March 19, 2012

NATIONAL SECURITIES

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Daily Market Notes

Market Update :

DJIA:	**13258**
S&P 500:	**1411**
Nasdaq:	**3796**
10YR T-Note:	**2.32%**
EUR/USD:	**1.32**
VIX:	**14.62**
Gold:	**1664**
Crude Oil:	**107.80**

Prices Current as of 12:45 PM

Source: CNBC

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Friday's March options expiration session concluded with the best weekly market performance in three months, as the S&P ended at its best level since May 2008 and is on track to put in its best quarterly start to a year since 1998. The other large indexes joined in the upside bullish party as well, with the Dow at its highest close since December 2007 and the Nasdaq reaching a level not seen since November 2000 when it was on the way down from its all-time high of 5000 reached in March of that year.

The Dow hit its best level early with a gain of 35 points, from which level it chopped slightly lower and was still nominally positive at 3:45pm, when it went into one of those very late downward slides for no fundamental reason other than the dynamics of the options expiration, as volume exploded on the close, from around 1 billion shares to 1.6 billion as various maneuvers were either entered into or unwound as the case may have been. The Nasdaq ended lower by 1 point while the S&P ended 1.5 points higher as the Dow fell to a closing loss of 20 points.

Breadth numbers were slightly negative at a 14/16 ratio and the VIX once again underwent some very unusual intraday gyrations as it had done on a few occasions earlier in the week. After trading at full 1 point differentials between ticks on three occasions once again, similar to what it had done earlier in the week, it finally ended with a closing loss of .95, down to 14.47, which happened to be the lowest level on a closing basis since June 2007. This once again leads to the question of what is going to happen the next few days with this as the March VIX futures stop trading on tomorrow's close and settle on the opening on Wednesday, and as they ended at 16.15, which is a very wide spread of 1.68 over the VIX itself. That would argue for the fact that the VIX might not be able to go lower in and of itself without some sort of further huge upside move in the market.

There were other dynamics as well, with the Euro bouncing back from a one-month low and the Japanese yen rallying from an 11 month low against the dollar and the "explanation" was that, listen to this one, since the core rate of inflation excluding food and energy in the February C.P.I. report was lower than expected with a nominal gain of only 0.1%, this means that the Federal Reserve will not be in a rush to end its economic stimulus program. Of course, this "explanation" completely goes against the explanations put forward all week for the fact that bond yields have risen to their highest levels since late October, with the 10-year Note at 2.31% on the fact that the Federal Reserve earlier in the week had said that they see continued signs of steady moderate economic expansion, which was interpreted to mean that there will be no new stimulus measures enacted.

And continuing the trend that was evident all week, the financial stocks led the upside, along with energy issues as well. For instance, BAC has now doubled from its recent low under 5 back in December, when most of the "experts" who follow this stock said that this move under 5 was "another" reason not to own it because it could not be margined at that low price and certain types of funds are not allowed to own a stock that trades below 5.

And one final note about the March options expiration series is that despite the general up move in the markets this year, the most damage was done not only to put buyers, which was obvious by the fact that 97% of all SPY puts went out worthless, but also in addition, 92% of the calls on this issue also expired with no value, and remember that this is the most widely traded options issue because of all the "experts" who hedge with it.

And how about the calls of AAPL, which exploded to the upside both in price and volatility as the stock hit the magic round number of 600 earlier in the week, but then sold off to end at 585, which basically trapped all of the call strike price buyers at this level and above, which is where the overwhelming majority of positions had been entered into during the frantic up move in the shares during the days leading up to Friday's expiration, and they had paid huge prices for the privilege of owning the calls at these levels, and was a perfect example of why this strategy can backfire even when a stock is charging steadily upward.

After a bit of a hesitant start, things are pushing to the upside once again, led by the new darlings of 2012, namely the financials, in addition to energy stocks as well. After trading in negative territory until 11:45am despite the S&P and Nasdaq being higher, the Dow has now joined the upside party as well, turning a loss of as much as 24 points at its 11:15am low into a current gain of 30 as this is being written, the best level for the day so far. Breadth numbers are improving as well, and were positive even when the Dow was lower in the first part of the session, and are currently at better than 2 to 1 to the upside. The VIX is still slightly higher on the wide differential between it and the soon to expire March futures, as mentioned above, but the spread is narrowing in with the VIX itself up by .11 to 14.58 while those March futures are down to 15.55, which puts this differential closer with one more day to trade these contracts.

The big news was the payment of a $2.65 per quarter dividend by AAPL starting in July and a $10 billion share buyback starting in the new fiscal year after September 30. This has gotten the stock higher but so far still not over the 600 level it reached last week. And those financial stocks keep rolling along to the upside and one must now wonder, why did they get so low late last year, and how do the people who either sold them voluntarily or were forced to bail out at historically low prices feel now, and isn't the stock market a fun place to be, as the buyers at these bargain-basement levels are certainly laughing up

their sleeves over what has transpired with these bank stocks during these past three months.

And for better or worse, we are seeing a bit of that same dynamic that we saw for large parts of 2011, namely all markets moving together, as equities have gone higher as the Euro has rallied once again, and this is causing crude oil prices to go higher again as well, now back up to $108 a barrel, and is this supposed to be good for stocks and consumer spending? Remember that rise to $114 a barrel last year just as stocks were on their highs in late April was partly responsible for stopping that rally in its tracks and it took until last month to get the market back up to those levels again.

Bond yields continue to rise on the better economy scenario, with the yield on the 10-year Note up to 2.33%, higher for the ninth consecutive day, the longest such bond market decline since June, 2006.

And how about this statistic –the daily swings in the S&P this year so far have averaged .46% a day, compared to 1.04% last year, and this is one of the largest declines ever for one year after the prior one. At the same time, trading volume has decline to the lowest in 13 years even as the S&P as mentioned above is out to its best first-quarter start since 1998. .

Now that we have passed the third anniversary of the bear market low a week ago 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 put it at exactly $500 billion with 932 million shares outstanding, and as it has continued to move ahead, its market cap is increasing as well, so perhaps history will be made if the price is able to maintain these higher levels. At $557 billion, it is still slightly below the fleeting levels achieved by CSCO, GE and MSFT at their best-ever levels.

The S&P trades at 14.5 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 16.4. 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.