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Daily Market Notes

Market Update :

DJIA:	**12961**
S&P 500:	**1385**
Nasdaq:	**3054**
10YR T-Note:	**2.05%**
EUR/USD:	**1.31**
VIX:	**18.28**
Gold:	**1676**
Crude Oil:	**103.71**

Prices Current as of 12:45 PM

Source: CNBC

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After the largest percentage decline for the S&P in four months on Tuesday and a 4.4% total pullback in the Dow, which capped off a five-day losing streak, the market decided yesterday that enough was enough on the downside, as the major stock indexes gapped open higher and remained in positive territory for the balance of the session.

The Dow reached its best level of the day with a 129 point advance by10:30am and it matched this advance at 2pm just before the release of the Fed Beige Book of economic conditions. And as is the usual case when the Fed says something, the market reacted somewhat negatively as the Dow hit its worst level of the day with an advance of only 75 points at 3:45pm before rallying back somewhat to end with a closing gain of 89.

Breadth numbers did almost but not quite the opposite of their horrible performance during Tuesday's downside debacle, as they ended at a 4 to 1 upside ratio and the VIX declined by much less than it should have, losing .37 to 20.02.

The best performers were the ones that did the worst on Tuesday as well, as for instance the large financials put in a very solid session, and most but not all of those industrial cyclical issues that had gotten hammered to the downside during the recent five-day market decline also showed some ability to recover. Technology stocks did not quite do as well as one would have liked to see on this type of turnaround day, considering that they sold off quite a bit during the down move. As a result, losses in issues such as AAPL, PCLN, and old warhorses such as MSFT, ORCL and NTAP restrained the Nasdaq from doing better.

So what happened to finally stop the downside bleeding? Most observers thought that the market got an upside surprise when the traditionally weak Dow leadoff hitter, otherwise known as AA,

actually had the nerve to report a small profit when the consensus of market experts was that it would come out with a loss. As a result, this stock was able to rally back to the level that it was at a week before and let it also be noted that this stock has been the worst Dow performer over the past year, down by 45%, but I guess that we should all be thankful for small miracles in regard to this one. Despite being responsible for motivating the market to the upside yesterday, it is still 80% below its high over the past five years and should thank its lucky stars that it has not been kicked out of the Dow, where it probably does not belong anymore.

It would seem that the market's intraday downside reaction to the Fed Beige Book was more a question of old habits being hard to break, as what they released did not seem so terrible on the surface. They said that the economy maintained its expansion in all 12 of its regions as manufacturing, hiring and retail sales showed signs of strength in the face of higher fuel prices.

And how about crude oil, which refuses to go lower despite the largest thee-week build in inventories since January 2009. I guess the fact that crude oil prices rallied by $2 a barrel back up to $103 was that gasoline inventories did decline somewhat, but it appears as if this current range of prices for crude is going to persist.

And in a sign of how oversold the market had gotten as a result of this five-day down move, only 30% of stocks in the S&P were above their 50-day moving averages as opposed to around 80% of them being higher than that level before the correction.

So what does this hand-wringing about the fact that the S&P closed below its 50-day moving average during Tuesday's market meltdown for the first time since December mean? Does it imply that one should sell because the uptrend has been broken and stocks are headed for lower levels?

This sort of financial media obsession with every little statistical bit of nonsense sure seems to be a losing proposition, as for the second day in a row, the market looks as if it wants to break the recent string of those five consecutive losses. And I guess that we can now all breathe a big sigh of relief that the S&P is back above that 50-day moving average, thank you very much. This sort of "analysis" when following these types of situations is part of the old "buy high-sell low" mindset that unfortunately many investors seem to live with.

What got the upside going once again today is being attributed to statements from two Fed officials to the effect that interest rates are likely to stay low through 2014, which is basically what they have said for a long time now, and Chairman Bernanke's blunderous statement last Tuesday put some doubt into that scenario, and was the first of a few reasons why the market began that five-session string of losses in the first place. In addition, the Bank of Japan said that it will pursue a policy of "powerful easing" in order to battle any incipient deflationary pressures. And talking about lower interest rates, how about Italian two-year notes declining by a rousing .17 basis points to a 3.25% yield?

This interest rate optimism has offset an increase in weekly jobless claims by 13,000, up to 380,000. On the more positive side, the February trade deficit declined to $46 billion from $52.5 billion in January, and this will help the first-quarter G.D.P. statistics. This decline was the result of record exports and a drop in Chinese imports and also a lower oil import volume to the lightest in 15 years.

The Dow opened higher and has basically not looked back, and is currently near its best levels with a 145 point gain as this is being written. Breadth numbers are around 4 to 1 to the upside for the second day in a row and the VIX is lower by exactly what it should be relative to the Dow advance, down by 1.48 to 18.54,

so it now appears as if that 14.30 to around 21 range is going to be it for the foreseeable future. Industrial cyclicals are once again doing well, especially the energy stocks which have gotten really beaten up the past several days. Bond yields are up again ahead of today's important 30-year auction, as that 10-year Note is having trouble moving much below 2% as it just seems so ridiculously low at that level.

The big event will be some more important earnings than AA, as tonight we hear from tech giant GOOG, and it is a little disturbing that the stock has gotten strong ahead of the numbers and tomorrow morning will see two important large banks, Dow component JPM in addition to WFC. See below for the complete list.

As the first-quarter reporting season is getting underway this week, the current expectation is for an overall profit gain of 3.2% but this will only be 1.8% without the predicted strong results from AAPL. In contrast, the fourth-quarter of 2011 saw a 9.2% gain.

After the drama of last Friday's jobs report, this week is sort of quiet, and the week finishes tomorrow with March C.P.I. and the preliminary April U. of Michigan Consumer Sentiment Survey.

And as mentioned, the reporting season for first-quarter earnings begins this week, with today being the most exciting with GOOG and this is one stock that the experts can never get right as it invariably makes a large move one way or the other after its numbers. In addition, FAST, JBHT and RAD also report. Friday will see the second Dow stock of the week reporting, the always important JPM, in addition to WFC, so these two numbers might give a good sense of what is in store for this very important financial group.

Now that we have passed the third anniversary of the bear market low earlier this month, 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%.

The S&P trades at 14 times projected 2012 earnings of $104, which has been a major supporter of stocks lately. Earnings were $85 in 2010 and were $93 in 2011, according to the analysts who follow these companies. The estimate for 2013 is $107. The average P/E multiple for the S&P going back to 1954 has been 16.4.

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.