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Daily Market Notes

Market Update:

DJIA:	12251
S&P 500:	1310
Nasdaq:	2745
10YR T-Note:	3.47%
VIX:	16.74
EUR/USD:	1.448
Gold	1472
Crude Oil:	107.89

Prices Current as of 1:48 PM

Source: Bloomberg

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

The market continued to be stymied in its attempt to make substantial advances yesterday, primarily hindered by the ongoing low level of the VIX. After another bizarre higher opening, helped by a March retail sales report that rose for the ninth straight month (never mind that the bulk of the gains came from higher gasoline prices), the Dow advanced to its intraday high with an early gain of 71 points. Unfortunately, this put the VIX as low as 16.20, down by .89.

If this low level of the VIX was not a sell signal for the overall market, then I do not know what was. And sure enough, following a recent pattern that has steadily emerged these past couple of weeks, things could not hold their best early levels and the major averages proceeded to go into something of a nosedive, with the Dow hitting its intraday low of a 39 point loss at 12:45pm.

There were two other events that also contributed to this decline, and the sickest one of all is that crude oil prices had the nerve to decline to their lows of $105.30 a barrel, down 94 cents after having been higher when stocks were up in the morning as well. And by sick I mean that for reasons that have been discussed in greater detail in recent issues of these notes lately, when crude oil prices rise, this is the new mantra for stronger worldwide economic growth and when crude oil declines, the opposite spin is put on these losses. This is the result of the Fed's Q.E.2 program to raise all asset prices because of their misplaced fears of deflation. We all now know that these fears were misplaced because all anyone talks about now is the higher inflation resulting from these ridiculous levels of energy and other commodity prices that the Q.E.2 program has saddled us with, also a result of their desire to devalue the dollar as well.

The second event that brought the market to its lows was the appearance of the President, who talked again about cutting the bloated federal budget deficit. One would have thought that this would be positive for stocks but for some reason the thought of tax increases on the highest earners is anathema to the stock market. The only good thing to come out of his speech was that

bond yields declined after having risen on the supposedly better retail sales report, which showed economic expansion. Ten-year Treasury yields fell to 3.46%, still in the middle of their recent trading range.

Things stayed at the lower level until 2pm, when the Fed Beige Book was released, and it said that the economy expanded at a "moderate pace in February and March led by manufacturing, with labor markets showing improvement as well." They also said that "higher commodity costs compelled sellers to try to raise prices" and that "wage pressures were weak or subdued." These statements were construed as friendly, and as a result, the Dow jumped back into positive territory with a gain of as much as 27 points by 3pm. So now the 111 point downside Dow reversal from the early high to the early afternoon low became an upside reversal of 66 points.

Unfortunately for the bulls, when the Dow made this nice recovery to those 3pm intraday highs, the VIX once again declined, this time to 16.45, right into that level that indicates that stocks were near-term overbought. As a result, the Dow declined from this 27 point gain and ended with a small advance of 7 points as the VIX ended at 16.92.

Despite the only nominally higher close in the Dow, the real strength was in the Nasdaq, as the Nasdaq/Dow ratio was a big contributor to the ability of the market to rally back in the first place, as earnings from one of its members got that entire cloud computing group motivated to the upside, in addition to strength in the storage stocks plus new highs in the Chinese Internet type stocks as well. And breadth numbers were nominally positive at 16/13.

And how about the wonderful positive influence of crude oil, which hit its low as mentioned above when the Dow was on its low, and then also motivated the upside when it rallied to end with a gain of almost a dollar. In addition, gold and silver prices, which had also been lower when stocks were on their lows, also rallied to end with strong gains, so this is another example of the very

tight positive relationship between stocks and commodities that the Fed has brought on.

A final note for those died-in-the-wool market historians was a statistic that when the aluminum company component of the Dow and the S&P both decline on the first day of an earnings period, as what happened on Tuesday, then the S&P declines by an average of 1% for the remainder of the earnings season, and these numbers go back to 2001. So for whatever this is worth, let' see if this year follows that pattern.

Today started out to the downside, as the Dow declined to its low of the day within 20 minutes of the opening on what looked like a bit of panic selling for whatever reason. And the reason most offered for this early slide was that the weekly jobless claims rose to their highest level in two months, interrupting what had been a nice slow pattern of declining numbers. Combined with the March P.P.I. report which showed the largest increase in core inflation since August 2009, primarily due to rising motor vehicle prices, this also put the inflation worries out there once again. On the other hand, the overall number came in slightly lower than forecasts due to a decline in food prices this past month.

So after the sellers were satisfied at a Dow loss of 107 points early, things have battled their way back with the Dow actually getting to just about unchanged as the result of a spurt upward starting at 11:45am. However, this rally back is the result of gains in just a few stocks. Overall breadth numbers are down and the other major averages are lower as well.

So once again the reason offered for the turnaround to the upside is that crude oil prices, which are now back to $108, are helping the energy stocks to turn around to positive as well, and the dollar is weakening again, which of course makes gold and silver go higher, and this is supposedly wonderful for equities.

And just take a look at the new high list, you will see it populated with such exotic names as the fast-food Mexican restaurant chain, an Internet travel content site, and the Chinese internet ones, while the awful financial stocks get more awful today as a result of a report from the U.S. Senate panel that investigated the causes of the financial crisis. Senator Levin of Michigan, the chairman of that panel, wants the Justice Department and the S.E.C. to examine whether the large bank holding company involved in investment banking, trading and principal investments, violated the law by misleading clients who bought all of those exotic mortgage derivatives without knowing the company itself had taken the opposite position to gain by a decline in the value of the same products that they were selling to customers. He also wants federal prosecutors to review whether to bring perjury charges against the C.E.O. and other employees who testified in Congress last year. He says that their denials under oath that this company took positions against the mortgage market solely for its own profit were untrue.

And take a look at the Dow bank stock, which released that supposedly wonderful report yesterday and whose stock declined as a result. It was initially motivated higher by the sycophantic analysts who raised their price targets to as high as 60, a price it has never been at. It is getting sold off today as well, because it might in some way be connected to the financial shenanigans that the Senate Committee is talking about. In addition, the worst large financial stock of all, otherwise known as the retail banks with the largest number of depositors, is reporting its earnings tomorrow morning, and if a better bank stock is declining after its supposedly good results, what are the chances for this one to do better? And what about the huge number of calls for the April expiration that will be worthless Friday afternoon, primarily in the bank stocks of all sorts, and we will go into this in more detail in tomorrow's notes.

Earnings finish the week with the always important GOOG tonight and Dow component BAC tomorrow morning. The former has gotten a lot of support from the same large financial house mentioned in connection with the Levin report. In addition, there will be another report about how inflation is rising in the March C.P.I. tomorrow morning as well.

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 +12% for the first-quarter of 2011 and +16% for the entire year, 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 $98 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.

Donald M. Selkin

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.