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NATIONAL SECURITIES

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Daily Market Notes

Market Update:

DJIA:	**12158**
S&P 500:	**1292**
Nasdaq:	**2719**
10YR T-Note:	**2.99%**
VIX:	**19.74**
EUR/USD:	**1.435**
Gold	**1502**
Crude Oil:	**91.66**

Prices Current as of 12:48 PM

Source: CNBC

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After three straight down days to end last week and seven lower weeks out of the past eight, the market started out the first day of the new week and the last one of the month with a rousing upside rally yesterday. For a change, the Nasdaq/Dow ratio was supportive, assuring that things would go the distance, as there was a report from the International Data Corp which said that corporate spending on I.T. would grow by 5.6% this year. This put new life into those large technology stocks that had been the upside leaders during the first four months of the year bur which have been lagging very badly lately.

As a result, the Dow came out of the starting gate slowly and then accelerated its upside to reach the best levels of the day at 2:40pm with a large gain of 164 points after a very fast upside acceleration at 2pm when it was ahead by around 105 points. It then spent the rest of the day declining from those best levels to end just about where it was when that 2pm upside acceleration began in the first place. It closed ahead by 109 points and the Nasdaq contributed with a 38 point advance, more than it should have relative to the Dow's gain. And when the Dow was at its best level with that 164 gain, the Nasdaq was 45 points ahead, certainly carrying more than its own weight as well. Breadth numbers were strong at a 21/10 positive ratio.

Continuing its mysterious ways, the VIX declined by less than it should have relative to the Dow's advance, falling by only .54 to 20.56, or about half of what the normal relationship is. This is perhaps a reflection over concern about the success of the Greek austerity plan going through later this week.

Also helping the upside were the banks, of all things, as there were new regulations over the weekend from the Basel Committee on Banking Supervision that instituted global capital rules that were less "onerous", as this term was being thrown around, than previously anticipated. These banks will now be required to hold the ratio of common equity to market-weighted assets at a ratio of 2.5%, which was less than the 3% that the experts had predicted. These easier standards theoretically give the banks more room for

dividend payments and share- buybacks. In addition, apparently helping as well was a report that French banks will roll over Greek debt into new 30-year bonds.

Also encouraging was the fact that the two economic reports that were released were both weaker than expected and the market chose to ignore them, with May personal spending at unchanged for the first time since last June, and the Dallas Fed Manufacturing June Activity Index declining by much more than projections. It therefore appeared that the market wanted to rally no matter what these further poor reports were going to throw at it.

And in the most satisfying event of all, as stocks were rallying, most commodity prices were heading lower, which is the way it always was and should be until the QE2 program perverted that traditional relationship, as has been described many times in the past. Crude oil, gold, silver and the grains in particular really took it on the chin, and why not, as all of these items should never have gone up as much as the fast money crowd allowed them to, in my opinion.

And today is shaping up to be very similar to yesterday, except that unlike yesterday when most commodities were lower, today we are going back to the old relationship that took precedence early in the year and was partly responsible for the mess that the economy has been in, namely the perception that higher commodity prices are somehow beneficial for stocks. And for that, credit must be given to the higher Euro, which is rising once again, as opposed to yesterday when it sold off. Today's higher Euro is a function of optimism that Greece's parliament will approve an austerity package needed to ensure more financial aid and prevent a sovereign debt default. And helping the Euro to rise was E.C.B. President Trichet once again sticking in his two cents by saying that policy makers are in "strong vigilance mode", whatever that is supposed to mean, and most currency experts interpreted this to mean that they might raise interest rates next week, which to me is a strange policy

prescription for a region in which there are so many basket-case economies in addition to Greece, and we all know who these weak members are. As the Euro rises, then gold, silver, crude oil and all the others meekly follow suit to the upside, and hip, hip hooray for all of them, as if this is what we need to get stocks higher, then so be it.

Another difference between yesterday's advance and today's is that with the Dow currently ahead by the same amount as it gained yesterday, around 110 points, the bank stocks, which had their day of glory in the sun yesterday, could not stand the prosperity and are falling back a bit after a higher start.

Otherwise there are further similarities to yesterday than differences, as for instance the VIX is once again declining by around half of what it should be relative to the Dow's advance, with another loss of around .55. The Nasdaq is doing better than it should be relative to the Dow's advance, which means that things in a general sense should be able to go the distance.

Another similarity is that the market is ignoring economic reports which are no great shakes, with June Consumer Confidence "unexpectedly" falling to its lowest level in seven months, and what is the surprise here? The April CaseShiller Home Price Index declined once again, by 4%, but this was the smallest decline since last July.

So now all of the drama will turn to Greece and the progress or lack of progress on their ability to get through these $28.6 billion of cost cuts, as the E.U. has warned the Greek parliament that the country faces immediate default unless they back the austerity plans in the vote later this week. On the more optimistic side was that the German banks did reach an agreement on their contribution to the Greek aid package.

This week sees some earnings and the calendar for this is as follows:

Wednesday – FDO, KBH, MON; Thursday – DRI.

Economic reports will see the following: Wednesday – May pending home sales; Thursday- weekly jobless claims, June Chicago Purchasing Manager's Index, Milwaukee NAPM; Friday – U of Michigan final June Consumer Sentiment Survey, May construction spending, June ISM Manufacturing Survey. The June jobs report will be released on Friday, June 8 because when the first Friday of the month is on the first day of the month, the report is released on the 8th, so we will have a one-week reprieve until the bad news on this one comes out. And naturally, the market will remain obsessed with those Eurozone difficulties as usual.

And to repeat what was said recently, the market has now taken on a creepy resemblance to last year, when things reached their highs in late April, and then took a dive in May and June, which marked the lows for the year, and it was the same causes last year as well, with European sovereign-debt issues responsible for much of the comedown, although let us also remember that we started the decline this year from higher levels, which left the market more vulnerable to some sort of setback from the misplaced mind-set of higher commodity prices somehow being good for stocks. Let us hope that this year also sees the market low during this time period as well.

The S&P trades at 12.4 times forward earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $105 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. Since 2006, the average P/E multiple has been 14.7

For all of 2010, earnings increased by +30%, which was the most since 1995. For 2011, first-quarter earnings gained +15% and are projected to gain +20% for the entire year, as reported by Bloomberg Financial and this would be the

largest two-year advance since the period ended in 1995. These projections would equate to around a 14% earnings 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 seven consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and the first quarter of this year, 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 now for G.D.P. growth of 2.8% and it is 3.3% 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.