June 29, 2011

NATIONAL SECURITIES

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Daily Market Notes

Market Update:

DJIA:	**12276**
S&P 500:	**1308**
Nasdaq:	**2745**
10YR T-Note:	**3.11%**
VIX:	**17.44**
EUR/USD:	**1.443**
Gold	**1511**
Crude Oil:	**95.19**

Prices Current as of 1:36 PM

Source: CNBC

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For the second day in a row, the bearish crowd got their upside comeuppance once again, as optimism over the Greek parliament passing the austerity measures necessary for receipt of additional aid captured investors' attention. And both yesterday and Monday were very similar in the sense that a strong Nasdaq/Dow ratio assured that things would go the distance on the upside. On both days, a poorly received Treasury note auction caused yields to rise from the yearly lows that they had reached on Friday when panic selling took hold and the market finished lower for seven out of the past eight weeks. There was another similarity evident both days as well, as the market chose to ignore economic reports that were on the weakish side, with June Consumer Confidence and the April CaseShiller Home Price Index both declining, but never mind, the market had higher levels it wanted to attain on both days.

The Dow once again closed near its best levels of the day, ending with a gain of 145 points while the Nasdaq made sure that the day would be a good one overall by ending with a larger advance relative to the Dow, namely a 41 point gain. But the real hero was the S&P, which put in its best two-day performance since January 31- February 1, and its best one –day gain since June 14. Bond yields rose from very low levels, as a two-year note auction on Monday could not attract buyers until higher yields were put in place and the same thing happened yesterday with the five-year yield, and these yields had reached levels of .32% and 1.51% respectively, and would any sane person make this kind of investment for this low of a return, which actually loses money after inflation and taxes?

Because of that upside push from the strong Nasdaq/Dow ratio, breadth numbers were very strong at a 4 to 1 positive ratio and once again volume was low for the second day in a row on the upside. So what does this mean? I have always felt that stocks can move up on both low and high volume and ultimately this means nothing, because for better or worse, this is the volume situation that the market currently finds itself it and low volume does not mean that the stocks really do not "deserve" to be at the higher prices, so to speak.

Of course, the next time that stocks decline, the naysayers will point out that "I told you so", but stocks can also decline after rising on heavy volume as well, so this argument to me appears to be much ado about nothing, except for market skeptics to justify their continual sitting on the sidelines as the market rises.

And yesterday had that old-time flavor to it, which I do not like, that stocks rose in conjunction with most commodities going higher as well, as the Euro strengthened on the Greek austerity vote optimism, so all of the important commodity markets dutifully followed the Euro higher, and crude oil in particular rose back to $93 a barrel after having been as low as under $90 after the release of those millions of barrels from the Strategic Petroleum Reserve last week.

Unlike Monday, however, there were things that did not take place yesterday, as for instance after a nice day on Monday, the financials went back to their habit of doing poorly even on an overall up-day in the market, as two large investment banks both had the dubious honor of making new lows for the year. More importantly, the VIX, which had declined by only half of what it should have relative to the Dow's advance on Monday, started out in the same relationship situation until around 12noon, namely declining by half of what it should relative to the Dow's advance. It finally caved in and ended with a decline relative to the Dow's advance by just about what it should have fallen, as it ended lower by 1.39 points to 19.17. This change in the relationship was probably a function of the optimism that came into the market as the day wore on that some sort of progress on the Greek situation would be made.

Also helping was a good report from the largest athletic footwear maker, which gave some upside impetus to the consumer type stocks and let us also remember that of the companies that have started to report for the second-quarter, most of them have done better than consensus and hopefully this will be an encouraging sign for the bulk of the reports that we will start to see the

week after next.

And for the third day in a row today, the market once again feels like the path of least resistance is higher, as the approval by the Greek parliament of the various austerity measures necessary for that country to receive further aid packages has resulted in the S&P now putting in its best three-day performance since early March. And once again for the third day in a row the bond market is declining and raising yields, as for instance the 10-year Treasury Note is now at 3.12% after having hit its low for the year last Friday at 2.84%. And to no one's surprise, the seven-year auction today also produced results that demanded higher yields as well, which is also giving a bit of a further bid to stocks on the additional movement into riskier assets. This allowed the Dow to reach its high for the day after 1pm with an advance of 96 points at its best level.

And similar to Monday, the financial stocks are joining in the upside party after the bank with the largest number of consumer deposits reached a settlement with bond investors and forecast earnings at a slightly higher level than consensus. And naturally the Euro is moving higher on the Greek vote, which has to be authorized tomorrow in order for the plan to be implemented. As a result, most commodity prices are once again on the rise, and here we go again with crude oil, which has now gotten as high as over $95 a barrel, which has to take some of the consumer optimism away after the I.E.A. decision to release more oil onto the market. So here we go again on the potentially dangerous pattern of higher commodity prices and a weaker dollar being positive for stocks.

The Dow opened nominally higher and then drifted into slightly negative territory at 10am before the release of the May pending home sales report gave it a jolt higher as this report showed a gain of 8.2%, much more than the experts had predicted, and the April number was revised to show less of a loss. The market is also getting some help from another good earnings report,

with an agricultural products maker advancing on the news, On the other hand, a single-family homebuilder is falling after its poor results.

Breadth numbers are strong once again with an almost 3 to 1 positive upside ratio and the Nasdaq is actually lagging the Dow by a little bit. The VIX is making a very large decline relative to the Dow's gain, falling by 1.77 to 17.40 as the Dow is ahead by 85 points as this is being written. This is probably a reflection of the removal of the "fear" that was built into the VIX late last week as the market declined for three straight days on "worries" over the potential failure of any progress on the Greek issue. On the other hand, as the VIX declines closer to its support level of 14.30, the upside potential of the market starts to get less.

It will be instructive to see if the market can go the distance for the third day in a row ahead of further Greek developments, the June jobs report next Friday and the onset of the more extensive release of second- quarter earnings.

This week sees some earnings and the calendar finishes with: Thursday – DRI.

Economic reports will finish the week with: 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 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.