

Daily Market Notes

Whew, that was close, as the Dow kept its streak alive so far for this year of not having closed with a loss of more than 100 points, but it certainly was touch and go yesterday, as things drifted lower and lower as the day moved ahead, and it was as low as a loss of 125 points at 3:30pm. At that time, for whatever reason, for the second day in a row, things were able to push off of those worst levels to finally result in a closing loss of 97, which narrowly made it escape the ignominy of the first triple-digit Dow loss of 2012. Of course, this very late rise was not as dramatic as Wednesday, when an 88 point Dow loss at that time ended with a 4 point closing gain.

Market Update :
DJIA: 12890
S&P 500: 1353
Nasdaq: 2941
10YR T-Note: 1.98%
EUR/USD: 1.31
VIX: 20.38
Gold: 1726
Crude Oil: 102.55

Breadth numbers were not that terrible relative to a Dow loss of this magnitude, ending at a negative 12/17 ratio but once again the VIX was telegraphing its negative propensity, with a gain of 2.23 points when the Dow was on its low, or almost twice as much as it should have, before ending with a final gain of 1.60 to 21.14. The Euro is starting to weaken again as the Greek anxieties are once again becoming more of a concern to investors, as it ended at 1.3060, and this is the lowest level in three weeks. And adding to the downside concerns, the price of crude oil is once again starting to sneak higher, and it closed at almost \$102 a barrel on various supposed Iranian concerns, which is always a convenient excuse as the summer driving season is about to get closer.

Prices Current as of
12:00 PM
Source: CNBC

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The reason that the Dow did worse than the overall market is that the financial, industrial and energy components did poorly as the result of weak results in stocks in these families outside of the Dow itself.

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Also not helping was the fact that we got a statement from the Fed, and when is the last time that the market rose on what they had to say? When the minutes of January meeting were released at 2pm, the Dow was lower by 60 points, from which it then proceeded to make that low as mentioned above. So what did they say this time? Basically it was a big nothing, but the market is so attuned to falling when they say anything that it followed that script once again yesterday as well. And what they said was that a few Fed officials believe that another round of central bank buying would be needed before long to support the economy, but others withheld judgment before seeing additional data. The ones who pushed for more stimulus pointed out the continued prospects for continued high unemployment and a lack of inflation pressure, while the naysayers thought that more bond buying would be necessary only if the recovery lost momentum or if inflation declined.

There was an element of being overbought as a result of the strong start to the year, as no less than 80% of S&P stocks were above their 200-day moving averages after the rise to 2012 highs earlier this week, and this was from a low reading of only 8% being above that average when the market was on its early October low, which of course is a very oversold buy signal, but we all know the old story that investors love to buy when stocks are high rather than buying them when they are low.

And talking about buying stocks when they are high, how about none other than the darling of the investment world, otherwise known as AAPL, which shot up to an early gain of 17 points to a new all-time intraday high of 526, which put its relative strength at an unsustainable 92. Then all of a sudden it reversed course and went into a downside dive and ended with a closing loss of 12 on huge volume. Of course, this dramatic downside reversal was also cited as a reason for the overall market downside funk by various experts.

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So what happened? Aside from, the fact that the stock was extremely overbought, there were other “explanations” such as an unfounded rumor that the stock’s weighting in the NDX was going to be reduced. Also put out as a reason for the decline was that the company that claims ownership of the iPad trademark in China asked retailers to stop selling the tablet computer as a result of the dispute between the two companies. In addition, Internet shopping sites including AMZN and 360Buy.com no longer displayed iPads or quoted prices for them.

The extent of this decline was extremely unusual for a stock of this nature, as the last time that it traded higher by 3% intraday such as it did yesterday and then finished lower on the day was back in December 2008 at the depths of the financial crisis. And let it be noted that there have been only 10 of these occurrences over the last seven years and all of them took place during that financial crisis period when large intraday swings in the market and in individual stocks were the norm.

In what was perhaps the most telling sign that this stock was due for a pullback was when the various options exchanges, in their infinite wisdom, decided to add call strike prices as high as 740 for tomorrow’s monthly options expiration, which means that there are people who are so removed from reality that they believe the stock actually had a chance to get that high during this time frame. And the damage to call buyers is going to be immense as there has recently been huge buying of calls at 500 and above and we will tally up the carnage to these people when we do our usual spot analysis in Friday’s market notes of the largest number of option positions that are going to leave their buyers with worthless merchandise at tomorrow’s close.

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And on day when the market declines, all eyes go to the Peloponnesian Peninsula, as the negativity from that country was that E.U. officials were now looking at ways to delay parts or even all of the second bailout program for you know who while still trying to avoid a disorderly default. These delays could possibly last until after the April elections. Apparently the finance ministers from other European countries are not satisfied that Greece's political leaders are sufficiently committed to the deal, which requires Athens to make further spending cuts and introduce deeply unpopular labor reforms. Then there is the concern that Greece's debt-to-G.D.P. ratio, currently at 160%, will not be reduced to 120% by 2020 via the agreement and as demanded by the E.U., the I.M.F. and the E.C.B.

There was a new proposal about a debt swap agreement between Greece and private sector holders of Greek bonds, which aims at cutting their debt burden by \$100 billion Euros via the private sector taking a nominal 50% loss. If successfully completed, the swap would allow Greece to avoid missing a \$14.5 billion Euro bond redemption payment on March 20th. If this payment was missed, or the terms of that payment are not altered, the country would be in default.

After yesterday's depressing session, the various stock index futures were lower in the overnight session as a result of good old Moody's looking at a possible downgrade of 17 global banks and 114 European financial institutions. Things began to improve somewhat as weekly jobless claims here fell to their lowest level in four years, down by 13,000 to 348,000. Also helping was that the January P.P.I. rose by only 0.1% while the core rate excluding food and energy went up by 0.4% due to a surge in drug prices. Housing starts in January rose by 1.5% when a decline was expected and the February Philadelphia Fed Index also rose by more than what the experts had predicted.

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As a result, of this better news and perhaps with a little bit of bargain hunting after yesterday's declines, the Dow started out nominally higher and then has accelerated to the upside with a gain of 115 points at its best level at 12noon. Breadth numbers are strong at a 21/8 positive ratio and the VIX is declining by about what it should be relative to the current Dow advance, lower by 1.00 as the Dow is up by 100 points as this is being written. And leading the upside to some extent are the financial stocks, which opened lower to satisfy the sellers after the Moody's proposal, and have since reversed course to the upside.

What is somewhat encouraging is that the Nasdaq is holding its own against the Dow despite the fact that three of its top guns – AAPL, AMZN and GOOG are all lower for various reasons, some of it related to what was written above.

And when all else fails, turn to the Euro as a reason for the market action here, and sure enough, it reversed course from an early morning low of 1.2980 to its current level of 1.3105, which is a gain on the day as hopes that a Greek bond swap deal could be within reach. This swap would mean that the national central Euro-zone banks will now exchange their holdings of Greek bonds into new bonds in the run up to a private sector debt deal to avoid taking any forced losses, and this could happen over the weekend. And so be it.

Earnings this week will just affect the companies themselves and not the overall market, and the lineup is: tonight – BIDU; Friday – CPB.

Economic reports could be of the market moving variety, with Friday – January C.P.I., January L.E.I.

The S&P trades at 13 times projected 2012 earnings of \$102, which has been a major supporter of stocks lately. Earnings were \$85 in 2010 and are projected to be \$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. Since 2006, the average P/E multiple has been 14.7

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For all of 2010, earnings increased by +38%, which was the most since 1995. For the first three-quarters of 2011, earnings gained +17% as reported by Bloomberg Financial and the 16% overall projected gain for 2011 would be the largest two-year advance since the period ended in 1995. Fourth-quarter earnings are projected to rise by 5%. The highest ever earnings for the S&P in one year so far took place in 2006, at \$88. For 2012, earnings are projected to be \$102 for the S&P and for 2013 the estimate is for \$107.

After four consecutive quarters of negative G.D.P. growth, we now have 10 consecutive quarters of positive growth, starting with the third-quarter of 2009, every quarter in 2010 and every quarter in 2011 as well. For 2011, G.D.P. rose at a 1.7% rate, and it is projected to grow by 2.2% in 2012, although estimates for this number vary widely and are constantly changing.

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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.