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Daily Market Notes

Market Update:

DJIA:	**12035**
S&P 500:	**1292**
Nasdaq:	**2683**
10YR T-Note:	**3.35%**
VIX:	**19.19**
EUR/USD:	**1.412**
Gold	**1439**
Crude Oil:	**105.84**

Prices Current as of 1:15 PM

Source: Bloomberg

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After three days of rousing upside gains, the market showed evidence of fatigue yesterday and just sort of drifted around between small gains and losses. As a result, the Dow traded in a very narrow range between gains of 14 points at 10:30am and losses of 33 points at 11am before ending with a nominal 18 point closing loss. The Nasdaq did a little worse with a closing loss of 8 points, and this weakish ratio tended to keep things on the restrained side. This was reflected in breadth numbers which ended at a negative ratio of 13/17 while the VIX actually declined even as the major averages ended nominally lower. It ended with a loss of .40 to 20.23, sort of back to where it was before the Japanese nuclear situation caused it to explode to the upside as stocks plunged last Tuesday and Wednesday. Yesterday's VIX close was its lowest since March 11th.

Aside from having little on the upside after the tremendous three-day recovery, which was the best performance in that time period since early December, and actually the best such gain in the Dow in 10 years, there were other "explanations" offered by various market experts for why things could not keep going on the upside, some having more validity than others. For instance, what seems like the never-ending ability of crude oil to keep going up is not something in the best interests of consumers. Then, with Japan calming down as a negative market influence, as it was last week in quite dramatic fashion, other areas of the world now became the excuse for why stocks could not continue rising, and once again the compass turned back to Europe where such items as the fact that Irish two-year notes reached their highest yields ever, but seriously, if one had polled various investors yesterday, would any of them cited that explanation as to why they might have sold? And while Europe is now the center of attention once again, how about adding in that Greek and Portuguese bond yields rose as well.

One interesting point is that on a down day, for a change, the volume was low, and this sort of reverses the pattern we have seen since the start of 2011, namely that volume on the up-days has been lighter than the volume on down

days. So perhaps what took place yesterday after the very strong gains of the prior three days was that investors were sort of exhausted and had little interest in pursuing things much one way or the other.

Today started out similar to yesterday in the sense that the major averages are all nominally lower, with the Dow declining by 46 points at is worst level after the 10am release of an awful February new home sales report, which declined by 16.9% to a record low and prices for new homes reached their lowest level since December 2003. So as the manufacturing sector continues its recovery, the housing market is continuing to slide further into the doldrums.

And why not throw in Europe for a second day in a row as a negative factor, as yields on Portugal's five year bond reached a record high of 8.19%. But if the situation in the Eurozone is so dire, why is the Euro itself close to its recent high at 1.41 as opposed to being as low as 1.19 at the depths of the crisis last June? It would appear that these E.U. concerns are used to explain down days in our market, as for instance where were these supposed "concerns" on the recent three days when our market exploded to the upside?

How's this one for a reason for weakness here – the Egyptian stock market declined by 9% on the first day of trading after having been closed for the past two months due to the crisis that had developed there before the focus shifted to Libya. Talking about the Middle East, one would like to believe that a more valid reason for some weakness here is that crude oil prices continue to climb again, and are currently up another .80 cents to $105.77 and this is not what one wants to see. This is probably a function of the fact that the Western allies are getting ready for more attacks against the Kaddafi government, which means that the situation there is far from settled.

And those awful bank stocks, which enjoyed a rare upside respite last week when the Federal Reserve allowed some of them to either start or increase their dividends and engage in share buy-backs, are selling off again on the Fed

rejecting the dividend plan by the largest bank by depositors and told them to go back and revise it. This comes on the back of that reverse 1 for 10 split from the low-price third largest bank, which has resulted in the stock being lower for the three days since the plan was announced, and highlights the fact that this is a group that is going nowhere fast until their earnings situation and other related factors show more stability than exhibited so far.

And similar to yesterday, the VIX is lower again despite the fact that the major averages are slightly lower as well. It started out higher when the Dow hit its low in the morning, but now that the averages have improved from those worst levels, it has declined to under 20, which seems to be the important dividing line between fear and complacency. And again, we say to those investors who panicked into buying puts at inflated prices last week in order to achieve some sort of "downside protection" the same thing that I always say when that ill-conceived strategy goes awry – so, what did you accomplish?

Earnings season for the first-quarter is underway and various stocks are reacting one way or the other to their numbers, and the intensity of these reports will pick up as we head closer to April, and the schedule for the rest of the week is listed after the economic reports that will finish out the week. They include: tomorrow – February durable goods orders and weekly jobless claims. On Friday we get the next estimate of fourth-quarter G.D. P and the final March U. of Michigan Consumer Confidence Survey.

The first-quarter earnings season is underway, and today ADBE, CREE and GIS are selling off while CTAS and JBL are rising. The rest of this week's calendar is - Thursday: ORCL, FINL, BBY, DRI, and CAG.

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The S&P trades at 13.3 times forward earnings, and 15.3 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.

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