

Daily Market Notes

Market Update:		For the third day in a row yesterday, the market powered ahead, motivated by first-quarter earnings that have risen by 21% so far for the 269 S&P companies that have reported. And we saw many of the same dynamics that have been in place during this latest upward phase of the market, as for instance a lower start was quickly forgotten because of the overwhelming bullishness that has now taken over. For instance, there was an early decline of 16 Dow points based on the highest level of weekly jobless claims since late January and a first-quarter G.D.P. estimate of 1.8% that was slightly lower than the original projection. But once the dollar started to weaken further and crude oil, gold and silver prices took off to the upside again, it was the all systems go indicator in the Bernanke-induced Q.E.2 program of raising the prices of all assets, and let the consumer be damned with these ever and ever higher oil prices which are partly a function of the dollar collapsing.
DJIA:	12824	
S&P 500:	1364	
Nasdaq:	2874	
10YR T-Note:	3.3%	
VIX:	14.59	
EUR/USD:	1.483	
Gold	1560	
Crude Oil:	113.45	

Prices Current as of
1:49 PM

Source: Bloomberg

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After that initial decline, stocks took off to the upside with the Dow hovering between gains of 30 to 40 points for the bulk of the session before another one of those recent late upside spurts took it as high as an 85 point gain at its best level at 3:15pm before it closed with a gain of 72. And the reason that it made that late upside spurt, aside from the fact that the Euro, crude oil, gold and silver also took off, was that the VIX broke below its support level at 14.69 from last Thursday's close and got as low as 14.27 before ending at a new closing low of 14.62, down .73 points, which is where it should have been relative to the Dow's advance.

And believe it or not, the stocks that got dragged higher late in the session and allowed the Dow to close near its best level of the day were those awful financials, which had been lower all session, but finally got the feeling that they were being left out of the upside party and felt so ashamed about their awful performance this year that they decided to join in the fun as well. How long this lasts is another story, as they have not been able to put together a consistent upside move, as other areas of the market have been able to do.

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The Dow Jones Transportation Index hit an all-time record high, which confirms the old-time Dow Theory which says that when the Transports join in the higher movements of other major averages, then stocks are in an uptrend. The fact that this theory is 25 months too late, so to speak, sort of confines it to the dust-bin of history, as hello, now is the first time that followers of this theory should get bullish? And in addition to the Transports hitting a new high, the Russell 2000 Index of small stocks also closed at its best-ever level for the second day in a row. Breadth numbers were positive at an 18 to 11 ratio and it was three Dow stocks that accounted for half of the 72 point gain by themselves, all in the industrial and manufacturing area. .

The Nasdaq lagged once again, and it reluctantly got dragged into positive territory only as the Dow made that late gain, ending with a small advance of 2 points, as weakness in those larger stocks that have done so well lately sort of weighed things down, such as the largest mobile telecom stock, the largest e-commerce one and the online movie rental company.

One sign of the incipient inflationary pressures that are building is that the Dow consumer products company and the specialty coffee chain both warned of higher inputs costs as hurting their margins. This is something that could impede better profit growth going forward.

The main question today is – will the royal marriage of Prince William and Kate Middleton break the tie that the market has been in after the other two major royal weddings of the past 64 years, and the results are as follows – the November 20, 1947 wedding of the current Queen Elizabeth produced a higher stock market, but the July 29, 1981 nuptials of Prince Charles to Lady Diana Spencer saw a market loss. So today will be the tie-breaker and so far it looks as if the bulls will come out ahead, as ho, hum – it is more of the same, as the recent pattern continues, namely a hesitant opening followed by an immediate pickup to the upside. Today the Dow started out slightly lower and has gotten as high as a 69 point gain at its best level.

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And once again it is the familiar story, namely that earnings continue to surpass expectations, with of the 298 S&P companies to have reported, 77% of them are beating the expectations, and today it is three Dow companies helping the upside, led by the machinery and construction company at a new all-time high, along with gains in its highest-priced energy company and the largest pharmaceutical company as well. On the other hand, to no one's surprise, that has-been of has-been's, the largest software company, is getting sold off after its sales of Windows lagged expectations. And the latter is a classic example of the foolish heavy buying of calls that we so often see ahead of earnings, which invariably leave their holders with worthless merchandise at the end of today's weekly expiration. Yesterday it was the 26 and 27 strike prices for today's expiration that were bought as if there were no tomorrow. In addition, another former high-flier that is also turning into a has-been, the maker of the Blackberry, made a profit warning which is causing its stock to get sold off sharply as well. This is the reason why for the second day in row the Nasdaq is lagging with only a small gain that could disappear if the Dow was to fall a bit more from its current advance of 61 points. The VIX is lower by only .08, down to 14.54, once again struggling to move too much lower as it approaches its new support level at 14.27.

Today's economic reports were again on the slightly weaker side, with the April Chicago Purchasing Managers' Survey declining a bit, while the U. of Michigan Consumer Sentiment Survey rose a bit from last month, which was the lowest since November 2009. But this is the current mood that the market is in, namely that the bad news is good news, because it keeps interest rates low and the dollar weak, which is exactly what the Fed wants.

In Europe, confidence in the economic outlook declined and inflation accelerated at the fastest pace in two and a half years, which is the reason that we might get further interest rate increases from them. In addition, South Korea's industrial output climbed at the slowest pace in six months, but never mind, the dollar keeps declining with no end in sight so far, as the interest

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rate differentials continue to work against the greenback.

April is turning out to be the best month for the major averages since last December as the month of May starts next week. May is the second worst month for stocks historically and it is also the start of the worst six-month period for stocks, and we all remember what happened last year, although there is no guarantee that history will repeat itself this time.

The earnings calendar starts to slow down next week, but we do hear from two Dow components, PFE on Tuesday and KFT on Thursday, in addition to some Nasdaq high-fliers like CTSH and PCLN on those two days as well.

Economic reports will be highlighted by next Friday's April non-farm payroll number, which is supposed to show an increase of 190,000 versus 216,000 in March, but more on that as the week progresses.

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 +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

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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.