was going to plan a range of measures to stimulate bank lending in an effort the fight the crisis, such as having more access to E.C.B. cash and offering them longer-term loans at lower rates.

As a result of all of these European anxieties, the Dow fell right off the opening bell to its lows of the day with a loss of 90 points at 9:45 am but has since been able to battle its way back to about unchanged as this is being written. And surprise, surprise, the Euro has also improved from its worst level, which was 1.335 at the same time that the Dow hit its low (this is what that story referred to at the top of these notes is all about) as well, and has improved to just about unchanged also, back to around 1.340.

But similar to yesterday, as the Dow is just about unchanged, the Nasdaq is lagging with an 8 point loss, and breadth numbers are negative at an 11/17 ratio, so once again the Dow is sort of flying solo, with gains in two of the same components from yesterday carrying it back to its high – the highest priced technology component and the insurance stock.

And once again it is some weakness in the high-priced technology stocks that is preventing the Nasdaq from participating more to the upside. And for the fourth day in a row, the VIX ix not cooperating either, with a gain of .68 even as the Dow is just about unchanged, but this could be a reflection of the fact that the broader market is not participating in the upside, which is very similar to what happened yesterday as well.

The rest of the day will obviously be a function of whatever happens in Europe, and let's hope that things can at least stay somewhat steady, but that weak Nasdaq/Dow ratio could limit the upside similar to yesterday. With few earnings reports of consequence and no important economic reports this week, our market will still be strictly a function of what goes on in you know where.

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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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.