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Daily Market Notes

Market Update:

DJIA:	**12211**
S&P 500:	**1319**
Nasdaq:	**2749**
10YR T-Note:	**3.47%**
VIX:	**19.99**
EUR/USD:	**1.390**
Gold	**1431**
Crude Oil:	**104.95**

Prices Current as of 1:50PM

Source: Bloomberg

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For the third day in a row yesterday, the market ended much differently from where it started out, as on Friday and Monday, early advances were met with strong selling to send the market sharply lower, and yesterday we had early selling that was met with strong buying to send the market sharply higher. The somewhat disturbing aspect to this is that both yesterday and this past Thursday, the market made huge gains based on the fact that crude oil prices were "falling".

Let us examine this in a little more detail, as on Thursday a crude oil decline of 32 cents led to a Dow rally of 191 points and yesterday a crude oil decline of 42 cents resulted in a Dow advance of 124 points. Either the economy is so great that nominal declines in the price of crude oil are enough to propel stocks forward, or these types of rallies based on very small declines in crude oil prices are really not sustainable, as we saw Thursday's upside moonshot done away with as a result of Friday and Monday's declines, and yesterday's strong upward move is also being halted so far today.

After a fast loss of 18 Dow points and 16 Nasdaq points yesterday, things turned around very quickly to the upside, as the financials, of all groups, led the upside charge, and they were even higher when the major averages were on those early lows. And what accounted for this almost hard to believe advance in this group was an optimistic statement from one of the Dow's beaten down banks that it might be increasing its dividend going forward and would return to more normalized earnings in the next couple of years. This got even the worst of this forlorn group, another large bank with a low price, to make a good gain after investors had pushed it to a 10% loss from its January highs, and it reached its lows by a brokerage downgrade after the stock had already fallen so sharply. In addition, the highest price Dow technology stock released its 10K which showed that conditions are better than what had been thought and it also raised its profit targets. Even the pathetic largest maker of Internet switches and routers, which has to be the king of the has-been's, was able to muster a .02 cent gain (it gained a mighty .03 cents last Thursday when

the Dow advanced by 191), and if that is the best that it can do on Dow advances of 191 and 124, then how do you think it will do on down days?

The Dow ended with that 124 point advance, and breadth numbers were supportive as well, with a 3 to 1 upside ratio. In addition to the highest priced technology stock, the Dow was helped by the industrial sector, which tends to lead the advances on the up-days and also leads the declines on the down-days. And the VIX declined by .84 to 19.82, which still leaves it in its recent comfort zone of 18-23, and this corresponds to the latest trading range of the S&P, which has been from just under 1300 to the high last month of 1344.

Today things have been all over the place, and once again the market's neurotic obsession with the movements in the price of crude oil is dominating the proceedings, as for instance the Dow has been vacillating between losses of 57 points on its low at 9:45am, and its high of being up by 42 points at 12 noon. And if one superimposes a chart of the Dow on a price chart of crude oil, one can clearly see that the two Dow intraday lows occurred when crude oil prices were on their highs of being ahead by 70 cents or so. These were at that 9:45am low and also at a similar second low at 11am as well. The two highs at 10:30am and at 12 noon took place as crude oil prices were at their lows of the day with a 40 cent or so loss.

Similar to yesterday, the Dow is being distorted to the upside by another large gain in the highest priced technology stock, and this stock by itself is accounting for 36 Dow points, which means that if this stock were unchanged, the Dow would be lower. The Nasdaq is the laggard, being hurt by weak performances in the large mobile telecom and computer maker, the Online movie distributor, which is continuing its recent downtrend on the new competition from Warner Brothers distributing movies on Facebook, and weakness in the fiber optic group courtesy of an awful report from one of its members, which is lower by 37% for its troubles.

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Breadth numbers are slightly to the upside and the VIX is just about unchanged on this mixed market performance.

Since this is the second anniversary of the start of the bull market, a few observations are in order. The first is that the average bull market this century has lasted three and three quarter years, so on that basis we still could go upward for more months. The average bull market gain since 1962 is 131%. The 730 days that the market has not seen a decline of 20% or more compares with an average duration of 1,407 days, according to Birinyi Associates. The current two-year advance is the largest since the early 1950's. The S&P has risen in 18 of those past 24 months. It is trading at a 15.5 price/earnings ratio, which compares to an average ratio of 19.7 at other bull-market tops. Another statistic shows that the earnings yield on the S&P (inverse of the price/earnings ratio) is 3% higher than the 10-year Treasury Note yield, which happens to be the widest differential at the two-year point of any bull market since 1962. Finally, earnings for the S&P this year are projected to grow by 17%, which would be a record $99 a share, according to the analysts who follow these companies. We will detail this in a special report on "Where do we go from here?"

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.

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To repeat what was said recently, 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 15.5 times current earnings, as 2010 earnings are going to be $85 for the S&P and $99 for 2011. The average P/E multiple for the S&P going back to 1954 has been 16.2.

According to the sector analysts who follow these companies individually, for all of 2010, earnings increased by +30%, which would be the most since 1995, followed by earnings increases of +17% in 2011, 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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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.