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NATIONAL SECURITIES

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Daily Market Notes

Market Update:

DJIA:	**12388**
S&P 500:	**1318**
Nasdaq:	**2770**
10YR T-Note:	**3.15%**
VIX:	**16.50**
EUR/USD:	**1.451**
Gold	**1501**
Crude Oil:	**95.00**

Prices Current as of 1:53 PM

Source: CNBC

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For the third day in a row yesterday, the market acted as if all of the anxieties of the previous eight weeks were sort of like a mirage, as stocks once again pushed to the upside after a mixed start and closed near their best levels of day once. It is almost as if the people who sold as the market was declining feel as if they had been "taken", so to speak, as some stocks have not only recovered most or all of their losses of the past several weeks, but have actually advanced to new all-time ever highs in many cases. And those investors who sold out of stocks late last week in order to run into the perceived safety" of the bond market, are showing losses at both ends of this very popular trade, as stocks have risen for the first three days of the week and bonds have declined for the first three days as well.

The Dow reached its high of the day with a 95 point advance at 1:15pm, then chopped a bit lower to end with a gain of 73 points, and the reason it could not do better was that the Nasdaq did not really participate in the upside to the extent that it did on the first two days of the week, when the Nasdaq/Dow ratio was extremely strong. Despite this impediment to a better day, breadth numbers were still strong at a positive ratio of 21/10.

The S&P has now put in its best three-day performance since March as a result of these strong upside moves on the first three days of the week.

As was mentioned, those who sought the so-called safety of bonds by buying them at the lowest yields of the year continued to see these investments lose value, as another poorly received auction, this time the seven-year Treasury maturity, caused yields to continue to rise on the perception of the stock market showing that the economy is now picking up once again after it was supposed to be slowing down. As a result, the benchmark 10-year Treasury Note yield rose to 3.12% from its 2011 low of 2.84% on Friday.

The impetus for this positive showing was that Greece fended off bankruptcy for the time being as their parliament backed the controversial austerity measures despite the violent street protests that the various financial

programs were more than happy to be obsessed with all day. It had been feared that a Greek default would threaten the viability of the Euro and perhaps send shock waves through global markets. But let us also remember that Greece is not yet out of the woods. The bill, which was approved for implementation on a vote that was taken earlier today, will release the next $12 billion Euro installment of a $110 billion Euro international bailout from the E.U. and the I.M.F.

Giving certain financial stocks a large upside kick was a report released at 3:10pm that the Federal Reserve recommended almost doubling the proposed cap on the amount that banks can charge retailers when a debit card is used. This caused huge jumps in the shares of the two largest credit-card issuers for obvious reasons and it also helped the shares of the large banks to rally as well.

One item which should be paid close attention to was that the VIX declined by much more than it should have relative to the Dow's advance, falling by a large 1.90 to 17.27. This starts the process of getting the "fear" that investors were willing to pay for last week out of the market but at the same time starts getting the VIX closer to support at 14.30.

Ho, hum, as the old-time civil servants used to say – "another day, another dollar", as for the fourth day this week, the market is showing a very strong advance, with the S&P now on track to put in its best four-day performance since last December, and how do you like that for the bearish crowd. And once again the primary upside drive was the lessening for the time being of the Greek anxieties that had been spooking the market for the past few weeks.

The major averages got a fast upside kick when the June Chicago Purchasing Managers' report showed a strong gain when the experts who are supposed to predict these things were all looking for a decline. What this could show is that the negative effects of the supply-chain disruptions that we saw after the

Japanese earthquake are starting to lessen. At its high of the day, the Dow was ahead by another large advance of 151 points and has been able to maintain the bulk of those gains so far. And once again, breadth numbers are supportive with a 3 to 1 upside ratio.

And as night follows day, as stocks rally, bonds are declining on the lessened need to run into "safety", and also on the perception that the economy is starting to improve once again. As a result, the yield on the 10-year Note has now risen up to 3.14% from that 2.84% low last Friday. And oh, no, the Euro is up as well, to a three-week high around 1.45 but at least for today many commodities are not blindly following the Euro higher, as the grain markets in particular are getting blasted to the downside on higher acreage figures released by the U.S.D.A. This is helping to remove the inflationary concerns at least for today that the higher Euro inevitably brings on. Even crude oil has had the "nerve" to decline from its early highs close to $96, which is bizarre because it sort of negates the effect of the release of all those barrels of oil from the various strategic petroleum reserves last week. It is now around $95, or unchanged on the day.

The VIX is actually sneaking up from its lows relative to how far the Dow is advancing, as for instance from a low of being down by 1.39 to 15.88 when the Dow was starting to advance after the Chicago report, it is now lower by .84 while the Dow is currently ahead by 123 as this is being written. This shows that the VIX was getting too close to its downside support level of 14.30 and also that there may be the start of some profit taking this afternoon or perhaps tomorrow after this very strong advance of the past four days.

This week's earnings calendar finishes with: tonight – DRI.

Economic reports will finish the week with: 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 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. And one sign for optimism in this regard is that the May and June declines this year were nowhere near as severe as they were last year.

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.