April 20, 2012

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Daily Market Notes

Market Update :

DJIA:	**13079**
S&P 500:	**1386**
Nasdaq:	**3028**
10YR T-Note:	**1.98%**
EUR/USD:	**1.32**
VIX:	**17.02**
Gold:	**1642**
Crude Oil:	**103.74**

Prices Current as of 12:30 PM

Source: CNBC

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For the second day in a row yesterday, the market decided that the path of least resistance was lower for reasons that will be mentioned later, as the Dow reached a 47 point advance at 11am, but quickly collapsed from those best levels and by 2:30pm it was lower by 136, from where it was able to regain some of those losses and finally end with a closing loss of 68. The Nasdaq tried to do better initially as well, helped by large gains in a few biotech components for reasons that are particular to that group, such as takeovers and new product approvals. But as has been the case lately, it could not overcome the weakness that has descended upon its former high-priced leaders, whose stocks continue to give ground.

Breadth numbers were negative at a 12/17 ratio but the VIX decided to ignore the negativity and actually declined a bit, down .28 to 18.36, which still keeps it in that 14.30 to 21 range as the market fluctuates from the recent highs in early April to the recent lows last week.

And the financial stocks, which have not done well lately, continued to decline as U.S. regulators said that these large banks will have two years to implement the Volcker rule so long as they make a "good faith" effort to comply with the ban on proprietary trading.

What got the negative sentiment going were some weaker reports here and naturally all of the recent problems in Europe, as weekly jobless claims rose slightly from the week before, the April Philadelphia Fed Manufacturing Index declined to its lowest level since January and March existing home sales were lower for the second straight month.

Then one had to turn to Europe in order to get your daily dose of negativity, as both Italian and Spanish bond yields rose a bit, with Italy's 10-year notes up to 5.55% while those in all-important Spain yielded 5.74%, which was still below the critical 6% level that they attained a few days ago, but higher than the last auction of this maturity back in January, a 5.40% yield.

This illustrates the deterioration that has taken place in that country since that time. And heaven forbid, there were also stories that France's sovereign debt rating could be downgraded soon, but on the other hand, doesn't the fact that Moody's raised the debt rating of mighty Azerbaijan to investment grade count for anything anymore? Despite this negativity, the Euro actually rallied a bit, having found support just below 1.3000, which now might be difficult to crack on the downside unless there is a real disaster in one of those countries.

And earnings here continue to be better than expected, with 121 S&P companies that have reported so far, a very strong 82% of them have beaten the estimates, but the problem is that some of them had rallied strongly into their reports and as a result the shares sold off, with GOOG and IBM being the most prominent examples of that dynamic.

And let it not be forgotten that certain stocks traded with today's important quarterly options expiration for April in mind, as for instance BAC because of its low price, had what I believe to be the highest volume of daily trades ever for one particular strike price to the tune of 386,000 in the 9 call for today, which had teased its buyers early in the week as the stock traded over 9. But yesterday it looked like the people who could not get into the lifeboats as the Titanic was sinking, as there was the steady deterioration of its price as people tried to salvage whatever they could get for it. It will expire worthless today with 350,000 worthless pieces of merchandise, along with hundreds of thousands of calls at higher strike prices than this as well. And there were other demolitions in options as well for those who bought GOOG and IBM calls as those stocks were doing well recently, as everything above 610 and 200 respectively is going down the drain as well, and in perhaps the biggest devastation that the calls of AAPL have ever seen, since this stock has been lower for eight out of the past nine days, there has been complete destruction in these calls as well. And in our usual recitation, the one item with the largest overall participation of all, namely the SPY, will have 1.4 million calls and 3.9 million puts go out worthless, and the former represents 74% of the open

interest and the latter is 86% of the participation, and as I have said before, similar to the VIX options, the trading in this represents primarily what is referred to as "sophisticated" investors such as hedge funds, endowments and other institutional types of participants, and we see month after month the overwhelming majority of these options on both sides of the market go out worthless, and I ask the question over and over – what do these people know if they constantly end up buying something that ends with no value?

After the weakness of the last two sessions, things decided today that the path of least resistance is higher, as some good Dow earnings has motivated that average higher, with GE, MCD and MSFT leading the upside charge. As a result, the Dow started out higher and has been pushing to the upside as the day is moving along, with a 114 point gain at the best level so far.

Breadth numbers are better than 3 to 1 to the upside and the VIX is down by just about what it should be relative to the current Dow advance of 110 with a 1.20 loss to 17.16. And here we go again, with bond yields up as stocks go higher and naturally the Euro is higher despite the troubles in that part of the world as German business confidence rose to a nine-month high and the I.M.F. said that they will gather additional resources to help insulate the international economy from dangers like the European debt-crisis contagion. And for one day at least we do not have to hear about Spanish and Italian bond yields, thank goodness.

And do you think crude oil is up or down today on a higher stock market and higher Euro, and I do not want to bore anyone with the "explanation" as to why it is higher as everyone should know by now why energy products rise or fall, which of course has nothing to do with the supply/demand fundamentals in this industry.

If you thought that this week was a barnburner for earnings, wait until you see what is coming up next week, with an all-star studded lineup that includes: Monday – COP, HAS, XRX; Tuesday – Dow component T, in addition to AAPL, DV, MHP, R, WAT, WU; Wednesday – Dow components BA and CAT, plus COG, HOG, HES, MSI, OI, S, SBUX,WLP, WYN and XLNX; Thursday – Dow component XOM, plus AMZN, BWA, D, ETR, FII, K, LEG, MCO, PEP, PFG, TWC, UPS, WM and ZMH; Friday – Dow components MRK and PG, plus IP, NEM and WY.

Once again, as the first-quarter reporting season is getting underway this week, the current expectation is for an overall profit gain of 3.5% but this will only be 2.0.% without the predicted strong results from AAPL. The current forecast for the entire year is for profit growth of 8.6%. The fourth-quarter of 2011 saw a 9.2% gain.

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 13.5 times the projected 2012 earnings of $101, according to the analysts who follow these companies, which should be a major supporter of stocks. Earnings were $85 in 2010 and were $93 in 2011. 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.