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Daily Market Notes

Market Update :

DJIA:	**13067**
S&P 500:	**1382**
Nasdaq:	**3012**
10YR T-Note:	**2.08%**
EUR/USD:	**1.31**
VIX:	**14.97**
Gold:	**1697**
Crude Oil:	**107.10**

Prices Current as of 12:20 PM

Source: CNBC

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After last week's ability of the market to recover from its worst loss of the year last Tuesday, things were mixed yesterday as the Dow did a solo job to the upside while other measures of the market lagged. For instance, it did a steady chop higher to reach its best level with a 54 point gain by 3:20pm before it ended with a closing advance of 37 points. On the other hand, the Nasdaq, Russell 2000 and overall breadth numbers were negative while the S&P managed to eke out a very nominal advance.

When one sees the Dow in its own world, separated to some extent from what the broader market is doing, the answer is invariably that there are a few components putting more than normal pressure on this index, one way or the other. And yesterday it was the energy, consumer and industrial components that performed well. It should also be noted that yesterday's volume was the lightest of the year, which I never believed means anything because stocks can go up or down on low or heavy volume as the case may be, and the argument will be made that yesterday's low volume session means that buyers had "little conviction", which of course becomes a nonsensical interpretation when the overall market is making new highs for the year in today's session. And one large financial news service actually said that the low volume is because of the lack of participation by high-frequency traders who are staying out of the market because the low volatility lately has taken away their chances of making a quick buck by capitalizing on very volatile market movements, such as what occurred on so many occasions during the past two years, last year in particular, poor things.

In any event, the "explanation" for yesterday's sluggish market action (excluding the low volume) was the usual one when there is nothing going on in this country in terms of economic reports or important earnings, and that is to look overseas for a reason to justify what the market is doing, and China provided the perfect excuse for whatever spin one wanted to put on the action.

For instance, there were reports which showed weakness on a number of fronts, as they had the largest trade deficit last month in at least 22 years, the weakest January-February factory production gain since 2009 and retail sales were below consensus as well. So what does any of this mean, as for instance is one supposed to sell stocks here because of these reports and then watch the Dow rise by 100 points the next day, as it has already done this morning?

Of perhaps more interest is the action of our old friend the VIX. Continuing a recent pattern, it declined by more than it should have relative to the Dow's advance, with a closing loss of a very large 1.47 down to 15.64. This was the lowest close since last May 31st, when the S&P was 1345 versus the 1371 it closed at yesterday. I had mentioned the fact that this large decline was probably a function of the fact that since the market is on its highs for the year, there are humungous numbers of puts that will be going out worthless this Friday afternoon for the March monthly options expiration, and those unfortunate investors who thought that they were "buying downside protection", which only protected the wallets of those who sold them these puts, were bailing out of their positions to try to salvage something out of merchandise that will soon be worth nothing.

Yet there are all sorts of bizarre configurations that show that the bearish crowd is not giving up, as for instance in the various VIX futures contracts, which go monthly from March on out to October, each one is priced successively higher further out in time, with the October contract literally 13 full points above the actual VIX itself (27.70 versus 14.70). So what are these people thinking? The most unusual relationship is that of the March contract, which expires a week from today and settles on the opening a week from tomorrow, March 21st. It is currently at 17.25 relative to that 14.70 in the VIX itself. Since these two items have to close at parity on expiration, something is off here, namely that the VIX either has to: 1) rise to meet where the March contract is, and the only way it can do that is for the market to decline, or 2) the March contract has to come down to where the actual VIX is. And we shall see how this resolves itself.

Another bizarre derivative-related dynamic is the fact that there are 1.7 million VIX calls that will expire worthless on the 21st if the current level of the VIX itself stays the same. And these strike prices go all the way from 15 to as high as 100, and the latter has to be the ultimate manifestation of the gloomiest doomsday fantasies of the Black Swan crowd.

So after all of the supposed "concerns" about China that held things back to some extent yesterday, today the market started out higher and has never looked back. The Dow has been grinding almost uninterruptedly to the upside, reaching its best level of the day with a gain of 113 points at its recent high just before noon. Breadth numbers are almost 4 to 1 to the upside and the VIX has gotten down to 14.55 after some bizarre early prints that I do not believe are accurate. The point here is that it is now approaching last year's low of 14.27 on April 28th, which co-incided with the S&P high for the year at 1370 or so. It is true that the VIX can get as low as 10, but it would appear that things are starting to approach overbought levels and wouldn't it be poetic justice of sorts for the market to top out when the Fed releases its 2:15pm statement later today of their latest interest rate policies relative to their latest thoughts on the state of the economy.

As for the "reasons" why things are doing so well today, naturally there always has to be some sort of overseas "explanation" and today the arrow shifted from Asia to Europe, as German investor confidence rose to a 21-month high this month, and now investors are supposed to forget about the supposed downbeat news that came out of China yesterday. February U.S. retail sales showed the largest increase in five months after an upward revision in January. Ironically, the one retail stock to report its earnings today, URBN, is lower on the news.

It would seem that the market is sort of set up for some kind of decline based on the 2:15pm Fed statement, although if it interprets the news positively, then perhaps another upward leg is upon us, which would take the VIX to really low levels, at which point some sort of resistance has to make its appearance.

Now that we have passed the third anniversary of the bear market low on Friday, there is a statistic which says that of the eight previous bull markets since 1928 lasting at least three years, which this one now has, seven rose in the fourth year (i.e. 2012), with an average gain of 14%.

And if one looks at the performance of various markets over these past three years, the S&P has risen by 102%, crude oil has risen by 127% ($47 to $107), gold is ahead by 85% ($922 to $1,700), the U.S. 10-year yield has declined by 30% from 2.86% to 2.01% and earnings have risen from $49.51 to $96.43 for the S&P, a gain of 95%. This doubling of profit growth has come despite revenues hardly rising at all, which is a function of the six million jobs that have been lost during this time.

The Fed balance sheet has expanded from $2 trillion to $2.9 trillion for a gain of 43% while total Federal debt has also risen by this amount, from $11 trillion to $15.5 trillion while G.D.P. has risen by 6.6%.

For those market historians out there, AAPL has achieved a $500 billion market cap, and this follows in the glorious history of the other companies to have gotten to 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 none of them might ever get back to that level again, so let us see if history is going to change with the present situation. A price of $536.34 puts it at exactly $500 billion with 932 million shares outstanding, and it now starting to move above that, so perhaps history will be made if the price is able to maintain these higher levels.

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.