

Daily Market Notes**Market Update:****DJIA:** 10427**S&P 500:** 1120**Nasdaq:** 2283**10YR T-Note:** 3.61%**EUR/USD:** 1.357**Gold** 1133**Crude Oil:** 80.33Prices Current as of
12:33 PM

Source: Bloomberg

Let us give a rousing cheer for the Estonian stock market, whose 6% advance was cited by some market sources as one of the main reasons for another strong first day of the week performance by the U.S. stock market. As we pointed out yesterday, there has been a pronounced tendency for the market to advance on the first trading day of the week, with 19 out of the past 22 such sessions ending positive. And with yesterday's gains, the S&P and the Nasdaq actually nudged into positive territory for the year. This is important because there was all of this hand-wringing after the market closed lower for the month of January, which led to the talk about – "As January goes, so goes the rest of the year."

But the markets sort of made up for it last month, and as we also pointed out, the S&P put in its best February performance in 12 years, which is pretty good considering that in those last 12 years, we have had some very nice total market year gains.

Other supportive factors to yesterday's advance were that the Nasdaq/Dow ratio remained strong throughout the session, which assured that we would go the distance, with respective closing gains of +35 and +78. The outsize gains by some technology and other large Nasdaq stocks were eerily reminiscent of the types of advances that individual stocks on the Nasdaq would make back in the dot-com era days – for instance, several of these issues made new all-time highs or 52-week highs. In addition, some of the recent technology leaders seem to have gotten re-energized after sort of going to sleep for the past few weeks. And breadth numbers were strong at a positive 4 to 1 ratio. Apparently one of the reasons for the large technology advance was a report that semiconductor sales in January rose by more than expected.

And then there was some M&A activity to give credence to the fact that companies are finding value in other companies at current prices and are using this method to perhaps eventually improve their bottom line. Of the four economic reports released yesterday, all were of the neutral variety and thank goodness we did not get one of the "unexpected" variety, which allowed the market to stay in positive territory for the

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entire session. And finally the Dow/VIX relationship was constructive in the sense that with a Dow advance of +78 points, the VIX declined by only -.24, less than the usual ratio and this allowed stocks to go the distance as well. So even though the VIX is getting further into the teens, the fact that it did not decline as much as the Dow advanced had to be a positive factor.

The market is trying today to extend its gains for the second day in a row, as some observers are attributing our advances to a new foreign hero. And just as that hero yesterday was that bedrock of capitalism otherwise known as Estonia, today it is India that is the center of attention, as apparently the Bombay (now known as Mumbai) Stock Index has put in its largest gain since early December. And naturally what could any advance in our market be without some positive news from Greece, and today it was that the E.U. said that Greece will announce additional deficit-cutting measures in coming days.

In addition, there was further M&A activity, with a semiconductor test products and services company getting a raising bid for a takeover. The shares of a wireless communications products developer are finally advancing after their recent beating, as the company said that they are instituting a \$3 billion share buyback program and plan to raise the dividend. This is helping the Nasdaq to once again more than hold its own against the Dow.

I saw one remark that needs some commenting on. A large fund manager said that "Investors come back to the market when things start to improve." In other words, one should only buy stocks when they are on the way up, and pay 15 – 20% more for the privilege of buying certain stocks that have rallied this much since their February 5th lows. Or put another way, it is better to buy the S&P when it is currently at 1121 rather than at the almost -10% correction from the highs at 1045 like it was on that date. As we all know, this is the only business in the world where people would rather pay MORE for the same item that they could have bought on sale last month. What is also encouraging is that similar to yesterday, breadth numbers are strong, at 3 to 1 positive even though the major averages are up far from the triple digits. The

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only sign that the market is starting to get a bit overbought is that unlike yesterday, when the VIX went down less than the Dow went up, today it is keeping pace at the traditional 1/100 VIX/Dow ratio and if the VIX starts to decline more than the Dow is rising, that would be a caution sign.

One disconcerting note that came out late yesterday were comments made by Larry Summers, who is an economic advisor to the President. He said that "winter blizzards are likely to distort the February job figures." Therefore he added, it is important to "look past the new figures to gauge the underlying trends." If one wants to put a negative interpretation on this, it is that he has already seen the numbers that will be released on Friday morning and they will be much worse than the -50,000 current estimate. He perhaps wanted to prepare the market for a number that could be showing more job losses than what the market is now expecting. And if stocks continue to rally for the rest of the week into the numbers, then any negative surprise on Friday could lead to a sharp downward reaction if in fact the numbers do come out worse.

The first quarter earning season is virtually over, but we do hear from – tonight: ANN, KCP; Wednesday: BJ, CSIQ, DDS, JOYG, BIG, PETM, COST; Thursday: DLM, GCO, CIEN, URBN; Friday: CPRT, DKS. As usual, it is retailers of varying sorts that bring up the rear in the season.

Economic reports continue this week, leading up to the all-important jobs report on Friday – later today: February domestic vehicle sales; Wednesday: February ISM Non-Manufacturing Survey, ADP jobs estimate, Fed Beige Book, Thursday: January factory orders, January pending home sales; Friday: February non-farm payrolls, January consumer credit.

The earnings season continues to be a good one, with over 70% of the 470 S&P companies that have reported so far having surpassed their earnings projections, and this compares to the historical percentage of 61% beating the numbers.

For the fourth quarter, the S&P companies are expected to show a profit gain of

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+95%, according to the consensus of analysts who follow these companies. But without the financials, which are expected to report gains of +120% just by themselves, according to analysts who follow financial firms because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.5%, according to the analyst's estimates. So there is going to be real distortion here, and it therefore will become more important to look at the earnings of each company on an individual basis. According to the analysts, for 2010, earnings are projected to increase by +29%, followed by earnings increases of +22% in 2011, as reported by Bloomberg Financial.

After four consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008 and extended through the first two quarters of 2009, we now have gotten two consecutive quarters of positive growth, with the third-quarter at +2.2% and the first estimate of G.D.P. growth for the fourth-quarter at +5.7%, according to the Commerce Department.

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Disclosures

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