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NATIONAL SECURITIES

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Daily Market Notes

Market Update:

DJIA:	**12350**
S&P 500:	**1320**
Nasdaq:	**2763**
10YR T-Note:	**3.43%**
VIX:	**15.25**
EUR/USD:	**1.443**
Gold	**1486**
Crude Oil:	**109.61**

Prices Current as of 1:31 PM

Source: Bloomberg

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Yesterday was another day where there were all kinds of "explanations" by various market experts as to why the Dow started out with a loss of 107 points right after the opening bell based on weekly jobless claims that rose to their highest level in two months and a March P.P.I. report that showed the highest core rate of inflation since August 2009. From those early lows, things started a gradual improvement and by 2pm, the Dow was lower by only 29 points. Then in what I believe has been a very sick relationship between the price of crude oil, gold, silver and other commodities relative to stocks, these various commodity prices started shooting higher, and in the Q.E.2. world of the Fed's original misplaced fear of deflation and desire to raise the prices of all assets, when stocks saw these commodities going higher, they decided to come along for the ride. As a result, the Dow got as high as an advance of 32 points before ending with a closing gain of 14. But it was sort of a mixed day, as the Nasdaq lagged once again, closing lower by 1 point while breadth numbers were slightly positive at 16/14.

What was a departure from previous days lately was that the VIX closed below what had been its previous support closing level, and ended at 16.27, down .65, more than it should have. If it does not rise today, then this could mean that it is heading down to the 15.35 support level low which was reached when the major averages hit their yearly highs on February 18th.

There were all kinds of cross-currents in terms of groups doing well and not so well, as for instance the energy stocks came to life when the price of crude oil rose to over $108 a barrel after having been lower earlier the day. On the other hand, those awful financials continued to go lower when Senator Levin of Michigan, the chairman of a panel that led an investigation into the practices of various banks during the financial crisis, said that he wants the Justice Department and the S.E.C. to examine whether the bank holding company that is involved in investment banking and securities services 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 they took positions against the mortgage market solely for its own profit were untrue. This pulled down the shares of the other potential financial culprits as well.

On the other hand, there was some movement into the shares of defensive consumer type stocks for whatever reason, perhaps as a result of the financials and technology shares weakening. So several stocks in this group did well, but then on the other hand, there were new all-time highs in the most speculative stocks of all, with such issues as the Mexican fast food restaurant chain, the Internet content travel company and the Chinese Internet issues all making best ever levels, which renders the argument that investors were looking for "safety" a little difficult to believe.

One explanation offered for the market turnaround was that the House of Representatives approved a spending bill that will assure that the government will not shut down, for whatever this "explanation" is worth.

And never mind that Greek and Portuguese bond yields reached their highest level ever, as the supposed European debt-crisis, which brought markets worldwide last May and June into a very serious correction, has basically been a non-event as far as the stock market here is concerned.

And today we can say that never mind that the third Dow stock to report this week, a real sad case otherwise known as the largest holder of consumer deposits in the country, is lower after its earnings as is the always important largest Internet search engine. In other words, the four largest companies to report this week all missed their numbers one way or the other, namely either on the revenue or earnings side, and were sold off as a result. But the market seems to love this as the Dow started out mixed and has steadily improved to

where it has reached a gain of 82 points at its best level. Why things are higher is a good question, and the most important one is probably the fact that the VIX has now completely broken down as it reached a low of 14.92, which was the lowest level since July 2007 when the world was a different place on the surface and both the Dow and S&P were on their way to their all-time highs in October of that year. Since both of these two major stock market indexes are still around 15% below those highs, it is somewhat astounding that the VIX has gotten this low. Strange as it may seem, this low level of the VIX might mean that stocks could at least maintain current levels in a low volatility environment, which is the last thing that investors had been led to believe with all of the supposed troubles in Japan, the European sovereign-debt crisis as it were, budget deficits out of control, exploding commodity prices due to lack of faith in currencies highlighted by a collapsing dollar, incipient inflation upon us, and so on. One would look at these items and think that this is not the best backdrop for stocks, but never mind, despite the poor performance from the four major stocks that have begun the first-quarter earnings season, the overall market appears not to have any worries at all, individual stocks notwithstanding.

The reasons put forth for today's advance are that the economic reports released today show that the economy continues to expand and the recovery is sustaining itself. For instance, the March C.P.I. came in at expectations and the core rate excluding food and energy rose only by 0.1%, less than expected, but let us also remember that the bulk of the C.P.I. is made up of housing, which is still at depressed levels. The April NYState Empire Manufacturing Survey rose by the most in a year, and the employment component of this report rose by the most since May 2004. March Industrial Production rose for the fifth straight month and Capacity Utilization also increased. The U. of Michigan mid-April Consumer Sentiment Survey rose from March's level, the lowest since November 2009. The President of the Chicago Fed said that low inflation and high unemployment both call for continued easy U.S. monetary policy, and that there is little evidence of emerging asset bubbles, the price of

crude oil, gold and silver notwithstanding. Of course, this puts him at odds with other Fed officials who have said that the central bank should remove monetary stimulus before inflation gets out of control.

Since today is a monthly options expiration, take a look and weep (if you bought them) at the huge number of both calls and puts that are going to leave their buyers with nothing to show for their efforts, except for a misplaced belief in that what they bought would work. For instance, the usual worst culprit of all, the bank that will be reverse-splitting 1 for 10 next month, has 1.8 million worthless calls at 4.5 and above. The bank that reported today and was mentioned above has 1 million worthless calls at 13 and above. The large mobile telecom and computer company as well as the largest internet search engine stock are leaving most of their call buyers with nothing despite a major recommendation from a major financial house to buy the calls of the latter before last night's earnings at 575 and above. Finally, on the put side, there are 3.7 million positions in the stock that represents 1/10th of the S&P itself, which will be worth nothing at the end of the day. This is why we have constantly advised against this option buying strategy, because most of the time it does not work.

Next week sees the real heavy earnings reporting, with the following lineup – Monday: Dow component BA plus C, DAL, LLY, HAL and TXN; Tuesday: Dow components IBM, INTC, JNJ, plus BK, JNPR and YHOO; Wednesday: Dow components AXP and T, plus ABT, AMGN, AAPL, FFIV, FCX, MAR, WFC, YUM, EMC and CMG; Thursday: Dow components GE and MCD, plus AMD, BX, COF, HON, JBLU, MS, PNC and LUV. And it certainly would be nice to see one of these companies produce results that cause its stock to rise, unlike what we have seen from the first four large companies to report so far.

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.

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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.