March 16, 2011

NATIONAL
SECURITIES
Established 1947, Member FINRA/SIPC

Daily Market Notes

Market Update:

DJIA:	**11704**
S&P 500:	**1267**
Nasdaq:	**2639**
10YR T-Note:	**3.20%**
VIX:	**28.25**
EUR/USD:	**1.321**
Gold	**1398**
Crude Oil:	**98.09**

Prices Current as of 12:25 PM

Source: Bloomberg

Donald M. Selkin
Chief Market Strategist
(212) 417-8017
dselkin@nationalsecurities.com

Special comment: We sent out a report on Friday about where things might be headed now that we are at the second anniversary of the greatest bull market recovery from a bear market low since the Great Depression of the 1930's.

If Warren Buffett wanted to "reload his elephant gun" because his "trigger finger was itchy", as he said recently in his desire to acquire companies on the cheap, he could have looked no further than yesterday's extremely vicious market opening. According to a graphic from one of the financial TV programs, yesterday's Dow loss of 297 points right after the opening bell was the worst such start to a session since the dark days of October 2008.

Thank goodness that the market did not accommodate Mr. Buffet by staying at such cheap levels, because after that vicious lower start, things battled their way back as the day progressed, and the Dow was able to cut that sickening early loss into a closing loss of "only" 137 points, which sort of seemed almost like an up-day, after the fourth lower stock market session out of the past five. These recent setbacks are certainly a wake-up call to those pollyanish market experts who were falling all over each other last week on the second anniversary of the bull market to proclaim that stocks are going to continue to go up, up and away, as they look at things through rose-colored glasses. On the other hand, I put out a special report last Friday saying that we will not overcome the February 18th highs (and a VIX at 15.40) at least until the end of the first-quarter earnings season in late April.

Just to show how volatile yesterday's session turned out to be, at 3:45pm, the Dow had actually been down by only 79 points before a vicious very late bout of selling put it 58 points below that on the close, down 137 as mentioned above. Breadth numbers were 1 to 4 on the negative side, but this was also an improvement from their early worst levels of negative 1 to 10.

And on a vicious down day like this, the VIX had an upside field day, rising as high as 25.72, up a huge 4.59 when the Dow was on that 297 point low. As things improved when the day moved along, the VIX ended with an increase of 3.10, to 24.32. By the way, that VIX level at the early intraday market low was its highest since the dark days at the end of August, before the implementation of the Q.E.2 program led to the next upward phase of the bull market, which lasted virtually unblemished for five and a half months from the start of September until those February 18th highs.

And talk about option investors getting hurt, when the market opened at those panic lows, puts on various indexes and individual stocks skyrocketed to absurd levels, and as the day went on and stocks showed that improvement, these inflated puts lost around 80% of their value in most cases. This is why the admonition from option experts who tell investors to "buy downside protection" on these sharply down days certainly did work yesterday.

And it wasn't just stocks that got smacked around to the downside, as commodities underwent one of their largest one-day declines ever, as everything from crude oil to metals to agricultural and industrial items got sold off by large amounts, on the slower worldwide economic growth scenario that might come about as a result of the Japan earthquake, tsunami and nuclear situation. And I love that explanation put forward by gold market experts to explain why the precious metal gets sold off so much on days like this when everything is tanking to the downside – "Investors had to sell gold to cover their losses on stocks", and if this is not the most ridiculous explanation I have ever heard, and we hear it whenever a day like this takes places, then I do not know what is. And what happens on a day like today when gold turns back around to the upside, that these same investors realize their mistake and buy back in at higher prices?

The only market that rose was the credit markets, as investors rushed to the supposed "safety" of the U.S, dollar and bonds, and as a result the yields on

the 10-year Treasury Note declined to their lowest level since early January, with a closing yield of 3.30%, after having been as low as 3.20% during the early morning selling panic in stocks. This was the lowest yield since early December. And talking about another market that has been doing nothing but going higher, it is none other than the Japanese yen, which is approaching its record high against the dollar below 80, on the perception of companies and individuals there who will repatriate funds to help pay for reconstruction.

Japan is the third largest consumer of crude oil and among the top three in imports of corn, wheat and soybeans, which accounts for yesterday's sharp declines in these items, but they are all rebounding strongly today, so the logic of that "explanation" has to be questioned as well. But not helping is the fact that the Japanese stock market suffered its worst two-day losses since 1987.

And once again, the stocks that did the best were those sources of energy not related to nuclear or uranium, such as solar, wind and natural gas issues. And the insurance stocks, luxury retailers and uranium issues got sold off sharply for the second day in a row.

Helping the market to recover were the statements from the Fed at 2:15pm, in which they said that the U.S. economy is "gaining strength" and is on "firmer footing" and conditions in the labor market appear to be "improving gradually".

On its low, the S&P has now declined from the February 18th intraday high of 1344 by 6% to yesterday's early intraday low of 1261, and this is the largest fall since that latest leg of the bull market got underway in early September.

Things started out today with moderate losses, as the Dow was hanging around in a range of being lower by 90 points at its worst level to down 33 points at its high, and the major averages were actually developing a slight upward bias, as even the Nasdaq had the nerve to go slightly positive around

10:45am despite a large loss in the large mobile telecom and computing stock, and weakness in other high-priced technology issues.

This was despite a bad February housing starts report, which declined by 22% to the lowest level since April 2009 and was the largest one-month decline since March 1984. One would like to believe that this had something to do with the awful weather last month that blanketed large parts of the country. In addition, building permits fell to a record low. The February P.P.I. report showed a large rise of 1.6%, which was the fastest gain since June 2009, led by increases in food and energy prices, surprise surprise. But at least the core rate which excludes those latter two items increased by only 0.2%.

Then just when it appeared as if things were trying to stabilize, the market went into a sudden dive at around 10:50am, with the Dow falling from its loss at the time of around 40 points to as much as 195 points at 11:05am, faster than you can say "Japan". So what happened? Apparently, the E.U. Energy Commissioner told a Parliament meeting that the damaged Japanese nuclear plan is "effectively out of control" and there could be additional bad events as a result.

Commodity prices are on the rise after yesterday's large selloff, with crude oil going up as Saudi Arabia sent troops into neighboring Bahrain to help put down protests there. In addition, other metals and agricultural products are rising as well in an upside correction to yesterday's large declines.

After that selloff to the lows, things are trying to stabilize, with the Dow trading above that 195 point loss, and it is being hurt by a large decline in its highest priced technology component on a brokerage downgrade in addition to the general malaise that has fallen over stocks this past week. It would certainly be helpful if the market can close above its worst levels, similar to how it came back late yesterday. And once again the VIX is up by about twice as much as it should be relative to the Dow's decline, suggesting that anxieties are still with

us for the time being.

As was mentioned in the special report sent out on Friday about "Where do we go from here", it now becomes more apparent that the February 18th highs are going to hold until at least the first-quarter earnings reports are released in April, and this is no guaranty that things will get better in any event, so we will have to wait on that and hope things can stabilize on their own.

The S&P trades at 13 times forward earnings, and 15 times current earnings, as 2010 earnings are going to be $85 for the S&P and $99 for 2011, according to the analysts who follow these companies. The average P/E multiple for the S&P going back to 1954 has been 16.2.

For all of 2010, earnings increased by +30%, which was the most since 1995. For 2011 the analysts are forecasting increases of +17%, as reported by Bloomberg Financial and this would be the largest two-year advance since the period ended in 1995. This means that S&P earnings for 2010 were $85 and projected to be $99 in 2011. This would equate to around a 17% 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 2.8% in the fourth quarter. For 2010, G.D.P. rose at a 2.8% rate, which was the highest since 2006 after a decline of 2.6% in 2009. For 2011, the prediction is G.D.P. growth of 3.5% and it is 3.9% in 2012.

Donald M. Selkin

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.