February 27, 2012

NATIONAL SECURITIES

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Daily Market Notes

Market Update :

DJIA:	**12991**
S&P 500:	**1367**
Nasdaq:	**2966**
10YR T-Note:	**1.92%**
EUR/USD:	**1.33**
VIX:	**17.90**
Gold:	**1773**
Crude Oil:	**108.71**

Prices Current as of 12:30 PM

Source: CNBC

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The obsession with Dow 13,000 and the inability to close above it even after trading over that level for most of the session on Friday found a new hero to obsess about, namely the S&P, which finally closed above last year's closing high of 1363.61 on April 29th by ending at 1365.74. However, the new technical hurdle was now raised to 1370.58, reached last May 2nd which proved to be the best level for the year, as that last bullish gasp of 2011 was followed by a 20% decline which reached its nadir intraday on October 4th.

The Dow actually got as high as 13,013 with a 29 point advance at 10am, and was able to hold most of its gains until the afternoon when at 1:30pm it started to weaken and by 2:15pm it went negative and reached its worst level with a loss of 34 points at 2:30pm before finally ending 2 points lower, at 12,982. But the overall market did better as mentioned above with both the S&P and Nasdaq advancing and breadth numbers were positive as well at a 16/14 ratio. And as was mentioned above, the halo for the day went to the S&P, which closed at its highest level since June 2008, joining the Dow at its highest close since that time period as well.

And how did the VIX respond to all of the ongoing upward market movement? When the Dow reached that early high, it declined to a new low for the move, at 16.42 which was a loss of .38. But from this very low level, which now will become downside support, it decided that the path of least resistance was higher, and it finally ended with a .51 gain at 17.31 despite the gains in the S&P and only a nominal loss of those 2 points in the Dow.

And once again there were economic reports here that helped give more confidence to investors that despite the European difficulties, our economy seems to be chugging along, as the final February U. of Michigan Consumer Sentiment survey reached its highest level in a year and January new home sales declined by less than projected. And with earnings season for the fourth quarter of 2011 just about over, of 468 companies in the S&P that have reported, there is still that 64% beat rate relative to expectations, which is lower than the last four quarters but higher than the average since 1994.

Of course, causing more consternation was the seemingly unstoppable rise in crude oil prices, which had the nerve to reach $109.75 a barrel, which was their seventh straight day of gains, pushed higher by investors and speculators on "worries" about the Iranian situation, which so far have been nothing except talk and warnings, but when people who treat crude oil as just another "number" to push higher for their own advantage, what difference does what is going on the real world matter?

Of course helping crude oil and other commodities to roll along merrily to the upside is the latest leg of weakness in the dollar, which was supposed to be the "safe-haven" currency this year as the European troubles mounted, but unfortunately for the record number of Euro bears out there, the common currency moved up to 1.3450, which was its highest level since last November. And not surprisingly, the energy stocks were the best performing group once again and the weakest was the financials, which are starting to come back down to reality after their tremendous upside spurt to start the new year.

Today started out like a lot of days last year, when stocks here initially decided that the path of least resistance was lower, strictly due to overseas developments and outside markets. For instance, as trading opened here, the Euro was lower by almost a full cent, down to 1.3376 and crude oil, heaven forbid, had the nerve to trade lower for the first time in eight days and the excuse was that the G-20 group of nations turned back calls from E.U. countries to increase international lending resources, which was also the reason that the Euro currency itself declined as well. The group said that Europe needs to review its "financial firewall" before any consideration can be given to boosting the I.M.F.'s resources. So when stocks here saw these supposedly "negative" developments, they decided that down was the way to go.

As a result, the Dow fell as much as 100 points right off of the opening bell in order to satisfy those who wanted to sell on the lows, from which point it has made an abrupt and steady reversal to the upside with a gain of as much as 29 points at its best level, which once again put it above 13,000. Breadth numbers, which were poor on the opening, have also rebounded and are currently showing a slightly positive bias. But the VIX has wanted no part of the upside turnaround, as when the Dow hit that low, it rose by a large 1.94 points to 19.25, about twice as much as it should have, and even now as this is being written, with the Dow ahead by around 20 points, the VIX is nevertheless ahead as well, by .49 to 17.80. So we will see who wins this one, as that 13,000 mountain will become more difficult for the Dow to climb if it once again trades above that level as it did today and then closes below it.

Ostensibly helping the market to recover from the lows was the January pending home sales report which showed a gain of 2% when a 1% advance was expected - now give me a break on this "explanation". Meanwhile, crude oil is actually having the nerve to stay lower even as stocks advanced, with a loss of around $1.00 to $108.49. And the bond market is having no part of the stock advance, with yields declining down to 1.93% for the 10-year Note on that G-20 refusal request as described above. Perhaps the bond market is concentrating on a new E.C.B. offer of unlimited three-year funds, with banks set to take $470 billion Euros, and this is the second LTRO program, as it is called, in three months, the first one of which came in December and is credited with lifting stock markets around the world since that time.

Earnings season is virtually at an end, with primarily retailers reporting, although there are always these odd-ball technology stocks that report late as we saw last week. The lineup for this week is as follows: tonight– PCLN; Wednesday – COST; Thursday: FL, KCP and WEN.

Despite the fact that this Friday is the first one of the month, as of now the February jobs report is not scheduled until March 9th, for whatever reason. But there are plenty of reports nevertheless, which should take center stage because the earnings season is virtually finished. This is the lineup:

Tuesday – January durable goods orders, December CaseShiller home price index, February Consumer Confidence, February Richmond Fed Manufacturing Index; Wednesday – final estimate for 4Q G.D.P., February Chicago Purchasing Managers' Survey, NAPM Milwaukee Index, Fed Beige Book; Thursday – January personal income and spending, weekly jobless claims, January construction spending, February ISM Manufacturing Survey, February vehicle sales.

The S&P trades at 13 times projected 2012 earnings of $102, which has been a major supporter of stocks lately. Earnings were $85 in 2010 and are projected to be $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. Since 2006, the average P/E multiple has been 14.7
For 2011, earnings rose by 9.4% to $97. This is the highest ever earnings for the S&P in one year. For 2012, earnings are projected to be $102 for the S&P and for 2013 the estimate is for $107.

After four consecutive quarters of negative G.D.P. growth, we now have 10 consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and every quarter in 2011 as well. For 2011, G.D.P. rose at a 1.7% rate, and it is projected to grow by 2.2% in 2012, although estimates for this number vary widely and are constantly changing.

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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.