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Daily Market Notes

Market Update :

DJIA:	**12848**
S&P 500:	**1347**
Nasdaq:	**2918**
10YR T-Note:	**1.94%**
EUR/USD:	**1.31**
VIX:	**19.80**
Gold:	**1723**
Crude Oil:	**100.90**

Prices Current as of 12:20 PM

Source: CNBC

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After the "in crowd" of nervous nellies last week showed their skepticism over the ability of the market to continue its recent strong run out of the opening 2012 gate through the manic buying of puts in order to attain so-called "downside protection" and bidding the VIX up to unrealistic levels relative to the position of the market, these so-called experts got slapped around badly yesterday as the market started out the new week with a very strong upside performance.

And the same pattern that we have seen on most up-days this year prevailed by the end of the session as well, with the Dow making a fast 83 point gain right on the opening, then hitting its low of the day with an advance of only 22 at 10:40am before getting its upside act together once again and closing 72 points ahead.

We had pointed out that the VIX had acted very negatively last week relative to the fact that the major averages ended only nominally lower, as for the five trading sessions that ended last Friday, the Dow was 61 points lower and the S&P was down by a small 2.4 points, but the VIX decided to play the anxiety role by rising by a large 3.69 points from what has become a strong support level around 17. We had mentioned the one market expert who was quoted in a wire-service story that the reason that stocks declined on Friday was that "no one wanted to be long over the weekend", which is one of the oldest, blandest and most overworked market clichés out there, because when the market rose as it did yesterday, it makes the person who puts out this kind of remark appear as if they do not know anything.

Helping the market to go the distance was a strong Nasdaq/Dow ratio, as the former ended higher by 27 relative to that 72 point Dow advance, as certain high-priced leaders kept leaping ahead to new highs in some cases, with advances of between 6 and 26 points for fliers such as AAPL, GOOG, AMZN, ISRG and PCLN.

And of course when all other explanations are wanting, one can always turn to that country in the Balkan region of Europe that starts with a "G" and ends with an "E", and despite all of the rantings and ravings from small opposition parties that a parlaimientary approval of the austerity measures will condemn the people of this country to a life of misery after all of the years of high living and not paying their taxes, the vote did pass, and we discussed in yesterday's market notes the various ramifications of what is going on there and a reader of these notes can refer to yesterday's comments about them.

Breadth numbers were very strong at a positive 4 to 1 ratio and the market to some extent followed the movements of the Euro, as the Dow hit its best early level of the day when the Euro also hit its high at 1.3280, then the Dow made its low of being ahead by 22 points when the Euro also made its low of 1.3200 and then things sort of drifted higher from there in both the Dow and the Euro.

And what about the VIX, which last week had a mind of its own to go higher as mentioned above? Naturally, it declined sharply as a punishment to its recent buyers, ending lower by 1.75, or more than twice as much as it should have relative to the Dow's gain of 72 and finished below 20 once again, at 19.04.

After yesterday's nice start to the week, there were a few negative hurdles thrown in the market's path as today's trading got underway. The first came last night as good old Moody's got into the downgrade act following already issued downgrades from Standard & Poor's and Fitch, by warning that it may cut the triple-A ratings of France, Britain and Austria at the same time that it downgraded six other E.U. countries such as Italy, Spain and Portugal, and haven't we heard that song before, in addition to economic powerhouses Malta, Slovakia and Slovenia. I guess that what was most surprising here was that London's prize top credit rating was put in jeopardy for the first time, for shame.

Moody's said that it was "worried" about Europe's ability to undertake the reforms needed to address the crisis and the amount of funds available to fight it. It also said that the region's weak economies could undermine austerity drives by governments to fix their finances. Also not helping the Euro today was that the head of China's sovereign wealth fund brushed aside an appeal from Germany to buy European government debt, saying such bonds were "difficult" for long-term investors.

Meanwhile, back at the ranch, Greece's bid for a new bailout got close inspection today from E.U. officials who went over the details of the budget in order to decide whether they have met conditions to get the money. Even if the budget passes muster, the second round of funds may only be paid out once Greece proves it has actually taken action. If they do approve the payout, it means that Greece will have received a total of $240 billion Euros in emergency loans from the E.U. and the I.M.F. over the past two years, which is equivalent to 110% of their G.D.P. The $325 million Euros in savings will probably come from defense cuts of $125 and public sector salary cuts of $200 million.

If the Greek plan passes muster with E.U. officials, it should pave the way for Greece to restructure around $200 billion Euros of privately held debt with those private investors set to lose up to 70% of the net present value of their Greek bond holdings, and this will cut Athens' debts by $100 billion Euros from around $350 billion Euros currently. If all of Greece's commitments are in place and the bond swap goes ahead without complications, it will bring their debts down to 120% of G.D.P. by 2020 from the current level of 160%. It may also be necessary for the E.C.B. and other E.U. national central banks to forgo profits on the Greek government bonds that they hold, which would provide further relief to Athens, and this will also be discussed tomorrow as well

In addition to the negative news from the ratings cuts, there was a hint of some good news out of Europe as well, with German investor confidence rising to its highest level in 10 months and bond yields in Italy and Spain to a lesser extent

declining to their lowest levels in 11 months. But the market used the Moody's ratings cuts and the fact that January retail sales here in the U.S. came in below the expert's consensus to push things a little lower. The retail sales increase was 0.4% versus predictions for a 0.7% advance and December's numbers were revised slightly lower as well. On the other hand, the core number, which excludes autos, gasoline and building materials sales, rose by more than expected, with a 0.7% gain.

As a result, the Dow got as low as a 52 point loss at 10:15am, from which level it has been able to get back as high as a loss of only 12 at 11:45am. Financial stocks, which have been the heroes so far this year, are the weakest group today, which of course has nothing to do with any of the overall negative reasons for out to explain the lower market today, and breadth numbers are actually worse than the nominal Dow loss, at a 840/2000 negative ratio.

The VIX is salivating to the upside once again, with a gain of .75 relative to the Dow loss of 25 points as this is being written. Bond yields are declining on the supposedly "slower" economic scenario, with the 10-yer yield back down to 1.95%. The Euro, after all of the tumultuous dynamics surrounding it, is lower by around .0040 to 1.3150, which means that it is still closer to the higher end of its recent trading range rather than the lower.

Earnings this week will just affect the companies themselves and not the overall market, and the lineup is: Wednesday – ANF, NTAP; Thursday – A, BIDU, DTV, GM; Friday – CPB.

Economic reports could be of the market moving variety, with: Wednesday – February Empire NYState Manufacturing Index, January Industrial Production and Capacity Utilization, February NAHB Housing Market Index and the minutes of the last Fed meeting; Thursday – January P.P.I., weekly jobless claims, January housing starts and building permits, February Philadelphia Fed Manufacturing Index; Friday – January C.P.I., January L.E.I.

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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 5%. 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.