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Daily Market Notes

Market Update :

DJIA:	**12386**
S&P 500:	**1275**
Nasdaq:	**2645**
10YR T-Note:	**1.99%**
EUR/USD:	**1.29**
VIX:	**22.54**
Gold:	**1613**
Crude Oil:	**102.81**

Prices Current as of 1:25PM

Source: CNBC

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

New Comment – We released on Friday a short report going over what took place in the market this year and also what might be in store for 2012, with a very good graphic to explain why stocks could move higher. And Happy New Year to the readers of these daily notes!

Wait a minute! I thought that stocks were not good because on Friday, the last trading day of 2011, the market sold off because Spain reported that its budget deficit will reach 8% of G.D.P. this year rather than the 6% that was previously forecast and this sort of dire news was supposedly anathema to stocks here in this country.

But yesterday, on the first trading day of 2012, the Spanish "problems" were forgotten as fast as discarded New Year's Eve noisemakers, as supposed "good news" from faraway places like Australia, China and Germany got the upside ball rolling on what is traditionally a strong day for stocks in any event. For instance, an Australian manufacturing survey rose for the first time in six months, China's Purchasing Managers' Survey advanced to 50.3 in December from 49 in November and German unemployment declined more than expected, hip hip hooray! This got the early stock index futures indicating a Dow opening of around 200 points, which the market satisfied after the 10am release of the November construction spending report, which rose for the third time in four months and the December ISM Manufacturing Survey which posted its fastest gain in six months.

As a result, the Dow reached its best level of the day with a 261 point gain shortly after the release of those two reports here. From those highs, it sagged to its low of the day at 1pm with an advance of "only" 170, then came back a bit to be ahead by 203 points at the time of the release of the minutes of the last F.O.M.C. meeting.

It got a bit of an upward push from what the Fed repeated from their last minutes, then was ahead by 233 points at 3:45pm before another one of those sickening late plunges ended with a Dow close of 180 points ahead. Even though this was a very nice gain, it was also a close near the lowest levels of the day which has to be disappointing relative to where things were earlier in the session.

Breadth numbers were excellent at a positive 3.5 to 1 ratio and the VIX performed well by declining by only .43 points relative to the Dow closing gain of 180. This was good because we must all remember that the lower the VIX goes, the less theoretical upside potential there is for stocks.

And naturally on a strong day like this, the outside markets behaved as if they were following a Hollywood movie script, as bond yields shot back up, the Euro made a large advance to 1.3050 and commodity markets, which ended 2011 with their first yearly overall loss since 2008 despite gains in gold, crude oil and some agricultural markets, exploded to the upside along with higher stocks and the weaker dollar. In fact, crude oil had the nerve to get as high as $103 a barrel, primarily on "fears" that the Strait of Hormuz is going to be closed to oil shipments, which the U.S. Navy said will not happen.

Despite the somewhat disappointing close, yesterday's first day of the year strong showing was the fourth straight year where the S&P gained more than 1%, with a 1.5% advance. In fact, the S&P has advanced 65% of the time during the first week going back to 1928.

For the first six days of the Santa Claus rally period, which consists of the final five sessions of the old year plus the first two of the new year, the S&P is currently ahead by 1.8% slightly above the average gain of 1.6% for the entire period, with one day remaining in it, which is today.

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After yesterday's strong but somewhat disappointing session because of that close on the low for the Dow, things started out today with a somewhat negative bias and once again it was news from overseas that set the tone of the day. And the compass this time went to Italy, as apparently the plan of that country's largest bank, UniCredit, to sell shares raised concerns that all European banks need to raise capital. It will sell new shares in a $7.5 billion Euro offering to strengthen its capital position. In addition, the E.C.B. reported that overnight deposits from financial institutions rose to an all-time high, which ostensibly means that these banks are depositing their excess cash at the overnight rate of 0.25% rather than lending it for more elsewhere. Finally, the Luxembourg Prime Minister said that the E.U. is facing a recession, thank you very much. And how's that for another example of the neurotic, daily headline-obsessed behavior that our market has exhibited for the past year, as the Euro immediately declined back down as low as 1.2900 and naturally our market sheepishly followed the Euro lower. Then to "justify" the early lower trend, the November factory orders report was construed as negative, as it rose by "only" 1.8% when the experts predicted a 2% advance. Of course overlooked in this analysis was the fact that the prior month's decline of 0.4% was revised upward to a decline of only 0.2%, which means that the two-month number was exactly what it had been predicted to be, but this kind of supposed analysis is just another example of how market experts "justify" why the market is going in one direction or the other at any given time.

As a result, the Dow reached its low of the session with a 60 point decline at 10:45am, from which level it has managed to battle its way back to actually show a very small gain as this is being written. Breadth numbers are still slightly negative at a 13/15 ratio and the VIX is a bit lower after rising by more than it should have relative to the Dow's earlier decline.

One reason for the Dow's turnaround is that the financial stocks have recovered from early sharp losses to be a little higher at the present time and let us remember that this awful performing group, the worst of 2011, started out the new year in a very strong pattern so perhaps the fortunes of these beaten-down shares will perhaps see better times ahead in 2012. It would also be constructive if the market is able to maintain the majority of yesterday's gains, as the first week of the year is historically one that sees better performance than the rest of the year.

The rest of the week sees some important economic releases, culminating with Friday's always important jobs report, and the lineup is as follows: Thursday: ADP jobs report estimate, weekly jobless claims, December ISM Manufacturing Survey; Friday – December jobs report, and as of now the estimate is for a gain of 150,000 versus November's advance of 120,000.

Earnings reports for the fourth-quarter will continue with FDO on Thursday before a greater number of companies reports next week and the largest number will be in two to three weeks from now.

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. Unfortunately we saw three companies fall into this negative pattern today- APKT, NATI and PRGS.
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.

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.