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Daily Market Notes

Market Update:

DJIA:	**12230**
S&P 500:	**1329**
Nasdaq:	**2810**
VIX:	**16.29**
10YR T-Note:	**3.60%**
EUR/USD:	**1.351**
Gold	**1373**
Crude Oil:	**84.29**

Prices Current as of 12:56 PM

Source: Bloomberg

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As the old-time civil servants used to say, "Another day, another dollar", and this was how yesterday's stock market action felt. For the fifth time in the last six sessions, stocks were able to rally off of morning lows and finished higher for the most part. On the other hand, with each higher session, the market becomes more vulnerable to some sort of setback, as all sorts of oversold readings are manifesting themselves. We have mentioned what some of these are in terms of individual investor bullish sentiment, number of stocks trading above various moving averages and the fact that the S&P has rallied 100% from the March 2009 lows, which is the largest such percentage recovery off of a bear market low since the Great Depression of the 1930's.

Yesterday's market action followed the pattern of last week, namely an early Dow decline followed by a recovery off of those lows. For instance, the Dow declined to its low of the day with a loss of 38 points at 11am, but the reason to believe that things were going to get better was that the Nasdaq never went negative and basically was ahead by around seven points for the entire session. So with a good Nasdaq/Dow ratio to support things, the Dow had no choice but to improve from those early lows, and this is exactly what happened, as it glided steadily higher as the session wore on and actually got nominally positive near the close with a two point gain before ending with a closing loss of five points. On the more positive side, breadth numbers were better at a 16.5/13.5 ratio and all of the other major averages closed on the upside.

The Dow and the other major averages were led by extremely strong (and perhaps not justified) advances in energy, resource and mining stocks on a report that China's trade surplus narrowed to the lowest level in nine months, due to a surge in imports by 51%. This helped the price of various raw materials to advance, such as metals in particular, although crude oil prices continued their decline to 12-week lows, as they should be based on the current supply-demand situation.

Although it is getting a bit old as a potential source for further gains, of the 350 companies in the S&P 500 that have reported their fourth-quarter results, 74% of them have beaten the estimates, and fully 70% of them have also beaten on the top line as well, with revenues also doing better than expected.

One of the potentially bearish arguments is that the market has been slowly climbing higher on progressively lower volume, and this has certainly been the case, with yesterday's new highs in the S&P and Nasdaq reached on the lightest volume of the year, meaning that perhaps it is becoming increasingly difficult to find new buyers at these elevated levels. And for what it is worth, how about the fact that yesterday's high in the S&P at 1332 is EXACTLY double the price that the S&P reached at the intraday March 6, 2009 panic, get me out at any low price, hysterical selloff to 666! So perhaps that was a natural technical level for some sort of pause.

The VIX continues to refuse to break below its very solid support level of 15.35, and this refusal to go lower means that stocks have to be facing some sort of upside resistance as they continue this slow grind higher. It rose by .26 to 15.95, which was sort of in line with the Dow's nominal closing loss.

And sure enough, today the bullish magic that has seen stocks open lower and then rally by the close looks as if it might disappear, at least for one day. The culprit is first of all the fact that things are badly in need of some sort of rest after the major indexes have risen for either 10 or 9 out of the past 11 weeks and the S&P rally off of the 2009 low has been the largest in history since the 1930's off of a major bear market bottom.

The "reason" for the decline today is that January retail sales rose less than projected, but did anyone hear something called the worst weather in many years that enveloped large parts of the country last month. The rise of only 0.3% was the smallest gain since a decline last June. And let us also not forget the fact that gasoline and heating oil prices took a bigger bite out of consumer

wallets last month as well, thank you crude oil traders. On the brighter side, the February NYState Empire Manufacturing Survey rose to its highest level in eight months. But there was also the January import price index which rose more than expected, no surprise here, because of those higher energy costs, so this could be another sign of incipient inflationary pressures starting to build.

There were also some market experts who attributed today's declines to further unrest in the Middle East, with the map shifting to other countries who are catching the pro-democracy Egypt fever, and how do you like the fact that Bahrain's dollar bond yields rose to a record high, and there were anti-government demonstrations in Yemen and Iran as well, and based on what happened two years ago in the latter, it might be difficult for this to build traction, although if it does this might become a market factor with its potential effect on crude oil prices.

At its low of the day, the Dow was down by 69 points at 10:30am, and has since recovered about half of that loss, and doesn't this dynamic sound familiar. Breadth numbers are not that terrible at a negative 13/16 ratio, and the VIX is rising in line with the Dow's decline, with a gain of .48 to 16.43.

The market will continue to focus this week on economic reports as the earnings season winds down. The lineup includes the following – tomorrow: January housing starts and building permits, January P.P.I., January Industrial Production and Capacity Utilization, and the minutes of the last F.O.M.C. meeting; Thursday: January C.P.I., weekly jobless claims, January L.E.I. and the February Philadelphia Fed Manufacturing Index. So this large number of reports will give investors a newer reading on where the economy has been lately.

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The S&P trades at 13.5 times forward earnings, and 15.9 times current earnings, and this gets it to the highest level in the past year, if one assumes that this year's earnings are going to come in at $83 for the S&P and $95 for 2011. The average P/E multiple for the S&P going back to 1954 has been 16.2. This current level of the S&P could be used as the "excuse" for any market selloff that we see, if in fact we see one the rest of this month.

According to the sector analysts who follow these companies individually, for all of 2010, earnings are projected to increase by +29%, which would be the most since 1995, followed by earnings increases of +15% in 2011, as reported by Bloomberg Financial, and this would be the largest two-year advance since the period ended in 1995. First quarter profits rose by +52%. Second-quarter profits rose by +49%, the third-quarter rose by +28%. The fourth-quarter is supposed to gain by +37%. If these numbers do come to fruition, then S&P earnings should be around $83 for 2010 and $95 for the S&P in 2011. This would equate to around a 15% gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

After four consecutive quarters of negative G.D.P. growth, we now have five consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce Department. Economists now predict that G.D.P. expanded 3.2% in the fourth quarter, and for 2011, the prediction is G.D.P. growth of 3% and it is 3.2% in 2012.

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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.