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Daily Market Notes

Market Update:

DJIA:	**12232**
S&P 500:	**1324**
Nasdaq:	**2774**
VIX:	**19.41**
10YR T-Note:	**3.54%**
EUR/USD:	**1.391**
Gold	**1434**
Crude Oil:	**104.38**

Prices Current as of 12:30 PM

Source: Bloomberg

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

Yesterday was a day when the market action was similar to Friday, although the reasons offered for the decline were different. On Friday, market experts said that the February jobs report, even though it was a good one by any measure, did not show enough of an expansion of the average work-week or average hourly earnings to keep up with the ongoing advance in energy prices, and therefore the consumer would get tapped out in terms of further spending. The way I saw it was that there was no way that stocks could rally on Friday no matter how good the jobs report was because on Thursday they had undergone their best up-day in three months, an extremely unusual event the day before a jobs report, so what was there left to do for an encore, so to speak. Yesterday, the decline was attributed to the ongoing rise in crude oil prices, which traded as high as $107 in the overnight session before closing the day session at a mere $105.44 a barrel. In addition, someone downgraded the chip stocks, which resulted in a very weak performance by the Nasdaq.

The similarity in market action the past two days was that the major averages started out with early gains both times, which ultimately did not last, then fell to triple digit Dow declines before making a late recovery to end with large double-digit Dow losses. For instance, on Friday the Dow started with a fast gain of 13 points, then declined to an intraday loss of 179 before rallying late to close down 88. Yesterday we saw the same pattern with an early advance of 74, followed by an intraday low of down 128 before ending with a closing loss of 80 points. For those technical types, support just above the round numbers of Dow 12,000 and S&P 1,300 did hold, so for the time being the trading range continues with these round numbers as the bottom of the trading range and the February 18th highs of 12,391 and 1344 respectively acting as resistance. Of course, this does not mean that this current trading range will not be broken one way or the other as time moves on, but for the time being, these are the points to beat both on the upside and the downside.

Unlike Friday, when the Nasdaq held up better than the Dow, yesterday it was the Nasdaq weakness that pulled things down, as the latter went negative first

around 10am while the Dow was still higher. From there the market had no chance as oil prices stayed at elevated levels. Breadth numbers closed at worse than a 1 to 3 negative downside ratio and the VIX rose by twice as much as it should have relative to the Dow's decline of 80, up 1.60 to 20.66, right in the middle of its recent 18-23 range. This double rise in the VIX was the result of bearish traders once again jumping on out of the money puts on indexes and individual stocks, especially with the technology shares selling off much more than the other groups.

Adding to the downside woes as well was another – drumroll please – downgrade of the debt of none other than Greece – by Moody's, and wasn't it just such type of activity that set up the market bottom last summer?

For those interested in how fast the current increase in gasoline prices has been relative to other periods of sharp upward price spikes, prices have risen by 33 cents in the past two weeks and this compares to the 45 cents a gallon price spike after hurricane Katrina in early September 2005. It is interesting that both times the politicians spoke about using oil from the Strategic Energy Reserve, which contains no less than 727 million barrels of crude oil, but similar to that time, we can say with certainty that this will not happen at the present time either.

After the past two down days, the market accommodated those who wanted to sell today with a fast early loss of 18 Dow points and a 16 point decline in the Nasdaq, courtesy of a large decline in the shares of the Online move rental service stock on reports of Warner Brothers offering movies for purchase or rent through Facebook. But after that fast down move, things turned around quickly to the upside, as the recently beaten down financial stocks are leading the way, and they were up on the day even when the major averages were on their lows. Of course, this comes right after the large bank with the low stock price was downgraded after having already declined by 10% to an 11-week low. And I am going to say once again, in memory of my great-uncle "So, nu, what

did you accomplish?"

In addition, the Dow got an upside boost from its highest priced technology component, which released its 10K and has more than reversed yesterday's losses as a result. The financials are getting stronger as the day is moving on as well. The energy stocks, which started out the session on a weak note, are reversing those early losses in some cases and are trading mixed. And this is all because crude oil prices are down by around $1.00, which is similar to what happened last Thursday as well, before the recent two-day decline.

And just to show how phony that Greek debt issue is, today the yield on Greek 10-year bonds apparently rose to a record high on concern that the E.C.B. will not come up with a solution to the European debt crisis after all. There was also some speculation as to an increased merger and acquisition pace as S is rallying on reports that it might buy T-Mobile. As a result of all this ostensibly friendly news, the Dow has reversed that fast early loss to show a gain of 161 points at its best level and the Nasdaq has reversed an even larger percentage loss to show a gain of 32 points. And the VIX is declining by what it should relative to the Dow's advance, down by 1.50 to 19.15. Breadth numbers, which were negative at 1 to 3 yesterday, are positive by that amount today, and why not?

So this type of market action once again shows that dips are meant to be bought and that the primary trend of the market is still to the upside, although current action means that the current trading range as mentioned above should persist for the near-term.

To repeat what was said yesterday, since this week is light on both earnings and economic reports, it would appear the obsession with energy prices is going to drive trading in stocks, and it now appears as if the highs reached more than two weeks ago on February 18th are going to be upside stoppers and the market will now trade in a more volatile manner between recent

support under 12,000 on the Dow and under 1,300 on the S&P to those highs reached two weeks ago. This range now appears to be a valid one until the first-quarter earnings reports are released in April, which might move things either above this range or below it.

The S&P trades at 13.5 times forward earnings, and 15.8 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 $96 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 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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