

## Daily Market Notes

Market Update : **Special Comment: We sent out the second update to the original report on High-Yielding Products, which shows how extensive the role of dividends has been in contributing to equity gains in the last 80 years.**

**DJIA: 12770**

**S&P 500: 1328**

**Nasdaq: 2849**

**10YR T-Note: 1.85%**

**EUR/USD: 1.31**

**VIX: 18.24**

**Gold: 1750**

**Crude Oil: 98.52**

Prices Current as of

12:45 PM

Source: CNBC

Yesterday was another one of those – was it an up day or down day situations – as the Dow began with a fast gain of 66 points on, you guessed it, “optimism” over the Greek debt resolution situation, then fell back to a loss of as much as 86 points at 12noon before finally ending with a closing decline of 20. The setback from early gains was the result of a negative reaction to three weaker than expected reports here, namely the November Case/Shiller Home Price Index, January Chicago Purchasing Managers and January Consumer Confidence.

On the other hand, the Nasdaq did end higher by 2 points and breadth numbers were also nicely positive at a 17/12 ratio. One can also make the case for more of an up-day than a down-day because just two Dow stocks by themselves accounted for 23 Dow lower points, more than the overall index was negative for the day, and they were XOM on a weak reaction to its earnings and CAT on a general decline in industrial type stocks. On a more positive note, the financials made another one of their recent upside turnarounds and ended higher after a lower start.

And naturally when the bond market saw stocks decline from their best early levels, it decided that the economy must be continuing to “slow”, and as a result it pushed the yields on the 10-year Note down to a four-month low of 1.79%. And then in another example of that “risk-off” mentality, the Euro also decided to decline, down to 1.3080, a loss of .0060 from higher early levels, which is probably why stocks here followed the common currency sheepishly lower.

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Earnings season keeps moving right along, with 209 of the S&P members having reported and the percentage of companies that have beaten the estimates is now up to 66%, closer to the recent average of 70%, and profits are still projected to have advanced by 4.6% from their current level of a 2.6% gain and revenues have risen by 7.8% so far.

Now that the historically important first month of the year is over, let us dissect the statistics, and January was actually a very nice month, with the S&P putting in its best start to a year since 1997, with a 4.4% advance, its best month since October and this compares to the 6.1% gain made in 1997. The Dow was ahead by 3.4%, which was its fourth straight monthly advance, while the Russell 2000 Index rose by 7% and the Nasdaq took the prize as the best performing index with an 8% gain.

In addition, the MCSI Index of developed and emerging markets put in its best showing since 1994, further confounding the overwhelming majority of experts from various large financial institutions who came into the new year with a pessimistic view of things based on a collapse in Europe and a downside Euro price projection of as low as 1.1000, which I do not believe is going to happen and the official position at National Securities was one of more optimism, which has so far turned out to be correct.

The old expression "As January goes, so goes the rest of the year", is worth looking at as history shows that of the 38 years since 1950 that the S&P has advanced this month, it has also ended the year higher in 34 of those years.

There has also been talk of the so-called "Golden Cross", which means the 50-day moving average of the S&P crosses over the 200-day moving average, and this shows that upside momentum is starting to build. Apparently when this takes place, as it has just now, the market has advanced 73% of the time over the following three months for an average gain of 4.1% and the gain is 6.6% over the next six months, and this happens 81% of the time, so we shall see.

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February has now started off the way that January turned out to be, which is to the upside, and if current Dow gains hold it will be the first time in 19 trading days that the Dow has made a triple-digit move one way or the other. The market made a positive reaction to certain overseas statistics, and why not, such as Chinese factory orders showing a gain when a decline had been predicted by the experts, German manufacturing rose for the first time in seven months, U.K. manufacturing rose for the first time in four months, and just to keep the “manufacturing” theme going, the January ISM Manufacturing Survey here rose to its highest level since June as well. In addition, December construction spending rose to a four-month high.

As a result, the Dow reached its best level of the day with a 148 point gain, which is its best showing since the 179 point advance it started out 2012 with on the first trading day of January, so it would seem that the first day of the month is a time so far this year that things get rolling to the upside. Breadth numbers are outstanding with a 6 to 1 upside ratio and the VIX is declining by 1.19 down to 18.25, which puts it close to that critical 18 level once again, and this is the level which stopped things on the upside last week. Helping the market as well was a statement from the Greek Finance Minister that the government and private creditors were “one step away” from reaching a debt arrangement.

ADP put out its estimate for Friday’s jobs report at 170,000 private payrolls, which is still above the official consensus of 163,000 versus a total number of 145,00 due to the projected loss of 18,000 government positions, but let us also remember that they were way too optimistic the last time.

Earnings season is moving along, with - tonight CMG, LVS; Thursday – CAH, CME, CI, IP, CMI, HOT, DOW K, MA, NVLS, Dow component MRK; Friday – CLX, EL.

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Economic reports will be highlighted by Friday's January jobs report, and more on this later in the week: Thursday: weekly jobless claims, January chain store sales; Friday: December factory orders, January ISM Non-Manufacturing Survey and the jobs report, for which the estimate currently stands at 145,000 overall with 163,000 private sector jobs versus 200,000 and 212,000 respectively in December, both of which are subject to revisions.

The S&P trades at 12 times projected 2012 earnings of \$105, 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 4%. The highest ever earnings for the S&P in one year so far took place in 2006, at \$88. For 2012, earnings are projected to be \$105 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. In 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, G.D.P. rose at a 1.7% rate, and it is projected to grow by 2.3% 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.*