NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update:

DJIA:	**12186**
S&P 500:	**1362**
Nasdaq:	**2867**
10YR T-Note:	**3.28%**
VIX:	**15.82**
EUR/USD:	**1.487**
Gold	**1560**
Crude Oil:	**113.62**

Prices Current as of 1:19 PM

Source: Bloomberg

Donald M. Selkin
Chief Market Strategist
(212) 417-8017
dselkin@nationalsecurities.com

Whew – Friday's royal wedding broke the tie that had existed in terms of how the stock market performs when one of these types of events has taken place since the end of World War II. For instance, as was mentioned in Friday's daily market notes, when Queen Elizabeth got married on November 20, 1947, the market rallied. When her son Prince Charles married Lady Diana Spencer on July 29, 1981, the market declined. So let us all give a cheer to the now established historical fact that when Charles' son Prince William married Kate Middleton on Friday, the market rallied, so the tie between royal weddings and stock market performance has now been resolved to the upside!

The Dow started higher and never looked back, with a 69 point gain to the high at 12:40pm, from which point things chopped around for the remainder of the day before ending with a closing gain of 47 points. The Nasdaq lagged on the upside for the second day in a row, and we will discuss this later in today's report. Breadth numbers were strong at an almost 2 to 1 upside ratio. What was a bit unusual was that despite the higher market closes for all of the major averages, the VIX rose as well, and it gained .13 to 14.75. It appears as if the VIX does not want to go below its new support level of 14.30, created by a double-bottom on April 21st and April 28th.

If one looks a bit deeper into what transpired in Friday's end of the month session, there were all sorts of dynamics, many of which appeared once again to be the result of some vicious end of the day manipulation (in my opinion), and some were due to the weekly options expiration and also to the re-balancing of the Nasdaq 1000 and the QQQQ that goes into effect today. For instance, take a look at the highest priced Dow technology stock, which hit a new all-time high earlier in the day but then went into a steady decline and actually ended lower – what was that about? And just to prove how phony that was, today it gapped open higher and has now achieved a new all-time high, higher than even Friday's best level. So what did those who sold this stock off as Friday's session wore on accomplish?

Now take the case of the third-worst performing Dow stock this year, namely the bank with the largest amount of consumer deposits, which was down a bit throughout the session. Then right on the close, it doubled the loss that it was showing throughout the day and today it has also gapped open higher to more than make up for that very late selling, but unlike the technology stock just alluded to, this is a wounded duck whose upside for the time being appears limited.

Then take a look at two Dow stocks that did the opposite of the prior two, namely add to their gains right on the close, namely the largest semiconductor stock, which believe it or not has actually done well lately, and the largest energy company, which has been the fourth best performer in the Dow. And both of them are a bit lower today, so this sort of proves that the very late run-ups in both of them was somewhat phony as well. On the other hand, one can say that the very late rise in the semiconductor stock and the strange decline of the largest mobile telecom issue from being as high as 354 to close right at 350 could have been the result of that Nasdaq rebalancing, but one has to suspect that the latter's decline to 350 fits its recent pattern of closing every Friday right on a round number to make sure that the largest number of calls go out worthless, as 350 and 355 were the two strike prices that had the most open interest.

Of the total Dow gain of 47 points, 21 of them were provided by the large diversified manufacturing company on a positive reaction to its earnings report which put the stock at a new all-time record high and the airplane manufacturer's advance contributed 9 Dow points, and this one did very well late last week on its earnings as well.

It was mentioned earlier that the Nasdaq lagged for the second day, and this time the culprit was none other than that has-been of all has-been's, otherwise known as the largest software company, which trades at the same price that it did 10 years ago despite all of the sycophantic cheerleading from its loyal

coterie of analysts who still have price targets on it as high as 37, G-d bless. This stock saw huge buying of 26 and 27 calls in the days leading up to Thursday night's release of its earnings and surprise, surprise, these people were left with nothing to show for their optimism, and so what else is new?

The two economic reports released on Friday were sort of mixed, with the April Chicago Purchasing Managers' Survey declining a bit from the prior month and the U. of Michigan April final consumer sentiment survey rose a bit from March, which was the lowest since November 2009.

The Euro rose for the ninth straight day against the dollar, to its highest level in 16 months, and the dollar fell to its lowest level against a basket of currencies since October 2004. This was despite the European economic outlook confidence number declining and inflation rising to its highest level there in two and a half-years, which means that another interest rate hike is probably on the way, and this is another reason why the dollar continues to decline against other currencies, namely the interest rate differentials as the Fed said they would hold the federal funds rate at its current record low level. And as the dollar weakened, crude oil kept going on its merry journey higher, to $113.93 a barrel, up for the eighth month in a row for a 58% advance in this time period, while gold and silver rose to record highs as well, and why not?

Friday's gains meant that April was the best month for stocks since last December, and the Russell 2000 Index of small stocks and the Dow Transports rose to yet another new all-time high as well. For the month, the Dow advanced by 4%, the S&P gained 2.8% and the Nasdaq advanced by 3.3%. The Dow has now rallied for five straight months and for the sixth April in a row. These recent gains have vaulted April to the third best performing month for the Dow since 1929, trailing only July and December.

Barron's ran a piece in its current edition that pointed out the effect of the Q.E.2 program, and their comments were similar to some of the things that I

have been mentioned in the daily market notes. They said that "If the objectives of Q.E.2 were to 1) raise interest rates, i.e. the yield on the 10-year Treasury Note was 2.6% at the start of Q.E.2 versus 3.3% currently, 2) slow economic growth i.e. first-quarter G.D.P was estimated to be 1.9% versus 3.1% in the fourth quarter of 2010, 3) encourage speculation – take a look at gold, silver and crude oil for starters and 4) eviscerate the standard of living of the average American family - earning nothing on bank deposits while the value of their home continues to decline, their income stagnates and prices they pay continue to rise – then the program has been enormously successful." Amen to that, for sure.

And today unfortunately is proving the above analysis correct, as despite the initial euphoria that swept the markets on the news of Osama Bin Laden's killing, the price of gold has risen to another new all-tine high after initially falling, crude oil prices have now risen almost a dollar to $114.83 after having initially fallen by three dollars to $110.82. This has occurred as the dollar gets sold off again after initially doing better on the news. And in what has to be the biggest irony of all, the U.S. has raised the terror alert because of the news and a poll showed that Americans believe by a majority of 2 to 1 that "something bad" is going to happen as a way of a terrorist retaliation. Gold has presumably rallied to another new record high on the same anxiety, but silver is finally coming down on a margin increase instituted by the exchange to try to discourage the rampant speculation that has taken prices higher by 28% in April alone.

Stocks started out the month of May, which unlike April, has been the second worst month for the Dow since 1929, on good vibes from the overnight news. In fact, the Dow futures got as high as a gain of over 100 points initially but did cool off before the opening. The Dow itself got as high as a gain of 65 points at its best level before coming down from this high, and is currently even as this is being written. Despite this higher start by all of the major averages, the VIX also started the day higher, and was ahead by .45 points to 15.20 when the

Dow hit its 10:30am best level. As the Dow came down from that 65 point gain, the VIX has now really jumped ahead to a gain of 1.17 15.92. And what is this supposed to mean – that the VIX at the late April lows of 14.30 is too low, or that the VIX is saying that something negative for stocks is in the works?

And for the third day in a row, the Nasdaq is lagging, this time courtesy of some weakness in that large mobile telecom company, the largest software company and the largest Internet search engine, while at the same time most of the high-fliers like the largest e-commerce stock, the Online movie rental company, the largest Internet name your own price stock and the Internet restaurant reservation company are showing good gains. The one report released this morning showed ongoing strength in manufacturing, as the April ISM Survey declined a bit from last month, but it still over 60, which shows good expansion in that area.

There is no rest for the beleaguered dollar, which has now declined for the 10th straight day against the Euro, on a report that an E.U. manufacturing survey hit an all-time high in March. Of course, it is this ongoing weakness in the dollar that is causing the price of gold and crude oil to keep going up along their merry ways, and this is just what the Fed wants, as pointed out in the Barron's piece.

The earnings calendar starts to slow down this week, but we do hear from two Dow components, PFE on Tuesday and KFT on Thursday, in addition to some Nasdaq high-fliers like CTSH and PCLN on those two days as well.

Economic reports will be highlighted by Friday's April non-farm payroll number, which is supposed to show an increase of 190,000 versus 216,000 in March, but more on that as the week progresses.

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.

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 3.1% 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.