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Daily Market Notes

Market Update:

DJIA:	**12433**
S&P 500:	**1337**
Nasdaq:	**2804**
10YR T-Note:	**3.48%**
VIX:	**16.59**
EUR/USD:	**1.420**
Gold	**1452**
Crude Oil:	**107.89**

Prices Current as of 1:45 PM

Source: Bloomberg

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

In the slowest volume session of the year yesterday, the market put in another overall positive performance, building on the gains of the first day of the month last Friday. This means that April is so far living up to its reputation as one of the better months of the year for stock prices. It was mentioned that according to the statistics, the S&P has advanced on the first day of April every year since 2006. April is also the third best month of the year for the S&P over the past 50 years and some market historians claim it is the best month of the year for other averages such as the Dow.

The Dow reached its best gain of the day, ahead by 30 points early, at 9:45am, and then spent the rest of the session sort of meandering in narrow ranges before ending with a 23 point advance. On the other hand, the Nasdaq actually ended lower by 1 point, due to a recent period of weakness in large established former leaders. On the other hand, there has been a new set of technology leaders that have supplanted the just-mentioned ones as the latest market darlings, as they spurt ahead on an almost daily basis to either new all-time highs or new 52-week highs, and this group includes such high-fliers as the Online move rental service, the Online restaurant reservation service and various E-commerce stocks as well.

And three cheers for the Russell 2000 Index, which is getting closer its all-time high of 856.48 reached on July 13, 2007. It closed yesterday at 849.36. This pattern of smaller stocks doing better than the larger ones coming out of economic slowdowns and into a period of recovery, such as what we are seeing now, has certainly repeated itself this time as well, as this index has gained 148% from its March 2009 low of 342.57.

Breadth numbers were about in line with the major averages' advances for the most part, positive at a 16/13.5 ratio, and the VIX, which had gotten as low as 16.44 at the market high on Friday, rose a bit, and I do not know why it did on a day when both the Dow and the S&P ended higher, to close with a gain of .10 to 17.50.

Since there were no earnings reports of any consequence yesterday, the general market advance was attributed to the fact that there was further merger and acquisition activity, which is invariably interpreted as friendly to stock prices on the perception that companies are finding "value" in the certain shares that are considered to be undervalued. And it was mentioned yesterday that this sort of activity is running 25% ahead of last year at the present time.

And this stocks rising on low volume negative argument also starts to get a little tired because if a person wants to sell stocks that were bought at lower prices at current higher prices, what difference does it make to that person whether the volume is lighter or not. But when stocks do finally come down, the bearish contingent will say – you see, the low volume rising price scenario shows that the market is running out of new buyers at the higher levels, but then the question is – at what level does the market finally run out of these harder to find new buyers?

The market action so far today is a wonderful example of what Casey Stengel might have said – "the market goes up even when it goes down!" In other words, when we came in this morning, there were the supposedly negative developments such as another interest rate increase in China, their fourth one in five months, which is supposed to slow down growth there as well as in countries that do business with them. In addition, bond yields in Portugal, which is now the country to bash when things look lower, hit new highs after the Moody's downgrade of their debt rating. And then there was crude oil stubbornly maintaining itself over $108 a barrel, which has to ultimately be negative for the consumer.

Then we got the March ISM Non-Manufacturing Survey, which expanded less than forecast, which can be interpreted as a sign that the largest part of the economy is trailing the gains in manufacturing. As a result, the Dow hit its low for the session right after the 10am release of these numbers, as they were perceived as an additional negative to the overseas ones mentioned above.

From this loss of 45 points at its worst level, the Dow and the other major averages did a very rapid about-face to the upside, and we saw the old Nasdaq/Dow ratio provide an upside lift as well, as the former went positive about 15 minutes before the latter did, and we all know what happens to the overall market when the Nasdaq goes into the green ahead of the Dow.

So now, one market expert was quoted as saying that "the market is getting used to rates hikes in China and there is now less concern that these hikes will derail global growth." So what does this expert say to the person who sold out this morning before the upside turnaround when the market sages were putting the negative spin on those Chinese rates hikes? Then there was the positive influence of the takeover of an analog and integrated circuit semiconductor company at a 78% premium to the latter's price yesterday, which is further advancing the argument that companies are finding value in certain share prices. But this news came out last night, so then the question becomes – why wasn't this inputted as a positive factor this morning? Finally, an upwardly revised earnings forecast from a prominent teen retailer is helping consumer sentiment as well.

Then we had the bizarre out of the blue announcement that the Nasdaq 100 Index was going to be "re-balanced" on May 2nd. So now we know why the large mobile telecom and computer stock has been declining for the past five days, as its weighting in this index will be reduced from 20% to 12% and the weightings of three has-been technology stocks, otherwise known as the largest software company, the largest maker of routers and switching devices for the Internet and the largest semiconductor company - which are also in the Dow as well, will be increased – and read them and weep, down 7%, 14% and 6% in a year when both the Nasdaq and Dow are ahead by around 6%. Of course, this does not change the valuation of any of these companies, but apparently funds that use the NDX and the QQQQ, will have to shift around their ownership of these stocks, among others. And isn't it amazing how people were scratching their heads lately with "explanations" as to why the

large mobile telecom stock in particular had been doing so poorly even as the overall broader market had been doing so well over the past couple of weeks, and now we know, and it always amazes me that certain investors are so smart that they can perceive in advance that these types of events are going to take place.

From that early loss of 45 points, the Dow is now ahead by 35, at its best level of the day, and breadth numbers are strong as well, with an 18/10 upside ratio. And take a look at the VIX, down by a large .99 points to 16.51, which is much more than it should be relative to the Dow's advance. This also starts getting it closer to the ultimate downside support level of 15.35.

The next hurdle for the market will be the 2:15pm release of the minutes of the last Fed meeting in March. The dollar had risen against the Euro earlier on Chairman Bernanke's comments that inflation must be watched "extremely closely", which led to speculation that rates might be raised sooner rather than later here. He said that the Fed would "have to respond" if his current prediction that higher inflation will be transitory ultimately proves to be incorrect, and which prediction do you think is going to come true?

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.

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.