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Daily Market Notes

Market Update:

DJIA:	**12417**
S&P 500:	**1337**
Nasdaq:	**2801**
10YR T-Note:	**3.48%**
VIX:	**16.56**
EUR/USD:	**1.419**
Gold	**1427**
Crude Oil:	**107.60**

Prices Current as of 12:23 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.

Question – was yesterday's last trading day of the first quarter an up-day or a down-day? Let us count the positives and the negatives and see what really transpired on what one can best describe as an extremely mixed day, signifying nothing. For instance, the Dow, which hit its best level early with a gain of 31 points at 10:45am, started drifting lower from there and was just about unchanged at 3pm. From that point to the close, it got very choppy and volatile within a narrow range before taking a late dive to end with a closing loss of 30 points, its low of the day. The S&P sort of followed along, higher at first and then also closed with a loss as well.

On the other hand, the Nasdaq, buoyed to the upside by its high-fliers that are in an upside world of their own, in addition to more established technology stocks doing well lately, finished with a closing gain of 4 points. But the real hero was the Russell 2000 Index of small stocks, which closed higher as well, and at 843 is the closest of the major averages to its best ever level.

So if the Nasdaq and the Russell 2000 Index finish higher while the Dow ends lower, this means that breadth numbers should be positive because the former two represent many more stocks than does the latter. And the advance/decline ratio was 17/12, and we have seen this type of ratio on days when the Dow is up by 50-80 points, so on any given day there are all sorts of dynamics which favor one group versus other groups. So for instance, yesterday's last day of the quarter saw those awful financial stocks do poorly again, as perhaps money managers wanted to get them off of their books while the Russell 2000, which has been up the most this year, did well, so now they can show that they are represented in this area of the market and then they will say – look how smart I am, I just bought the best performing stocks and sold the worst

performers, oblivious to the fact that this dynamic can change at any given moment, or perhaps not.

Another dynamic that we saw was something that can happen on days that are the last trading ones of a particular quarter, and yesterday was a really extreme example of it. At 3:45pm, with 15 minutes to go, volume on the N.Y.S.E. was a paltry 545 million shares, which would have made it the lowest volume of the year by far if it continued at this pace into the close. But then, lo and behold, from that point into the close and into the runoff just after the close, the closing total rose to 1.08 billion, which meant that the volume basically doubled from 3:45pm until the final volume totals were calculated by 4:10pm. So what this meant was that all of the gyrations in the Dow and other averages and individual stocks late in the day were simply a manifestation of various end of quarter (as mentioned above) strategies and end of quarter options strategies versus stocks. It does not make sense that all of a sudden, investors got some sort of epiphany to want to come into the market at that time. It was rather a case of these sorts of machinations by professional traders and hedge funds doing whatever they were trying to accomplish, rightly or wrongly.

And it seemed as if those expert traders who decided to sell the Dow into the close yesterday were not so smart after all, as motivated by today's good March jobs report, things started out higher and have been able to maintain their best levels so far. The jobs report showed the lowest unemployment rate level in two years, down to 8.8%. The overall total number of jobs was the highest since last May, at 216,000, with 230,000 in the private sector after a further 14,000 jobs were lost in the government area. In addition, the January and February numbers were revised upward to show a further 7,000 jobs were created during that time.

The Dow has gained 99 points at its best level and the other major averages are up in the same proportion as well. And it is no surprise that those industrial stocks which have been the leaders continue to do the best, with

new highs in CAT, CVX, DD and UTX. And even those awful financial stocks are coming along for the upside party as well for a change. And how about that VIX, which is down by slightly more than it should be relative to the Dow's advance, with a decline of 1.22 to 16.52, and this puts it a little more than a point away from what has been its ultimate downside support at 15.35.

If the market does continue higher, then the VIX is going to have to break below this level, as it cannot go below 10, so we can all figure out how much more the market has to go on the upside using those parameters.

The Dow and the S&P have now taken out their prior yearly highs from February 18th, so how much credibility is one supposed to give to all of the supposed reasons offered for market declines by the bearish contingent. We all know what they are, and the most nonsensical one of all is this obsession with Portuguese, Irish and Greek bond yields because if the market here is at yearly highs, then who is supposed to care about what is going on in Europe. And of course adding to the irony of this situation is that the Euro made new highs against the dollar yesterday on a report that European inflation hit its highest level since October 2008, a gain of 2.6% in March. So even as these weaker economies continue to have their issues, the Euro is very strong because this higher inflation situation is supposedly going to ensure that a rate increase for the Euro is going to take place next week, at which time they are going to raise the rate from the 1% level it has been at since May 2009. On the other hand, a report that said that the inflation rate was higher than expected because of the way that food and clothing prices are measured in Italy and Spain, my two favorite European countries. And adding to the mess over there was that the deficit in Portugal was larger than expected and that Ireland needs an additional $30 billion in order to rescue the financial sector. But why are these things even brought up if stocks here are doing so well.

And adding to what should be a negative factor for stocks is that crude oil prices have now reached their highest level in two and a half years today, with

a gain of another $1 to $107.75, and how this cannot eventually be negative for stocks is beyond me. And other commodity prices are exploding to the upside as well, with new highs in gold and silver, in addition to some agricultural products as well. And yet it has taken the Fed a very long time to acknowledge that deflation is not a problem, as their 150 Ph.D. economists had prognosticated for most of last year.

So with the VIX at low levels and inflationary pressures picking up around the world, in addition to all of the other trouble spots like Libya and Japan, it is going to be extremely incumbent on first-quarter earnings, which will start to be reported in earnest next week and the week after next, to be better than the estimates in order for this rally to continue, as it appears as if stocks are going to have a more difficult burden at these higher levels than they had last year, when the comparisons to 2009 were much easier to beat.

The S&P trades at 13.8 times forward earnings, and 15.8 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.