March 2, 2012

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Daily Market Notes

Market Update :

DJIA:	**12949**
S&P 500:	**1369**
Nasdaq:	**2977**
10YR T-Note:	**1.98%**
EUR/USD:	**1.32**
VIX:	**17.41**
Gold:	**1711**
Crude Oil:	**106.51**

Prices Current as of 1:00 PM

Source: CNBC

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Once again yesterday, the market played the 2012 version of that old Broadway show "How Now Dow Jones", as a very strong start out of the opening gate resulted in a Dow advance of 80 points to the highs at 10am, (which put it at 13,032) and this is exactly the same time that the Dow made its high on Wednesday as well. And guess what, the same person who knocked it off the highs on Wednesday could be held responsible for it coming off of its best levels again, and it was none other than Fed Chairman Bernanke, who repeated his Wednesday House of Representatives testimony to a Senate committee yesterday.

Now we cannot put all of the blame on Ben, but we cannot escape the fact, as we have pointed out on many occasions in the past, when he speaks the market has a very strong tendency to decline, and as Casey Stengel was fond of saying – "You can look it up". Of course the fact that the February ISM Manufacturing Survey came in slightly below expectations was also thrown out as a reason for the comedown, but tell me, what is the difference between a reading of 52.4, which still shows expansion, versus the 54.1 number last month?

The market was still ahead by 55 points at 2pm when it went into a hissy fit on the downside, as the Dow plummeted from that gain into a loss of as much as 8 points at the 3:40pm low before getting its upside act together into the close and it finally ended with a closing advance of 28. Breadth numbers were actually very strong at better than a 2 to 1 upside relationship, courtesy of a very good Nasdaq/Dow ratio and despite the inability of the Dow to regain the 13,000 closing threshold once again, the S&P continued its merry route higher, and is now ahead by 9% early in the year, which matches its historical average yearly gain for the past 88 years.

The VIX declined by more than it should have relative to the Dow advance, lower by a large 1.17 down to 17.26,

and the air starts getting thin for the market to keep advancing when the VIX is starting to get closer to its current support level of around 16.50.

And what pushed the market to its low was a report, later proven to be completely fabricated and which came out of Iran, that there was a pipeline explosion in the Eastern province of none other than Saudi Arabia, the world's largest oil producer and exporter. And sure enough, when those oil traders saw this phony report, instead of verifying its truth or not, they had the nerve to push crude oil as high as $110.55 from the $108.84 level that it had closed at during the regular Nymex trading session. And when the denial came out, crude oil fell back to around the level that it had closed at during the regular session at around $108.80 or so.

Of course this begs the question as to the fairness of a market where an untrue story, obviously planted by those who stand to gain from a higher oil price, can cause more anxiety among consumers worldwide. Let us remember that Iran's oil exports have suffered because of the various embargoes in effect against them, especially from the E.U. and it therefore becomes in their interest to get the price as high as possible for the remaining oil that they do indeed export, but don't we also see phony stories planted in relation to stocks as well, so who is the bad guy?

Leading the upside were the financial stocks, in addition to technology as mentioned above by the strong Nasdaq/Dow ratio. The former group was helped by that second injection of liquidity into the European banks on Wednesday. This was reflected in the fact that two-year yields in both Italy and Spain fell to their lowest levels in a year and a half, and remember when that nutty obsession caused all sorts of market anxiety in the second half of last year, and how do the people who sold at lower prices feel about doing what they did because of this bizarre market concern over yields in these various weaker E.U. countries including Cyprus and Malta on some occasions. In addition, good reports from monthly chain store sales and vehicle sales helped

stocks in the retail and auto groups as well. And the overall market got a boost from the weekly jobless claims remaining at four-year lows and this early report was partly responsible for the strong start to equities as mentioned above.

The sharp rise in bond yields the past two days has been a function of Bernanke's indications that there will probably be no further need for an additional stimulus program here, in addition to the continued generally stronger economic reports as well, which has been one of the main reasons why the overall market has been in this upside sweet spot so far in 2012.

With no economic reports and no important earnings, the market is drifting downward today on that low level of the VIX, which got down to 17.14 as the Dow tried to stick its head into positive territory a couple of times this morning. So various experts have to start fishing around for "explanations", and one is that the Euro is getting sold off sharply as Spain raised its budget-deficit target for this year and German retail sales unexpectedly declined, heaven forbid. The Spanish Prime Minster announced a new deficit goal of 5.8% of G.D.P. which compares to the 4.4% target previously agreed with the E.U., the nerve of him.

As a result, the Dow has been chopping around in a mostly lower range, and is currently down by 30 as this is being written. Breadth number are around 1 to 2 to the downside, the complete opposite of yesterday, and the energy stocks are the weakest on a large drop in crude oil prices, down over $2 a barrel closer to $106, and how many times does the stock market go up when crude oil rallies on the supposedly "stronger worldwide economic growth" explanation and declines when energy prices go lower, when one would like to think that there should be an inverse relationship between these two items. A weaker Euro is also hurting most commodity prices as well today, and industrial and material stocks are lagging as a result. Financial stocks are trying to build on yesterday's gains. The VIX is up slightly less than it should be relative to the Dow's declines, and this is also not the best scenario either.

Despite the down day, the S&P and Nasdaq have now advanced for 8 out of the past 9 weeks, which is a tremendous way to start the new year.

With earnings season over, the big event next week will be the February jobs report on Friday and we will discuss this more as the week moves ahead.

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 490 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.

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.