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NATIONAL SECURITIES

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Daily Market Notes

Market Update :

DJIA:	**12832**
S&P 500:	**1352**
Nasdaq:	**2937**
10YR T-Note:	**1.96%**
EUR/USD:	**1.31**
VIX:	**19.44**
Gold:	**1682**
Crude Oil:	**106.09**

Prices Current as of 1:10 PM

Source: CNBC

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On the 45th trading day of the year, the market finally took a big-time downside beating, which is the second longest time period that the S&P started a year without having had a 1% daily loss. The Dow gapped down yesterday and was 140 points in the negative column after the opening bell, and then spent the rest of the session chopping irregularly lower from there, and sort of meandered around the negative 200 level from 12:15pm into the close before ending with a loss of 203. This was the worst decline in three months and was a stark reminder of so many days last year, when all markets moved in the same direction, whether justified or not, because of the old "risk-off" herd mentality.

For instance, breadth numbers were a disastrous negative 1/10 and the VIX really let the market have it big-time after also rising more than it should have on Tuesday as well. It ended with a 2.82 point advance to 20.87, which was the first time since November that it closed above its 50-day moving average, and is further evidence that the 16.50 downside support level is not going to be penetrated on the downside for a while. Whatever this close above that 50-day moving average is supposed to mean is beyond me, because on the next up-day the VIX will decline below that average, so if this is supposed to mean some sort of sell-signal, then so far what is taking place today throws that theory out the window.

And sure enough, crude oil also got sold off, and is now almost $6 below the $110.55 level which it briefly reached on that phony story out of Iran late Thursday about a fictitious pipeline explosion in Saudi Arabia. And the list goes on and on, blah,blah, with the Euro and gold also selling off as well, as the former declined by a large .0100 down to 1.3100and the latter fell to a five-week low. The financial stocks got sold off on the potential problems if the Greek bond swap deal is not approved tomorrow and the industrial and cyclical stocks sold off sharply which they usually do on days of this type of downside magnitude gain on the – oh, no - "slowing economic scenario" argument.

And what would a good old-fashion stock market licking be without a large rally in the bond market on another one of the old market clichés – namely the "flight to quality", as the 10-year Note fell back down to a 1.95% yield.

So what was the cause of all the negative handwringing? We will go over the supposed anxieties once again, and it was the result of all of a sudden investors being "worried" about the E.U. going into recession when this possibility has been around for a long time. A report said that fourth-quarter G.D.P. for the region was lower by 0.3% and the E.C.B. balance sheet had expanded to $3 trillion Euros because of the tremendous amount of lending that they have extended to various member countries lately.

But the real kicker yesterday was that now investors are "concerned" that Greek private creditors have until tomorrow night to say whether they will participate in a bond swap that is part of the second bailout and restructuring deal to help that country manage its finances and meet the debt re-payment deadline on March 20th. Investors are set to lose almost 75% of the value of their debt in the exchange. The supposed worry was that if Greece misses the March 20th payment without a deal in place, this would then become a "disorderly default" and could be taken as a sign that control of the Euro has been lost and that other weak countries such as Spain and Italy might then need around $350 billion Euros in outside support to contain the fallout while the cost of helping Ireland and Portugal, the other two weak links in the chain, would need $380 billion in Euros over the next five years. If the deal fell apart, the E.C.B. would suffer substantial losses because its estimated $177 billion Euro exposure to Greece is more than 200% of its capital base. Finally, a disorderly default would almost certainly lead to a Greek exit from the E.U.

On the other hand, there will almost certainly be a successful bond swap because Greek banks, which hold around $40 billion Euros of the sovereign bonds, will take part in the offer.

State-run pension funds are also expected to sign up and 12 more major Greek bondholders on the committee that drew up the deal all said that they would support the swap as well. These Greek banks and other yes voters so far hold about 39% of the $206 billion Euros of bonds in circulation that are eligible for the exchange.

Greece wants a 90% participation rate in this deal and if it falls to above 75%, there are collective action clauses in effect to force losses on those who do not volunteer. However, below that level, things get dicey because the deal would then be off, with all of the negative implications as just mentioned.

After yesterday's downside debacle, we are having a decent upside turnaround, with the Dow having achieved its best level so far of an 83 point advance at 11:30am and breadth numbers are good at a positive 3/1 upside ratio. The VIX, about which investors got bent out of shape yesterday on its close above its 50-day moving average, is getting smacked right back down once again, losing 1.44 to 19.43 versus a gain of 70 Dow points as this is being written, or about twice what it should be falling. And then the other outside markets are all moving in the same upside direction as stocks, as yesterday's "risk-off" trades become today's "risk-on" dynamics.

So now we have the Euro, crude oil and gold all higher for the exact opposite reasons why they were lower yesterday, as the common currency is gaining as apparently more private investors have agreed to accept the terms of the Greek bond exchange needed for that country to receive the second rescue package, and the percentage participation is now up to 58%, which moves to closer to the 75% minimum needed as mentioned above.

Another reason put forward for the better day is that A.D.P. came out with a 216,000 estimate for private payroll gains in Friday's jobs report, which compares to the projection of 215,000, so why is this so bullish?

The point here is that the market does want it wants to do, and the "explanations" come out afterward to try to justify what the market is doing, as for instance, are people forgetting about yesterday's supposed "weak" economic reports out of the E.U. and China as referenced above. And even today, there was a report that German factory orders "unexpectedly" declined in January, so if the market was lower then that would have used as the "explanation" for the weakness here.

Later today we will hear from AAPL on the introduction of their new iPad3, and how the market reacts to this presentation could also influence things one way or the other.

In light of the recent market weakness, Friday's jobs report becomes even more important, with predictions for an overall gain of 210,000. This means a loss of 15,000 government jobs and equates to 225,000 private payrolls added, and this compares to last month's 257,000. The unemployment rate is supposed to stay the same at 8.3%, so we will be watching these estimates closely, especially after what A.D.P. said this morning.

Finally, 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.

Earnings are just about finished with 495 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.