January 5, 2012

NATIONAL SECURITIES

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Daily Market Notes

Market Update :

DJIA:	**12401**
S&P 500:	**1279**
Nasdaq:	**2662**
10YR T-Note:	**1.99%**
EUR/USD:	**1.28**
VIX:	**21.76**
Gold:	**1617**
Crude Oil:	**103.01**

Prices Current as of 1PM

Source: CNBC

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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!

Despite the Euro getting clocked to the downside yesterday with a large decline of .0106 to 1.2944, our market was sort of able to separate itself from its neurotic obsession with the common currency that has been the hallmark of trading here for the past year or so. After the Dow hit its intraday low with a 60 point loss at 10:45am, it began a slow but steady chop higher to end with a closing gain of 21. This was the highest close since late July before things started to fall apart in early August after the U.S. debt downgrade.

But the overall market did not really go along as breadth numbers were actually negative at a slight 14.8/15.4 ratio and both the Nasdaq and the Russell 2000 Index of small stocks were lower. The VIX declined by more than it should have relative to the Dow advance, ending lower by .75 to 22.22.

So what accounted for the fact that our market was able to end mixed to higher despite the Euro remaining at its low? Perhaps it was the exhilarating news that the Portuguese two-year note yield declined by 152 basis points to a yield of only 14.57% and their three-month maturity also fell, from 4.87% to 4.35%. If that was not enough to get the bullish juices flowing, how about the fact that December same-store sales were reported to have grown by 4.6% and this resulted in many retail stocks doing well. Also helping was that domestic vehicle sales rose to their highest level since 2008, which resulted in the auto stocks doing well also. But perhaps the largest bullish influence was the fact that crude oil prices, which had been $1 a barrel lower earlier in the session, also decided that the path of least resistance had to be higher again because this is what stocks love to see in the near-term because it supposedly shows "worldwide economic expansion", but ultimately causes downside havoc as what took place in mid-2008 and early last year as well.

They ended slightly higher once again to $103.22 a barrel and if anyone thinks that this is good for the consumer or for the stock market is sadly mistaken.

Since yesterday was the final day of the seven-day Santa Claus rally period, which consists of the last five trading days of the old year and the first two of the new year, let us see how this period compared to the historical average. The good news is that the 1.9% gain for the S&P over this recent time frame beat the historical average, which is for a gain of 1.6%, so perhaps this will be a positive sign for things going forward.

Now we have to get through the next historical statistic for the first week of the year, and this one says that since 1928 the S&P has averaged a gain of .61% with positive returns taking place 65% of the time, and let's wait until we see how the market reacts to tomorrow's jobs report before saying whether we will beat the historical numbers or not. But so far, the S&P is ahead by 1.5% in 2012.

Today is another one of those days, somewhat similar to yesterday, where the market is trying to ignore more negative news out of Europe and a bunch of weak earnings reports here. Let us begin overseas, as the Euro has plunged to a new 15-month low under 1.2800 as the attention today turned to France, where an auction of 10-year notes resulted in yields rising to 3.29% from 3.18%, heaven forbid, and even more shocking was the news from Hungary, which is a non-Euro using member of the E.U, that yields there continued to rise as well. Then the tour bus made a stop in Italy, where their largest bank, UniCredit had to offer stock at a 43% discount. Finally, the last stop of the day is in Spain, where it was reported that they will have to raise $50 billion Euros more than they had originally planned to do.

Then our market had the nerve to fall to its worst level of the day shortly after the 10am release of the December ISM Non-Manufacturing Survey, which rose to "only" 52.6 when the experts had predicted 53, and tell me something – what is the difference between the two? Of course ignored in all of the negativity was that ADP came out with a whopper of an estimate for tomorrow's jobs report, predicting private payroll gains of an astounding 325,000 versus the official projection of 175,000. This would be the highest in 10 years and in a sense this is a horrible number to put out, because there is no way that this will be reached, which sets up the possibility that the market could be disappointed if the actual number is higher than the official estimate but lower than the ADP projection. In addition, weekly jobless claims declined by 15,000 to 372,000.

Also causing some anxiety was the fact that there were several companies that put out disappointing earnings numbers, and there were many retailers in this group including AEO, BKS, GPS, JCP, KSS, PLCE and TGT, in addition to LLY and TSO in the pharmaceutical and energy areas. On the other hand, there was good news from DNDN, MON, STX and ZUMZ.

As has been the usual case, the market started out with the usual knee-jerk downward reaction to the ostensibly bad news from Europe and the Dow reached its worst level with a 134 point decline after the 10am release of the ISM report as mentioned above. From that level, things have once again started to chop higher, with the Dow having cut that large loss to only 17 points as this is being written.

Breadth numbers are just about even and the Nasdaq is actually in positive territory with a 14 point gain and it went positive at 11:30am while the Dow was still lower by around 80 and we all know who wins that battle. The VIX is nominally lower even while the Dow and S&P are also still slightly lower as well.

And once again, the financial stocks are leading the upside recovery for the third day this week and are so far the best performing group in the young 2012 market after having been hands-down the most awful performers last year, and for a change they are starting to ignore the supposedly "bad" news from Europe and especially the bad news from the European banks, something they were not able to do last year.

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.