NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update :

DJIA:	**12057**
S&P 500:	**1243**
Nasdaq:	**2620**
10YR T-Note:	**1.98%**
EUR/USD:	**1.33**
VIX:	**30.25**
Gold:	**1712**
Crude Oil:	**98.70**

Prices Current as of 12:45PM

Source: CNBC

Donald M. Selkin
Chief Market Strategist
(212) 417-8017
dselkin@nationalsecurities.com

Special comment: We distributed an important story yesterday 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.

Yesterday's session was extremely similar to Tuesday's in a spooky sort of way in the sense that on both days, a weak Nasdaq/Dow ratio prevented the market from ending at its best level and actually pulled all of the major averages lower going into the close. For instance, after a 90 point lower opening for the Dow based on 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 tomorrow's summit, things started to improve. This improvement also took place despite a report that Germany will oppose any attempt to change the permanent European Stability Mechanism from taking over the current rescue fund. At the same time that stocks hit their lows, the Euro declined to its worst level of the day as well, at 1.335, and what else is new?

At the same time that the Dow made these lows, the Nasdaq was down by 37 points, which is more than it should have been relative to the Dow's decline. Then similar to Tuesday, the Dow decided that it wanted to rally to its best level of the day on a report that the G20 was considering a $600 billion lending program overseen by the I.M.F. As a result, the Dow rallied to its best level of the session with a gain of 107 points after 3pm but even on this high the Nasdaq could only muster a gain of 10 points, and similar to Tuesday, it was weakness in the high-priced technology leaders that restrained this index from doing better. And we all know what happens when this is the case.

And sure enough, the catalyst for a sudden reversal off of those highs came from none other than Standard & Poor's which said that they might downgrade the credit rating of the entire E.U. and some individual French and German banks. To put the final indignity on the session, the I.M.F. denied the report referred to above. As a result, the Dow gave up half of its best gain to finish with a closing advance of 46 points while the Nasdaq ended 1 point lower. And similar to Tuesday, the two best Dow performers were the highest priced technology component at a new all-time high, and the insurance component as well.

And once again, in a somewhat strange circumstance, the VIX rose for the fourth straight day despite the Dow and S&P being higher every day in this time period. It rose by .54 to 29.67. Breadth numbers were slightly positive at 16/14, so it became the second straight day when the Dow was sort of flying solo to the upside without broader participation from the rest of the market, and this is not the best scenario for ongoing further gains. About the only consolation of the day was that the yield on the two-year Portugal note declined by 1.20% down to 15.94%, and will miracles never cease.

After the mixed to better sessions of recent days, the various stock index futures were originally signaling a better opening as the Euro jumped to a half-point gain up to 1.346 at 8:30am. This rise in both the Euro and our stock index futures was also a function of the weekly jobless claims report which came in better than expected (see below). The E.C.B. offered banks as much money as they need for three years and loosened collateral rules at refinancing operations to ease strains in the credit markets. They also said that the central bank will cut banks' reserve ratios to 1% from 2% and will stop fine-tuning operations at the end of each reserve maintenance period.

But that optimism quickly dissipated as another in the long line of European bureaucrats whose pronouncements tend to hurt the markets more than help them, namely the new president of the E.C.B., said that he did not plan to purchase more bonds with the statement that their bond purchase program was not "eternal or infinite." Stocks added to their losses as the European Banking Authority said that the region's banks will need to raise $114.7 billion Euros in fresh capital to weather the sovereign debt crisis.

To no one's surprise, the Euro took a downside beating from those best levels as mentioned above to as low as 1.329 and once our stock indexes and stocks themselves saw this, that was all she wrote on the downside as the Dow declined steadily to its worst level of the session so far with a loss of 147 points at 11:40am. These declines came despite a very good weekly jobless claims report, which declined by a much larger than expected 23,000 to 381,000, the lowest since February, and this once again shows what was pointed out in the Bloomberg article that I was quoted in and referred to at the start of this piece, namely, that our market is being held hostage to what goes on in Europe instead of concentrating on the improving fundamentals of the U.S. economy.

Breadth numbers, which could not do much in recent days when the Dow was higher, are getting crushed on the downside today with a negative ratio of 1 to 5 and the VIX, which had been moving higher when the Dow and S&P were also higher these past four days, is rising by more than it should be with a gain of 1.47 to 30.14 after having spent the last six days below that important level versus a current Dow loss of 105 points.

The best hope is that the market can dig in its heels today and then we can all await the actual summit meeting of the E.C.B. tomorrow, and let us also hope for the best in that regard and who knows what that meeting is going to bring or not bring.

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.

Donald M. Selkin

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.