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Daily Market Notes

Market Update :

DJIA:	**13071**
S&P 500:	**1388**
Nasdaq:	**3021**
10YR T-Note:	**2.0%**
EUR/USD:	**1.32**
VIX:	**17.0**
Gold:	**1634**
Crude Oil:	**103.77**

Prices Current as of 1:05 PM

Source: CNBC

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The market yesterday ended widely mixed, and this was evidenced by the divergence between the performance of the Dow and the Nasdaq. For instance, the Dow reached as high as a gain of 122 points at 11:30am, and then began to slip for the remainder of the session, pulled down by its old nemesis on this type of day, namely the underperforming Nasdaq. Even when the Dow was on its high, the Nasdaq was only up by 8 points and then because of ongoing weakness in you-know-who and other larger former leaders like NFLX, PCLN and ISRG, it began to sag and actually ended with a closing loss of 9 points. This obviously had the effect of dragging the Dow lower as well and it ended with a still decent gain of 74 points. Breadth numbers were good relative to this discrepancy at a 20/9 positive ratio.

The VIX was giving ground reluctantly all day, and was actually down by less than it should have been relative to the ongoing Dow gains. But right on the close, it made a bit of a downward dive and ended with a loss of more than it should have relative to the Dow's closing gain and relative to where it had been all day, down .87 to 18.10. Perhaps it had an idea that things would be better today.

And naturally on an overall up day, those outside markets, which basically only move in relation to what stocks are doing (or is it the other way around?), all ended slightly higher, as bond yields rose a bit along with the Euro, crude oil and gold.

And since we are smack dab in the middle of earnings season, individual stocks have been reacting one way or the other to how their numbers are reported, as for instance yesterday there were three Dow stocks, 3M, T and UTX, whose contributions to the Dow were 20 points and IBM by itself contributed 10 Dow upside points, so this means that four components alone accounted for 40% of the Dow's final gain.

And then we had some unusual drama as two stocks actually reported their numbers while the market was open, both around 3pm, and JNPR rose sharply while BWLD declined after their reports, again something that we do not see that often, although Dow component AXP has done this on occasion.

The better tone to things was attributed to some economic reports that were brighter than expected for a change, as the February CaseShiller Home Price Index showed a slight gain for the first time in 10 months and March new home sales were better relative to the large upward revision from February despite falling to the lowest level in four months. And for what it is worth, the April Fed Richmond Manufacturing Index rose by twice the amount that it was projected to.

Also being used to justify the overall advance was news from Europe, as both Spanish and Dutch bonds had lower yields, with the former down to 5.86% and the latter down to 2.33%. And let us remember that the Netherlands was one of the bad boys on Monday as its prime minster tendered his resignation over the failure to resolve budget deficit issues. And in the perverse world of European bond trading, apparently the rise of the German 10-year issue to a yield of 1.70% from a record low 1.63% yield yesterday was also perceived as bullish, as it shows a movement away from the "flight to safety" (i.e. Germany) in that part of the world, so three cheers for this development.

And how about the shares of AAPL, which had gotten smacked around big-time in the past two weeks from as high as 644 intraday on April 10th to as low as 555 yesterday, a steep downside correction of 14%. And in the process, it apparently went under its 50-day moving average for the first time since last December. So according to this technical gobbledygook, this is supposedly a "negative" signal which means that all of the astute investors who follow this methodology had to sell out or take a short position because this "breakdown" was ostensibly predicting that further declines were in store, and one house said that a total fall of 19% had to follow this type of dynamic.

And if one were to look back to December, the last time that this "terrible" type of event took place, the breakdown below the 50-day moving average at that time took the stock to 390, and was this supposed to be a sell signal at that time as well, as how many of us would have loved to buy it at that level, on its way to a more than 250 point gain earlier this month?

We see this same nonsense with the major averages, as when the S&P broke below its 50-day moving average twice this month, which put it at 1358, and this has been the triple-bottom low in April from which market advances have taken place. This is another example of the nonsensical implications of following what is a lagging indicator because when market declines have ALREADY taken place before a person is supposed to get bearish, this is the old "buy high, sell low" syndrome at its worst.

And as the world knows by now, that recently derided stock that was talked about in the prior paragraphs fooled its downside detractors big-time with a blowout report last night, especially in regard to its iPhone sales, which were supposed to have slowed down because of lower activations from wireless carriers T and VZ, which were stated in their recent reports. What had actually started the downside ball rolling was when QCOM indicated that there could be possible shortages of key components used in AAPL's mobile devices. But the "nattering nabobs of negativity" (Spiro Agnew, where are you?) did not put in their calculations that huge sales in China now made up 20% of total revenue, up from 12% last year and only 2% two years ago. Gross margins also rose, up to 47.4% compared to 41.4% a year ago.

As a result of the upside motivation from this company, things started out with a rousing upside rally, as the Dow reached a gain of as much as 104 points at its 10am high. The Nasdaq, which has been recently lagging for the reasons mentioned above, really got its upside act together with a gain of as much as 70 points at that time as well. From these highs, things have cooled off a bit as the Dow's gains were only half as much with a 52 point

advance as while the while the Nasdaq was ahead by 57 at the 12:30pm release of the latest Fed statement.

Breadth numbers are almost 3 to 1 to the upside and the VIX, which had anticipated today's better day with that late drop as mentioned above, is lower by .87 to 17.23. And once again, individual stocks are having a huge influence on the Dow, as CAT by itself is accounting for 41 negative points after its earnings report while BA is adding 20 points after its earnings earlier today.

These gains are coming despite a March durable goods report which showed the largest decline in three years and the Fed statement at 12:30pm, which said that they "expect economic growth to remain moderate over coming quarters and then to pick up gradually" and added that "despite some signs of improvement, the housing sector remains depressed." The only outside market that really moved on this statement was good old gold, which has been stuck doing nothing for weeks now, and which sold off a bit due to the fact that the statement basically means that no QE3 program is in the works, and this implies that the dollar will not weaken because of this and therefore the primary reason to buy the precious metal gets a little less precious, so to speak.

The major averages have since moved up somewhat from where they were when the Fed made its statement and hopefully they will keep pushing ahead into the close, as the Dow is now ahead by 84 while the Nasdaq is up by 63 and it if closes with a gain of 56 or more, it will be the best performance this year.

Because of the blow-out AAPL report, first-quarter earnings are now projected to show a 6.9% advance, up from the recent 3.2% and 4% as the experts had recently predicted, and this is with 200 of the S&P companies having reported so far, with 77% of them beating the numbers.

Economic reports could influence things one way or the other and we will have - Thursday: weekly jobless claims, March pending home sales, April Kansas City Fed Manufacturing Activity report; Friday; first estimate of 1Q G.D.P. and the final April U. of Michigan Consumer Sentiment Survey.

If you thought that last week was a barnburner for earnings, wait until you see what we still have this week, with an all-star studded lineup that includes: Tuesday – tonight: CROX, SBUX and XLNX; Thursday – Dow component XOM, plus AET, AMZN, BWA, D, DECK, ETR, FII, LEG, LMT, MCO, PEP, PFG, PHM, TWC, UPS, WDC, WM and ZMH; Friday – Dow components CVX, MRK and PG, plus F, IP, NEM, VFC and WY.

Once again, as the first-quarter reporting season is now underway, the current expectation is for an overall profit gain of 6.9% but this will only be 3% 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.