

Daily Market Notes

Market Update:		Yesterday's market action can best be described as the "revenge of the nerds", as there finally was buying in some of the market losers of the year and selling out of the market large winners. For instance, those three awful Dow and Nasdaq technology stocks – the largest makers of networking equipment, semiconductors and software - all of which are lower for the year even though the indexes of which they are members are higher – did better for a second day, and this process had started the day before on that out of the blue rebalancing of the NDX and QQQQ, of which they are members as well. In fact, the largest networking equipment maker had its best advance since last July on the belief that they are going to sell or spin off their consumer business, G-d bless. Even that awful low-priced third-largest bank, also lower for the year despite the overall market being higher, and the largest bank in terms of consumer deposits, a real laggard lately, did better as well.
DJIA:	12370	
S&P 500:	1331	
Nasdaq:	2796	
10YR T-Note:	3.55%	
VIX:	17.28	
EUR/USD:	1.428	
Gold	1458	
Crude Oil:	110.18	

Prices Current as of
1:55 PM

Source: Bloomberg

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

On the other hand, those high-fliers in both the Dow and Nasdaq, whose gains have outpaced those of the underlying averages themselves, finally got sold off, and this would include the best performing Dow stocks, which have been in the resource and materials area, in addition to such technology-type issues like Online move rentals, e-commerce, Chinese issues and the large mobile telecom stock, lower for the sixth day in a row on its weighting being reduced in the NDX and QQQQ.

The Dow reached its best level of the day at 11am with an advance of 57 points, from which it proceeded to chop around with a slightly downward bias to end with a closing gain of 33. Breadth numbers were positive as well, with a 17/13 upside ratio. And the VIX once again hit that near-term support right at 16.50, down .75 when the major averages were on their highs. This was the third time in the last four sessions that it had fallen to this level, and each of the prior three times the market topped out when the VIX went this low. This means that one should watch the VIX very closely to see when stocks get internally overbought during the course of any session when the VIX is at this price because until it can break below the 16.50 level, stocks are not going to

Daily Market Notes

advance any further. It did end the day lower, at 16.90, down .35, just about in line with the Dow's closing advance.

It is astounding that the stock market can continue to advance with the prices of commodities continuing to explode to the upside as they did yesterday, with gold reaching a record high, silver at a 31 year high, cotton at a record high, crude oil at its highest level since the bubble prices of mid-2008 and so on. In the old days, the mantra was that one should diversify their investment portfolio with commodities because they acted as a hedge against stocks because they moved opposite to equities. The reason was that if commodity prices rise, this is a reflection of inflation and therefore it is negative for equities because higher inflation means that interest rates have to rise. This was true in the 1970's when stocks did poorly and commodities exploded at that time because of record-high inflation. This worked until 1982, when stocks finally broke out of their long slumber and commodity prices started to decline. This continued into the 1990's as stocks did well and commodity prices fell at the same time, and let us remember that after gold hit its then record price of \$860 in 1980, it collapsed to \$250 by 2000, and this twenty-year period from 1980 to 2000 was one of the best in history for the stock market. In the last year to so, this relationship has been completely turned on its head, as stocks and commodities both seem to move together, on the new way of thinking that as commodity prices go higher, this is perceived as good for stocks because it illustrates that the worldwide economic recovery is ongoing. For instance, even this morning when weekly jobless claims came in lower than expectations, this was perceived as bullish for crude oil prices, already at higher than fundamentally justified levels, because it shows that more people are working and therefore can afford to pay the outrageous prices currently in effect at the gasoline pumps.

Of course, one of the primary reasons for this commodity price advance is that the dollar continues to weaken despite the supposed problems in countries like Portugal, which asked for a bailout yesterday of \$115 billion. This would

Daily Market Notes

now be the third country in the E.U. after Greece and Ireland to be in this humiliating position, but the Euro has rallied to a 15-month high against the dollar because they raised interest rates today in order to combat the growing inflation there, and this is against the perception that the Fed will keep rates at current record low levels for a long time still because of Chairman Bernanke's belief that inflation is still not a problem.

Giving credence to this belief was a statement from the Atlanta Fed President who said that the Fed will complete the \$600 billion Q.E.2 program as scheduled by the end of June and he saw no reason to end the program early. This has been a major point of contention recently as to whether the Fed is going to pull the plug or not on a program that has certainly been largely responsible for the historic stock market rally of the past six months.

And if this is not the most astounding coincidence or not, let us look at what has transpired so far today, as after a brief early dip, the major averages started pushing to the upside, with the Dow ahead by 14 points at its best level shortly after 10am. At the same time, the Nasdaq was doing even better with an advance of 14, and the 2011 champion, namely the Russell 2000 Index reached as high as 857.92, which would be its all-time best level ever, surpassing the 856.46 prior high from July 13, 2007.

And once again ignored were the Portuguese bailout and the E.C.B. rate hike, as stocks instead concentrated on the decline in weekly jobless claims to their lowest level since February 26th. In addition, major retailers reported better than expected same-store sales for March, with various chains leading the upside parade in that area. And just when these averages were on the 10am highs, our old friend the VIX declined to 16.50 once again, down by .40, more than it should have been. And as fast as you can say "tsunami", it was reported that a 7.4 magnitude earthquake struck off the coast of northern Japan. This was near the same area as the massive earthquake that triggered the devastating tsunami on March 11th.

Daily Market Notes

And oh, no! – the Dow took a very fast dive from that early 14 point gain to a very fast loss of 98 points faster than you can say “tsunami”, hitting the low 45 minutes after it reached its high, a decline of 112 points during this short time span. And once the VIX saw this, it gleefully bounded higher, from that 16.50 low to as high as 17.77, which was a loss of .40 being turned into a fast gain of .87. After this initial rapid downside collapse, things have calmed down somewhat with the Dow able to rally back to a loss of around 20 points at its best comeback from the low level.

Crude oil prices continue their merry march higher, and this contrasts with the selloff they endured last month after the first earthquake hit Japan, on the lower world demand thinking. But never mind that, it is now full steam ahead. And the E.C.B. raising of rates to 1¼% from 1% is actually making it come down a bit from those 15 month highs against the dollar on the old buyer the rumor, sell the news syndrome. It was also ironic that the E.C.B. raised rates on the same day that Portugal made its formal written request to the E.C.B. for a bailout. This raises the question of how much further they can raise rates in light of the problems that these weak countries in that region seem to be having.

The S&P trades at 13.8 times forward earnings, and 15.8 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 +12% for the first-quarter of 2011 and +17% 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 \$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.

Daily Market Notes

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 3.5% and it is 3.9% in 2012.

Donald M. Selkin

Daily Market Notes

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.