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Daily Market Notes

Market Update:

DJIA:	**12640**
S&P 500:	**1349**
Nasdaq:	**2853**
10YR T-Note:	**3.36%**
VIX:	**15.63**
EUR/USD:	**1.468**
Gold	**1513**
Crude Oil:	**112.60**

Prices Current as of 2:52 PM

Source: Bloomberg

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After taking a bit of a day off on Monday, stocks resumed their merry upside journey once again yesterday, as the Dow started out higher and basically never looked back, rising as much as 134 points at its 3:15pm intraday high before ending with a closing gain of 115. This was its highest level since June 2008, and more importantly, the S&P, after no less than eight attempts to break through the 1344 high from February 18th, finally was able to achieve this goal with a close at 1347, which was also its best level since June 2008. The Nasdaq closed at its highest level since October 2007, and once again these closes make one wonder whatever happened to the financial meltdown of late 2008 to early 2009, in the sense that what does one say to those investors who were forced to sell at the market lows and have now seen the major averages go back to levels that they were at before the most severe decline since the Great Depression of the 1930's took place. And what does this say about the "efficient market theory"?

Breadth numbers were very positive at a 22/9 upside ratio and once again, it has been the better than expected first-quarter reporting period that has been used as the main explanation for these market advances. For instance, of the 197 S&P companies to have reported so far, 76% of them have beaten their earnings estimates, which is above the average of the past 20 years or so. Also helping was the April Consumer Confidence number, which rose based on a better jobs outlook and a rising stock market, higher gasoline prices be damned, so to speak.

The two stocks that were offered as the main upward drivers of equities yesterday were the second largest U.S. automaker and the large package and delivery service, but at the end of the day each of them rose by a pittance, so it was more of a case of such industrial and energy stocks that led the way higher, especially those large Dow components, on better earnings from 3M. On the other hand, the Dow soft-drink maker declined after its report. One group of stocks that got blasted to the downside were those high-flying technology-type issues that have made such strong gains over the past year,

and this group included the largest e-commerce stock ahead of its report last night.

The bond market continued its recent rally, with yields on the 10-year Treasury Note declining to 3.31%, the lowest in more than a month on the perception that the dollar is going to stay weak, and this was confirmed by the Euro rising to its highest level since December 2009 when it was on its way down from 1.50. It closed over 1.46, but at least for one day, crude oil, gold and silver fell of their own weight from ridiculously high prices, especially silver, which has risen by 75% this year alone.

The VIX declined by much less than it should have relative to the Dow's advance, falling by a small .15 to 15.62 relative to the Dow's closing gain of 115. I have pointed out that the VIX in the 15 area starts becoming very cheap and therefore it will struggle to decline to much lower than it reached last Thursday, when it got as low as 14.40 before closing at 14.69, its lowest level since June 2007 before the stock market got hit over the head with the disastrous consequences of the financial meltdown.

And volume continues to be lower than last year, but was a little better than the lowest volume of the year on Monday's down day, and we just have to get "used to it", so to speak, and not try to go into all sorts of convoluted explanations as to why this is taking place, and the answer is that there are no guarantees that things always have to go to higher levels.

Today's market is sort of chopping around with the major indexes moving in and out of positive and negative territory while breadth numbers are staying on the slightly negative side. This is only natural after yesterday's upside moon shot and caution ahead of Chairman Bernanke's first-ever press conference after an F.O.M.C. interest rate decision. In fact, the hype and hoopla over this event in the financial community is almost on a par with the really big event of the week, namely the Royal Wedding in London on Friday, which will be an

official holiday in the U.K, a level to which the Bernanke news conference will not attain.

At its high, the Dow was ahead by 30 points, spurred once again by further good earnings numbers and the March durable goods report which rose for the third month in a row. It then fell to a loss of 7 points on its low as crude oil prices, heaven forbid, actually had the nerve to decline by around $1.50 to $110.70 after a bearish inventory report that showed supplies were much larger than projected. Crude has since reversed that loss and is ahead at the present time by almost $1.00, back up to the high $112 level, and when stocks saw oil prices go up, then this was interpreted to be a good thing and the Dow reversed its loss and is currently ahead by almost 20 points. It is being helped by a positive report from the airplane manufacturer and the highest-priced technology component, which is at a new all-time high.

With the Dow higher, the VIX is also up, currently ahead by .30 to 15.92 as the Dow is up by 17 points as this is being written. However, the S&P and the Nasdaq are slightly lower, so this might be the reason for the VIX advance. But after the Bernanke news conference at 2:15pm, things are bound to change one way or the other depending on what he says about the continuation of the Q.E.2 program, and once again we urge people not to trade in the first 30 minutes after he speaks because when the Fed just makes a statement things tend to get very volatile, so one can imagine what is going to happen in reaction to each question that is asked and whatever answer he gives.

And some things never change, as after taking one day off, crude oil as mentioned above, and gold and silver continue their merry upside journeys courtesy of that weak dollar and strong Euro, despite yields on Greek, Irish and Portuguese bonds reaching their highest levels ever, so in a sense the supposed “concern” over these yields is not a market factor, and why the financial pundits even mention them is really irrelevant to what is going on, unlike last year when these concerns tanked the market to a 16% decline last

May and June.

This continues to be the main week for earnings, as no less than 180 S&P companies report. In addition, we will get a number of important economic reports, and the most prominent of them will be the F.O.M.C. interest rate statement later today, and as mentioned above, this time we actually have to suffer through a press conference by the Chainman, who will be asked questions similar to a Presidential press conference. We also get the initial estimate of first-quarter G.D.P. tomorrow, which is expected to decline to a growth rate of 1.9% compared to the fourth-quarter of 2010 rate of 3.1%.

As mentioned above, in addition to the large number of earnings reports this week, we get more economic reports, such as: later today, the Fed interest rate statement and press conference; Thursday: initial estimate of 1Q G.D.P., weekly jobless claims, March pending home sales; Friday: March PCE inflation numbers, March personal income and spending, April Chicago Purchasing Managers, April Milwaukee NAPM Survey, and the final April U. of Michigan Consumer Sentiment Survey. So these are items that could move the market as well as the large number of earnings reports that we will see this week.

Some of the more important companies to report this week include: tonight – BIDU, and EBAY; Thursday: Dow components MSFT, PG and XOM, plus AET, CL, OXY and PEP; Friday: Dow components CAT and CVX.

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.

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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 $97 in 2011. This would equate to around a 14% 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.