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Daily Market Notes

Market Update:

DJIA:	**12369**
S&P 500:	**1330**
Nasdaq:	**2777**
10YR T-Note:	**3.45%**
VIX:	**17.48**
EUR/USD:	**1.413**
Gold	**1424**
Crude Oil:	**104.81**

Prices Current as of 12:32 PM

Source: Bloomberg

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Special Comment: Barron's in its current edition dated March 28, 2011 quoted from last Tuesday's, March 22nd, external Daily Market Notes, in their "Market Watch" section, and this was distributed on Monday.

Wait a minute - the market experts told us that Monday's late collapse to the downside was due to a large hotel chain warning about lower revenue per room, and this was supposed to signify that consumer and business spending was slowing. In addition, there were traces of plutonium in the Japanese water supply near those nuclear reactors which show that their recovery might be slower than expected. So as a result of these ostensibly negative inputs, yesterday's session started out with some carryover selling from that weakness, which lasted for all of 30 minutes.

From those early lows, which took the S&P right to its 50-day moving average at 1305, the market turned around to the upside and never looked back, which meant that the session was the complete opposite of the day before. In other words, after spending the first 6 hours to the upside and the last 30 minutes to the downside on Monday, the market did the exact opposite yesterday, spending the first 30 minutes to the downside and then spending the last 6 hours of the day to the upside. So how do you like that for the lack of consistency, which meant that the same market experts who were trotting out all of the negative reasons for the very late turnaround on Monday, now had to "explain" why everything was coming up roses once again yesterday!

That first half-hour saw the Dow decline to a loss of 26 points at the lows, from which level it quickly turned around to the upside, and basically spent the rest of the day levitating at the higher levels before closing near the highs of the day at an 81 point advance. And unlike Monday, when weakness in the Nasdaq sort of signaled that the entire market would get pulled to the downside, yesterday the Nasdaq/Dow ratio was very solid, which assured that things would go the distance. The Nasdaq ended with a 26 point advance, motivated

by ongoing gains in the high-priced leaders that have led the way lately.

The market ignored two reports that were not so good, as the January CaseShiller Home Price Index fell for the seventh month in a row and the March Consumer Confidence Index fell to a three-month low. The release of these two reports caused the major averages to hit their session lows right after 10am, from which they improved as mentioned above. In addition, we also had the same other parts of the world issues that are not going away so fast – the dangerous situation in Libya, the ongoing problems in Japan and new downgrades (yawn, yawn) of Greek and Portuguese debt.

What seemed to turn the market around was the turnaround in crude oil prices from being down over $1 a barrel to end being up by almost that amount, and this has been part of the mantra of the last several months, namely that when crude oil prices rise, this is good for influential stocks in the resource, mining and materials area, and it was another day for new highs in Dow components in these areas, and what else is new here.

And the VIX, which had its one day in the sun on Monday, rising by much more than it should have after declining by a record 45% during the seven prior sessions, got knocked down by somewhat more relative to the Dow's advance, declining by 1.28 to 18.16. And in another pattern that seems to be locked in lately, volume was light once again, in fact the second lowest of the year. These low volume days do not seem to be an impediment to the market's basic overall advance lately, but you can be sure that on the next day that the market sells off, market experts will tell us that "see, the low upside volume means that buyers are fewer at the higher levels". Of course, they cannot tell us when this will occur, but this will be the analysis after the fact, so to speak.

Building on yesterday's upside momentum, stocks are rallying once again today, and one of the reasons is that ADP came out with an estimate for 201,000 private sector jobs for Friday's report. Let us give them credit last

month for hitting the number right on the head after an awful track record going back many months, so if they are correct this time as well, this would be more evidence of the ongoing recovery. In addition, there is perhaps some end of quarter window-dressing going on by money managers to make their performance match that of the S&P, which is actually putting in its best first-quarter showing since 1998, would you believe it. This puts pressure on these people who have lagged to "get on board", so to speak.

After the two lightest volume days of the year on the first two days this week, it appears that things are picking up a bit today on that front, and tomorrow, which is the last trading day of the quarter, we should see a much larger volume spike, especially at the close, because there are options on various indexes that expire at that time, and won't that be fun with all of the maneuverings that go on when this dynamic is in place.

Leading the upside are ongoing new highs in the same stocks that seem to do this on an almost daily basis, such as the Dow machinery and an energy stock, in addition to the usual Nasdaq leaders, such as the largest Online commerce site, the Online restaurant reservation service and some of the Chinese internet and Web portal issues. And believe it or not, those awful financials, after a shaky start, have actually turned around to the upside, which is also helping. Breadth numbers are better than they have been lately, almost 3 to 1 to the upside, which is the old window-dressing effect at work, and the VIX is lower by almost as much as it should be relative to the Dow's advance. It is down by .52 to 17.64 against a Dow gain of 73. And once again, it is getting closer to that ultimate downside support of 15.35, which might make further gains a little more difficult, although the jobs report on Friday might have something to say about that.

This week sees more economic reports, leading up to Friday's jobs report: tomorrow – March Chicago Purchasing Managers' Survey, weekly

jobless claims, February factory orders; Friday – March jobs report, March ISM Manufacturing Survey, March auto sales. The earnings reports that are issued this week are not of the really important variety so we will not list them.

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.

For all of 2010, earnings increased by +30%, which was the most since 1995. For 2011 the analysts are forecasting increases of +17%, 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 six consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce Department. For all of 2010, G.D.P. rose at a 2.9% 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.