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Daily Market Notes

Market Update :

DJIA:	**13000**
S&P 500:	**1374**
Nasdaq:	**2990**
10YR T-Note:	**2.04%**
EUR/USD:	**1.33**
VIX:	**17.47**
Gold:	**1717**
Crude Oil:	**108.07**

Prices Current as of 12:50 PM

Source: CNBC

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What better way than to knock the Dow off of the 13,000 closing level that it finally achieved on Tuesday on the fourth try than none other than Fed Chairman Bernanke, whose propensity for saying things that push the market lower is well documented. And yesterday was no different, as after a fast run-up of 40 Dow points at 10am, helped by the highest reading in Consumer Confidence in a year, as soon as the erstwhile chairman took to the podium for his semi-annual congressional testimony, the market did a very rapid downward about-face, with the Dow hitting its intraday low at 11:30am with a loss of 75 points.

From this low, it managed to claw its way back to a gain of 3 points at 2pm, just in time to get hid over the head once again by another Federal Reserve event, namely the release of the Beige Book of economic conditions, which will be discussed a bit later. As a result of this second Fed-induced downward knock to the market, the Dow finally ended the session with a closing loss of 53 points to end at 12,952.

So what did Bernanke say that caused everyone to get so bent out of shape, and what did the Beige Book say that caused the second downward intraday thrust? The Chairman's comments did not seem that bearish, but let us also remember that this is a market that has been climbing almost uninterruptedly higher since mid-December, and in fact the S&P has had its best two-month start to the year since 1991. In a sense, one could say that the market was "cruising for a bruising", and the general negativity that attaches itself to whenever Bernanke opens his mouth was put forth as a reason for the downturn. As we pointed out yesterday, he mentioned that there were "positive developments" in the labor market, but that it still remained "far from normal." He also added that the recent rise in gasoline prices "is likely to push up inflation temporarily while reducing consumers' purchasing power." This is and of itself does not sound so terrible, but the implication was that there would be no QE3 program in the works, which is why the bond market, for instance,

got whacked big-time to the downside and also why the gold market underwent its largest decline in three years, with an astounding drop of $95 an ounce, but let us also remember that yields are at historic lows, so one would like to assume that there is more upside to them than downside at current levels, and gold is now in its twelfth year of advances, so this market is also vulnerable to getting whacked around from time to time. The Beige Book was also sort of harmless, as it said that the economy expanded "at a modest to moderate pace", and what is so terrible about this?

Breadth numbers were 1 to 2 on the downside, and the VIX rose by just about what it should have relative to the Dow's decline with a gain of .46 to 18.43. And because of the sell-off in metals and other commodities, stocks such as the energy, resources and industrials groups led the way down, along with the financials, whose upside still appears limited after the tremendous percentage gains they have made from last year's extremely low price levels.

Let us also remember that there was another dynamic at work yesterday as well, and that is the tendency of the market to decline on the last day of the month in any event, and a perfect illustration of this is that on both the last day of January and the last day of February this year, the market has declined even though as was mentioned above the S&P is off to its best two-month start in 21 years and the Dow has gained for five straight months and the Nasdaq printed 3,000 for the first time since December 2000. And this tendency of the market to decline on the last day of the month is, in my humble opinion, to cause investors to have some sense of anxiety when they read their monthly statements, because many of the same stocks that closed on their lows, particularly the financials, have gapped open higher today, which raises the old question to the sellers of – "So what did you accomplish?"

And what would a day in the world of investing be without mentioning the market-obsessed doings of the Euro, and the common currency got blasted big-time to the downside with a large loss of .0130 to 1.3330, on the market perception that since the U.S. Fed is not going to extend its asset purchases beyond what it is already committed to, then the dollar should gain strength because of a potentially upward move in interest rates here.

For the month just ended, the Dow rose by 2.5%, the S&P was ahead by 4.1%, the Nasdaq was the upside hero with a 5.4% gain thanks to you know who, while the Russell 2000 brought up the rear with a gain of 2.3%, and it kind of lost some steam toward the end of the month.

The first day of the new month is starting out the way that first days usually do, namely to the upside, especially after a lower last day of the month. Weekly jobless claims remained at a four-year low and both February same-store sales and vehicle sales are coming in better than expected, which is helping the shares of many retailers and auto stocks. The Dow shot out to its best level of the session with an 80 point advance at 10am, and once again the combination of Chairman Bernanke taking to the podium and a slightly weaker than expected February ISM Manufacturing Survey report caused things to sell off a bit. The Dow would have to gain 48 points to cross the 13,000 level once again, so this is where the battle is going to be fought as the day moves on.

Breadth numbers are quite good at a 3 to 1 positive ratio and the VIX is declining my more than it should be relative to the Dow's advance, lower by .98 to 17.45 while the Dow is ahead by 46 as this is being written. Both crude oil and gold are moving up after getting sold off this week, the former because this is what those who participate in this market want it to do regardless of fundamentals and the latter because there is still a latent bullishness that perceives selloffs of the kind that we saw yesterday as quite excessive. The Euro is slightly lower despite the fact that Italian two-year yields fell below 2% to their lowest level in 15 months,

which removes one of the nutty obsessions that the bearish crowd had when the market was declining in the second half of last year, namely - look at the yields of this country or that country, and oh, how terrible this is that they are rising, and if a person sold on this media-fed nuttiness, they are certainly kicking themselves now.

Finally, for those market historians out there, AAPL has now achieved a $500 billion market cap, and this follows in the glorious history of the other companies to have achieved this exalted status- and they are in order- MSFT, GE, CSCO, INTC and XOM, all of whom were lower in price a year later and who will probably never get back to that level again, so let us see if history is going to change with the present situation.

Earnings are just about finished with 485 of the S&P companies having reported a gain of around 5.8% this quarter, which would be only 2.9% if the results from AAPL were not included, so it was not such a great quarter, but the market historically can advance even as earnings growth is slowing down.

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 were plenty of reports that the market had a chance to react to as the week moved along.

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.