

Daily Market Notes

Market Update:		On a day filled with important market-moving news (and I am not referring to the preparations for the Royal Wedding), stocks were able to extend their advances once again, as the Dow rose to its best level since May 20, 2008, the Nasdaq reached its highest since December 12, 2000 and the Russell 2000 Index of small stocks reached an all-time high, at 858 – so take that, all you black swans and believers in the Hindenburg Omen nonsense. On the other hand, what does one say to all those investors who sold out at the market lows in March 2009 after the largest equity collapse since the Great Depression of the 1930's? That the stock market is an equal opportunity employer? That markets follow the “efficient market theory”? In other words, if Rip Van Winkle was still with us today and fell asleep on May 20, 2008 after having bought the DIA Dow Jones Index and woke up yesterday, he would probably say – “what financial meltdown, what sub-prime mortgage crisis, what recession?”, my stock is exactly where it was on the day that I fell asleep and I assume that market conditions were sort of boring and stagnant for the past three years!
DJIA:	12720	
S&P 500:	1355	
Nasdaq:	2860	
10YR T-Note:	3.33%	
VIX:	14.89	
EUR/USD:	1.478	
Gold	1526	
Crude Oil:	111.88	
Prices Current as of 1:13 PM		

Source: Bloomberg

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After the Dow hit its low of being down by 7 points at 11am when heaven forbid, crude oil was also lower with a loss of \$1.50 to \$110.70, things decided to take off to the upside, and that included gold and silver as well courtesy of a dollar that keeps falling off the cliff, courtesy of the Fed's “see no inflation” mantra which is keeping interest rates here in the U.S. low while other parts of the world are raising them in order to head off incipient inflationary pressures. In fact, when the early release of the Fed statement came out at 12:15pm, the Dow was ahead by 17 points, from which level it continued to rally to a gain of 45 points when Chairman Bernanke took to the podium at 2:15pm to hold the first-ever press conference after an F.O.M. C statement was released. The rally up to this point was partly the result of the March durable goods orders report as well, which rose for the third straight month.

The Fed statement was interpreted as wonderful for the asset classes that have been rolling along to the upside since the implementation of the Q.E.2 program in late August of last year. It included such bullish interpreted

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tidbits as “the economic recovery is proceeding at a moderate pace”; “inflation has picked up in recent months but longer-term inflation expectations have remained stable and measures of underlying inflation are still subdued”; “the increases in the price of energy and other commodities that have pushed up inflation in recent months are expected to be transitory”; and finally “economic conditions, including low rates of resource utilization, subdued inflation trends and stable inflation expectations are likely to warrant exceptionally low levels for the federal funds rate for an extended period.”

These kinds of statements, especially the one about the federal funds rate staying at record low levels for “an extended period”, were all that the currency, precious metals and crude oil speculators needed to see, and as a result, they drove the prices of these items to new highs, and in the case of gold, to a record high price. And then the Chairman had the nerve to say during the press conference that “a strong and stable dollar” is in the interests of both the U.S. and the global economy, when it is his policies that are causing just the opposite to take place, namely a dollar that is sliding with no bottom in sight yet, as it reached a three-year low against a basket of currencies and a 16-month low against the Euro. The dollar has also now declined for seven straight days.

So after being ahead by those 45 points when Bernanke’s press conference began, and motivated by ever and ever higher prices for the Euro, gold, silver and crude oil, stocks decided to join in the newly emboldened bullish party and the Dow rose as high as a gain of 113 points at 3:45pm before ending with a closing advance of 95, with breadth numbers at around a 2 to 1 positive ratio. Underlying these gains are the fact that of the 220 S&P companies to have reported so far, 73% of them have beaten estimates, with profits ahead by 20% so far.

The VIX for the second day in a row rose by much less than it should have relative to the Dow’s advance, with a loss of only .27, to 15.35 against the

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Dow's gain of 95. Even at these extended levels, this could still pave the way for further moderate stock gains.

After the extremely strong showing of the past two days, things started out mixed today, with the Dow lower by 16 points at the opening, partly as the result of weekly jobless claims rising to their highest level since late January and the initial estimate of first-quarter G.D.P. coming in slightly less than the consensus, with a growth rate of 1.8%, primarily due to the lowest government spending since 1983.

But with the dollar continuing to sink, the Euro rising, crude oil prices making a new high for this move, close to \$114, and gold and silver in never-never land prices, stocks decided that all of this was good, and as a result, the Dow reached its high with a gain of 42 points at its best level around 11:30am. Then, the unthinkable happened, as the Euro had the nerve to decline slightly after having reached as high as almost 1.49 and crude oil also had the audacity to trade a little lower as well, and in the biggest nerve of all, gold also declined from a new record all-time high price of \$1,538 an ounce and silver failed once again to surpass the magical \$50 level after having come close twice for the second time this week. When stocks saw this, they also decided to cool off a bit as well, with the Dow showing a gain of only 10 points. The Nasdaq is lower courtesy of losses in its high-priced components such as the largest e-commerce stock after it reached a new all-time high yesterday, the largest mobile telecom stock, the online movie rental stock and the Chinese Internet stocks after all having reached all-time intraday highs early in the session on good earnings from the largest Internet one in that country.

When the Dow was on its high, the VIX declined to as low as 14.72, a loss of .63, which meant that for the first time in the past three days, it declined by more than the Dow had risen. This perhaps indicated a very overbought situation that needed to cool off a bit, and this low was also just about the same low that it reached last Thursday before the long holiday Easter

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weekend. So perhaps some support is building at that level, although if stocks advance further, then this level will give way on the downside as well.

And the bond market is rallying today, driving yields on the 10-year Treasury note to a one-month low at 3.31%, courtesy of the two weaker economic reports. In fact, this would be the largest weekly gain for the bond market since last August, when talk of double-dip recessions was still in the air and stocks were reeling because of the supposed European sovereign debt crisis, which in retrospect appears to have been another excuse to force skittish investors to sell at a market low as well.

The economic calendar finishes the week tomorrow with: March PCE inflation numbers, March personal income and spending, April Chicago Purchasing Managers, April Milwaukee NAPM Survey, and the final April U. of Michigan Consumer Sentiment Survey. So these are items that could still move the market as well as the large number of earnings reports that we have seen all week.

Earnings finish the week with: tonight Dow component MSFT; Friday: Dow components CAT and CVX.

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.

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For all of 2010, earnings increased by +30%, which was the most since 1995. For 2011 the analysts are forecasting increases of +12% for the first-quarter of 2011 and +16% for the entire year, 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 \$97 in 2011. This would equate to around a 14% 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 six consecutive quarters of positive growth, starting with the third-quarter of 2009 and continuing with every quarter in 2010 according to the Commerce Department. For all of 2010, G.D.P. rose at a 2.9% 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 3.1% 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.