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Daily Market Notes

Market Update:

DJIA:	**12003**
S&P 500:	**1300**
Nasdaq:	**2709**
10YR T-Note:	**3.39%**
VIX:	**20.52**
EUR/USD:	**1.387**
Gold	**1422**
Crude Oil:	**101.14**

Prices Current as of 2:10 PM

Source: Bloomberg

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Special comment: We sent out a report on where things might be headed now that we are at the second anniversary of the greatest bull market recovery from a bear market low since the Great Depression of the 1930's.

So now we know who sold off the various stock index futures late Wednesday to well below fair value, meaning that "someone" knew that things would take a major beating yesterday – and the answer is – it was those Saudi protesters who apparently got shot at by the authorities for demonstrating against the current regime!

So after a horrible start to the proceedings yesterday, with the Dow lower by 225 points at 10am due to various factors that we mentioned in yesterday's report, a mid-day rally got underway which cut the loss to 133 points at 1:20pm. Then came the report about the shootings in that country, which sent the market into another downside tizzy, and at the close the Dow had lost 238 points, its worst decline since last August 11th. Breadth numbers were horrible at a negative 1 to 5 ratio and what was most interesting about the day was that commodity prices also took a major downside beating as well, as the "slower economic growth" story was heard throughout the land.

The bond market resumed its safe-haven status, as risk aversion increased big-time for the supposed "safety" of U.S. Treasury securities, bringing the yield on the 10-year note down to 3.36%, the lowest since January 28th.

What was most interesting was that the VIX, instead of climbing by more than it should on a major down day, as investors supposedly put on their "buy me high-priced puts to protect my downside" hats, actually rose by less than it should have. This was unusual in the sense that when the Dow declines by this large amount, the VIX invariably skyrockets by more than it should because of this syndrome at work. For instance, on August 11th, the Dow declined by 268

points and the VIX rose by 3.02, more than it should have, while yesterday the Dow's loss of 238 points resulted in a VIX rise of only 1.66, which would lead a person to believe that things would recover today, as they currently are doing to some extent.

The reasons offered for yesterday's downside washout included – the interest rate increase in Korea, China's trade deficit widened to the largest amount in seven years, and was the first decline in a year. Export growth slowed to only 2.4% against a projection of 26.2%, and this was the lowest in three years. This slowdown can be attributed to their Lunar New Year celebration, because if one combined the January and February numbers together, the figures are pretty good, so February could just have been an anomaly. Then in Europe, the credit rating of Spain was downgraded and German exports fell by 1%. In the Middle East, the Libyan government bombed the oil export terminal at Ras Lanuf, and the estimates are that there has been a loss of one million barrels a day from that country. In this country, weekly jobless claims rose and the January trade deficit widened by the highest level in seven months due to (surprise, surprise) a surge in imports to their highest level since August 2008 led by higher crude oil prices. This increase in imports overwhelmed a record high level of exports. This wider trade deficit will subtract from first-quarter G.D.P. In addition, weekly jobless claims rose by more than expected as well, although the number of people receiving unemployment benefits fell to the lowest level since October 2008.

In addition to all of the negativity from these events, which is what got the market spooked to the downside in any event, we then got that Saudi news which took us to the lows. It was interesting that crude oil prices for the second day in a row went in the same direction as stocks, as let us remember that since the market top on February 18th, crude oil and the stock market had been moving in the opposite direction as prices went over the $100 a barrel level. So now we seem to be back to the lower commodity prices are bad for stocks because they reflect slower economic growth, which is the opposite of

the syndrome that we saw during the strong market rally which began in September and co-incided with the large rise in commodity prices as well. The thinking then was that higher commodity prices are good because they reflect stronger economic growth.

And for the technical types out there, for whatever it is worth, the S&P fell below its 50-day moving average yesterday after having been above it for 130 straight trading days, which was the longest streak since early 2007, so whether this means that we have changed direction in stocks and that rallies are now meant to be sold will only be proven by the passage of time.

And if yesterday's overseas events weren't enough, today we got the news from Jpaapn of the worst earthquake in at least a century. Because of this, oil refineries there were shut down and the price of crude oil declined below $100, its largest one-day fall since November. The reasoning behind the drop was that the closure of refineries in the world's third-largest oil-consuming nation would temporarily weaken demand, and so be it.

And then we have to deal with the anti-government demonstrators who sold those stock index futures contracts short on Wednesday evening and have now advocated a "day of rage", whatever that is supposed to mean, and one would like to think that this could be supportive of oil prices on the potential for supply disruptions.

So with all of these dizzying events going on today, we naturally got weak opening based on the uncertainties over the Japan situation as the Dow fell to its intraday low of being down by 48 points right after the 10am release of the mid-March U. of Michigan Consumer Sentiment Survey which surprise, surprise fell to a five month low, courtesy of higher gasoline prices. The February retail sales report showed the second gain in a row and the best advance in four months, but let us remember that these increases also reflect the higher price of the energy components.

And the stocks that really showed a bit of a selling trap for those investors who wanted to unload the recently weak performing large energy group were none other than the two Dow energy components, both of which opened with losses of between one to one and a half dollars, and faster than you can say "crude oil", turned around to the upside very quickly, leaving those who sold on the lows scratching their heads saying - "oh, no ,what did I do?", after these stocks have been declining for three weeks now.

From these early lows, things have improved to a Dow gain of 43 points at the best level and it is currently below those highs as the weekly option expiration session comes to a close later today. The VIX is down by more than it should be relative to the current Dow advance of 16 points, losing -1.35 to 20.53, right in the middle of its recent 18-23 range. Breadth numbers are positive at a 17/11 ratio.

So this type of market action still shows that dips are meant to be bought and that the primary trend of the market is still to the upside, although current market action means that the trading range with support under 12,000 in the Dow and under 1,300 in the S&P looking like they should hold for the near term. It also appears as if the highs reached more than two weeks ago on February 18th are going to be upside stoppers and the market will now trade in a more volatile manner between this support and the highs reached two weeks ago. This range now appears to be a valid one until the first-quarter earnings reports are released in April, which might move things either above this range or below it.

The S&P trades at 13.5 times forward earnings, and 15.5 times current earnings, as 2010 earnings are going to be $85 for the S&P and $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.

According to the sector analysts who follow these companies individually, for all of 2010, earnings increased by +30%, which would be the most since 1995, followed by earnings increases of +17% in 2011, as reported by Bloomberg Financial, and this would be the largest two-year advance since the period ended in 1995. This means that S&P earnings for 2010 were $85 and projected to be $99 in 2011. This would equate to around a 17% gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have five consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce Department. Economists now predict that G.D.P. expanded 2.8% in the fourth quarter. For 2010, G.D.P. rose at a 2.8% rate, which was the highest since 2006 after a decline of 2.6% in 2009. For 2011, the prediction is G.D.P. growth of 3.5% and it is 3.9% in 2012.

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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.