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Daily Market Notes

Market Update:

DJIA:	**12154**
S&P 500:	**1293**
Nasdaq:	**2711**
10YR T-Note:	**3.04%**
VIX:	**17.68**
EUR/USD:	**1.467**
Gold	**1543**
Crude Oil:	**98.36**

Prices Current as of 1:00 PM

Source: CNBC

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Yesterday's Dow decline of "only" 61 points masked much greater overall market weakness, such as the fact that the S&P fell by 14 points, which if one uses the 9.4 ratio between the S&P and the Dow, should have equated to a Dow decline of 131 points, or more than twice as much as it ended lower. And if one were to look at the normal ratio between the Dow and the Nasdaq, which should be 22%, then this was also very poor as well, with the Nasdaq closing down by 30 points. And the reason that the Nasdaq did so poorly was that those technology high-fliers with the high price/earnings ratios finally took it on the chin, selling off sharply in most cases. So it is not surprising that breadth numbers were awful at a negative 1 to 4 downside ratio. And the VIX did not really cooperate either, rising by .54 to 18.49, or by just about what it should have relative to the Dow's advance. One would have hoped that it would have risen by more, given what has been its recent underperformance, which has been one of the contributing factors to market weakness lately.

The weakness yesterday was sort of more of the same, as things just fell on their own downside momentum, continuing the trend of the major averages being lower for five straight weeks, an ignominious "honor" not seen in almost seven years. There were no earnings reports or economic statistics for the market to react to, so it was sort of an additional hangover after Friday's awful jobs report. Also supposedly adding pressure was that the Euro, heaven forbid, had the nerve to actually decline after doing nothing but go up for the last three weeks. It declined when a German official said that a second Greek bailout was not yet a certainty. In addition, crude oil prices had the nerve to decline as well, falling by over a dollar to $99, and in the sick positive relationship that the Fed has allowed to develop since the advent of the QE2 program, instead of being a positive for stocks as lower crude oil prices should bring some relief to cash- strapped consumers, lower crude oil prices are taken as a negative for stocks instead. And then in the final insult of all, the stock market in Peru suffered its worst decline in over 20 years on the election of a left-wing former army commander for president of that country over the

daughter of one of the most corrupt leaders and human rights abusers in recent memory in that continent who is currently serving a 25-year prison term. In other words, the "market" preferred the daughter of a criminal.

And to no one's surprise, leading the way down were those awful financials, which keep getting worse and worse and hopefully one day will find a bottom to their never-ending decline. And the reasons are basically the same old ones that have kept them under pressure for months now – increased capital requirements, regulatory issues and their potential exposure to Greek debt and the ongoing weak housing market here. Also hurting the indexes was another down performance from the energy, industrial and most mining issues on the lower crude oil prices.

Even when the Dow tried to come back, being lower by only 5 to 20 points between 11:30am and 2:30pm, the VIX was also lower at the time, down by .30 points, which was once again not a good relationship, and when the Dow tried to rally further from those highs, the Nasdaq did not cooperate as it stayed lower by more than it should have, which basically doomed any chance for more upside.

The only silver living here is that at the same time that the market has been declining lately, the analysts have been raising their earnings outlook for the S&P this year. The consensus now is for the S&P to earn $105, which would put its price/earnings multiple at a low 12.2. One can see where it has been historically toward the end of these notes.

Could it be? Could the major averages really be higher after the beating they have taken lately? After a 6% decline by the S&P from its late April high, things are trying to make a stand today. Until we get more evidence that the downside tide has turned, this is the classic "dead-cat bounce" within the context of a downtrend on very light volume. One can argue that with the S&P trading at that 12.2 price/earnings ratio, perhaps things are a bit cheap but that will depend only on whether the earnings part of the equation holds its end of the bargain, as projected above.

For a change, stocks are able to rally so far despite crude oil prices being lower, and isn't this the way it is supposed to be? In fact, these crude oil prices will be watched closely this week as OPEC meets tomorrow to decide to increased production targets to help replace Libyan oil that has gone missing due to the ongoing and seemingly endless fighting in that country.

And so far, most of those pathetic financial stocks are trying to maintain nominal gains, and this would be a true miracle if they can go the distance with a limp. At its best level the Dow was ahead by 83 and is currently 60 points higher as this is being written. Breadth numbers are good at better than 2 to 1 to the upside, but the VIX is down by more than it should be, falling by .80 to 17.69, so for the second day this week the relationship is not going to help the market undergo a more sustained advance. And oh, no, Chairman Bernanke is going to talk at 3:45pm just before the market closes thank goodness, but whatever he has to say will probably be reflected in tomorrow's market action.

The S&P trades at 12.2 times forward earnings, which could bring a measure of support to stocks. Earnings were $85 in 2010 and are projected to be $105 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. Since 2006, the average P/E multiple has been 14.7

For all of 2010, earnings increased by +30%, which was the most since 1995. For 2011, first-quarter earnings gained +15% and are projected to gain +20% for the entire year, as reported by Bloomberg Financial and this would be the largest two-year advance since the period ended in 1995. These projections would equate to around a 14% earnings gain this year. The highest ever earnings for the S&P in one year took place in 2006, at $88.

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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.