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Daily Market Notes

Market Update :

DJIA:	**13101**
S&P 500:	**1400**
Nasdaq:	**3092**
10YR T-Note:	**2.19%**
EUR/USD:	**1.33**
VIX:	**16.86**
Gold:	**1657**
Crude Oil:	**105.10**

Prices Current as of 1:30 PM

Source: CNBC

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After Monday's upside moonshot, the market tried to follow through once again yesterday, as the Dow started off with a 23 point early gain, which turned out to be its best level of the day. From that high right out of the starting gate, it chopped around in a lower range between small gains and losses until 3:15pm, when it was still slightly positive. Then from that time until the close, the market went into one of its classic very late in the day declines, and the Dow ended with a closing loss of 44 points.

Breadth numbers deteriorated as well, as they had been nominally positive for most of the session before also succumbing to a little negativity, with a final 12/17 ratio. The Nasdaq tried to keep things higher most of the session and was ahead by 11 points at 3:15pm, but eventually gave it up as well and ended down by two.

So what happened to cause this late slide? The first answer is that the market invariably does the opposite of what it had done the day before, and as was pointed out in yesterday's daily market notes, the Dow on Monday made that very late jump from a gain of 140 to a closing gain of 160. In a sense, yesterday's very late decline was probably a bit of payback for this perhaps contrived final 20 points higher.

The more important reason is that once again, and this is something that should be closely watched by everyone, is that the VIX does not look like it wants to close below that very strong support around 14.30. It was pointed out yesterday that Monday's VIX close at 14.29 was the lowest since June 24, 2007 and last year's low for the VIX was 14.30 in late April, from which point the market went down for the next six months. If we assume that the VIX is not going to break below this level, then it could mean that the market, heaven forbid, might have topped out for the time being.

In fact, the VIX was sort of forcing the market action yesterday by having the nerve to trade higher by around .75 points even when the Dow and S&P were at their best levels of the day, which were not that much higher in the first place, but still up for good parts of the session. So if the VIX was higher when the major averages were higher, one can imagine the joy it felt when the averages deteriorated late as mentioned above. As a result of that post 3:15pm selloff, the VIX rose by a large 1.33 to 15.59 as the Dow ended lower by those 44 points. In a sense, the higher VIX all session long was a very good predictor of the fact that stocks would ease off as the session came to a close.

And how about the bond market reversing its recent higher yields, which had the 10-year Treasury Note up as high as 2.37% on March 19th. As the major averages declined last week for only the second time this year, the yield has quietly been working its way back down once again and was 2.19% on yesterday's close.

Leading the way lower, even when the major averages were at their best levels, were the shares of financial stocks, which appear to have stalled out after their tremendous percentage gains from low levels this year, in addition to energy stocks, which also showed weakness after a very strong performance on Monday. In addition, three Dow stocks that made multi-year highs also reversed to end slightly lower after their very steady recent advances – DIS, HD and IBM.

After yesterday's very late comedown, things tried to get rolling to the upside once again, as the Dow started out with a small gain similar to yesterday. But also similar to yesterday, it could not hold its early advances and went negative before 10am and accelerated its downside to a loss of as much as 112 points at its 12noon low. It has since stabilized somewhat from those lows and is currently down by 99 points as this is being written.

Today's excuse for the selloff is that the February durable goods orders came in lower than expected, with a gain of 2.2% versus expectations for a 3% advance, which is not in and of itself such a tragedy and was in fact the fourth gain in the past five months. This report was a case of experts not paying attention to the fact that both the Dallas and Richmond Manufacturing Activity Surveys for March both came in much lower than expectations this week, so this could be some sort of indicator of slower activity.

But here we go again – would you believe that the main "explanation" for lower stock prices is that crude oil is getting sold off by around $2.50 a barrel down to under $105, and once again as I have been mentioning for the longest time, instead of being friendly for the economy because consumers will be spending less for energy, it is invariably used as an excuse for why stocks are lower, which is the sickest thing of all the explanations out there. The reasons for the large decline were that supplies showed a much greater than expected buildup and also that France is proposing some sort of joint release along with the U.S. of oil from strategic reserves, and isn't it ironic that there are presidential elections coming up in both countries and high oil prices have become a big political issue in both places with the Republicans here and the Socialist Party in 'France trying to place the blame for this situation on the incumbent.

And reverting to his role as a person who invariably causes the market to decline when he pontificates about the economy, Fed Chairman Bernanke made some remarks today that are being construed as negative, as he repeated that unemployment remains too high and it is "too early to declare victory." Today's negative market reaction to what he said is typical of the way things perform after he says something, so that one day reprieve on Monday when the market exploded to the upside must have gotten to him and as a result, instead of keeping quiet and declaring his own victory that for once the stock market reacted positively to what he said, today was a gut-check for him to perhaps not to be so free with his opinions. But as I mentioned on Monday,

what did he say at that time that was so great in the first place to cause that extreme upside reaction?

Breadth numbers are quite negative at a 9/21 ratio as the Dow is currently lower by 99 points and the VIX is once again having an upside field-day with a gain of 1.28 to 16.87, which for the second day in a row is more than it should be advancing, so this is definitely a revenge of the nerds type of situation. And in the most unkind cut of all, mighty AAPL, after reaching a new all-time high early in the session, actually has the nerve to lower by .35 cents as this is being written, which is causing a huge upward spike in the prices of both its calls and puts, when in fact the opposite should be happening for a stock that is basically unchanged, especially for Friday's weekly expiration.

The economic calendar for this week finishes with: Thursday – second estimate of first-quarter G.D.P., weekly jobless claims, March Kansas City Fed Manufacturing Survey; Friday – February personal income and spending, March Chicago Purchasing Managers' Survey, final March U. of Michigan consumer Sentiment Survey and NAPM Milwaukee March Index.

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.