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Daily Market Notes

Market Update:

DJIA:	**11810**
S&P 500:	**1277**
Nasdaq:	**2658**
10YR T-Note:	**3.28%**
VIX:	**24.12**
EUR/USD:	**1.399**
Gold	**1395**
Crude Oil:	**98.44**

Prices Current as of 1:58 PM

Source: Bloomberg

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Special comment: We sent out a report on Friday about 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.

With negative overseas events still dominating the proceedings here, stocks ended lower yesterday for the third time in the past four sessions, as the worsening situation in Japan has now replaced the troubles in the Middle East as reasons why our stock market has gone down, as these Middle Eastern problems were the cause of the market's declines in February. So if one looks at market losses in the U.S. over the past year or so, none of these declines were ostensibly related to negative events in this country, although because of the inter-relatedness of the global economy, obviously difficulties in one part of the world do affect other countries, and this is really nothing that is new. Last year the villain was Europe, as the supposed "European debt crisis" caused a severe market decline of as much as 16% during May and June, which eventually set up a bottom in August that led to the latest up leg of the two-year old bull market.

This is particularly true during the current time when the earnings season is over and the new one for the first-quarter will not begin to be reported until next month. This leaves stocks more vulnerable to outside events, as the flow of economic reports is there on a daily and weekly basis all the time.

The Dow reached its low with a loss of 147 points at 12:45pm on the general Japan anxiety, before undergoing a nice recovery into the close to end with a loss of 51 points, but breadth numbers were poor at a negative 1 to 2 ratio, which was an improvement from its worst earlier levels. The VIX actually rose by twice what it should have, with an increase of 1.05 points to 21.13, which could have been an ominous warning about today.

The groups that did the worst were the ones that have the most direct relationship to Japan in one way or the other. These included nuclear, uranium

and luxury goods companies, as Japanese consumers account for 20% of worldwide purchases of these types of items, which is ahead of both the U.S. and China. Japanese stocks like their automakers and various ETF's that represent aspects of the Japanese economy also did very poorly.

The stocks that did well were those that represent alternative sources to nuclear power, and this group included solar energy, natural gas and machinery and construction stocks on potential rebuilding. For some reason, most energy stocks ended higher as well based on the fact that crude oil prices came back from being under $100 a barrel to end with nominal gains to over $101.

And in an ongoing flight to safety, yields on Treasury securities continued to decline, with the 10-year note down to its lowest level since the end of January, at 3.36%.

The fact that the S&P broke below its 50-day moving average after being above it for 130 days, the longest such stretch since early 2007, was also a sign that things were tiring out at the higher levels after this long and steady period of moving higher, and as we all should know, when things decline, the drop in prices is always more severe on the way down.

And sure enough, the difficulties are worsening today, as the low levels of radiation drifting toward Tokyo from the explosions at the Fukushima nuclear reactor has investors all over the world bent out of shape. In fact, we are seeing one of those "flight to liquidity" days when stocks, commodities and energy products are all being sold off and there is once again huge buying of Treasury securities, with the yield on the U.S. 10-year Note now having fallen to its lowest level since December 9th, as low as 3.20% at the height of this buying panic of these securities.

And today is a perfect counterpoint to what Chairman Bernanke tried to do

through the Q.E.2 program, which was to raise asset prices of stocks, commodities and so on because he was afraid of deflation, and to him, higher asset prices reflected worldwide economic recovery. So now we are getting higher inflation and at least for today these ridiculously high commodity prices are getting another downside blast, with crude oil actually trading under $100, currently at $99 and it had been as low as $97, which was the lowest since the end of February before the Libyan situation pushed it briefly as high as $106.

The panic selling of stocks put the Dow at a session low with a loss of 297 points at its worst level right off the opening when investors put in market sell orders to get out at any price. From those lows, the Dow actually got as high as a loss of 152 at its best level at 12:30pm, from which it has dipped a little bit. It would be incumbent on the market to finish with a Dow loss of less than 200 points if some kind of confidence is going to return.

As stocks plummeted, the VIX reached as high as a gain of 4.59 to 25.72, its highest since August 31st , right as the latest leg of the bull market was starting and after the month-long August decline. Breadth numbers are too painful to even mention, and we will note them in tomorrow's report. The same stocks that did better yesterday are also up today, with solar and natural gas showing some gains, and the same ones that declined yesterday like nuclear and uranium and stocks in addition to those that represent Japan industries like autos down again. And the Euro, which had been strengthening against the dollar on interest rate increases perceptions, is finally getting sold off as the so-called flight to quality in the buying of Treasury securities is represented by this.

Ignored in today's selling is the fact that we had another good economic report, with the March NYState Empire Manufacturing Survey rising to its best level in nine months even though the new orders and shipment components declined, but the February import price index rose by more than expected, surprise surprise due to higher prices for you know what.

According to the estimate of one large financial house, U.S. exports to Japan accounted for less than 0.5% of our G.D.P.

Finally, of all days to have a Fed meeting, but get ready for their 2:15pm statement, which will perhaps be more dovish in terms of interest rate increase expectations due to what has been transpiring recently in both the Middle East and Japan, so this might help stabilize things as well.

As was mentioned in the special report sent out on Friday about "Where do we go from here", it now becomes more apparent that the February 18th highs are going to hold until at least the first-quarter earnings reports are released in April, and this is no guarantee that things will get better in any event, so we will have to wait on that and hope things can stabilize on their own.

The S&P trades at 13.3 times forward earnings, and 15.3 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.