

**Daily Market Notes**

Market Update : Once again, the market found the path of least resistance higher yesterday, but there were some signs that things might have to pause for a rest after the almost uninterrupted bullish parade this year. After a hesitant start, with the

**DJIA: 13169** Dow reaching its worst level of the day with a 24 point loss at 11:15am, it made

**S&P 500: 1402** a fast upward turnaround and reached its best level of a 36 point advance by

**Nasdaq: 3057** 1:30pm. From these highs, it started a lower choppy pattern into the close and finally ended with a 6 point closing advance, although both the S&P and

**10YR T-Note: 2.35%** Nasdaq held up much better. Breadth numbers were supportive at a 19/11 upside ratio and AAPL was once again in its own upside world, as it made

**EUR/USD: 1.32** further new all-time highs over 600 on its payment of a \$2.65 per quarter

**VIX: 15.44** dividend starting in July and a \$10 billion share buyback starting in the new fiscal year after September 30.

**Gold: 1653**

**Crude Oil: 106.25**

Prices Current as of  
 12:30 PM  
 Source: CNBC

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However, as mentioned above, there were certain dynamics that were present that could put some roadblocks in front of the market continuing to advance in the steady, almost uninterrupted way that it has done so far this year. The first one is that bond yields have now risen for the ninth straight day, up to 2.37% for the 10-year Treasury note. While this in and of itself should not be an impediment to further market advances, it could become problematic if the rise in yields continues unabated. The second impediment is, and no surprise here, the ongoing rise in crude oil prices, which got as high as \$108 a barrel late yesterday on strength in the Euro. This pattern is eerily similar to what we saw last year, when both stocks and crude oil reached their highest levels in that very late April-very early May time period and we all know what happened to both of them over the next five months.

Finally, what is probably most important of all because it does away with the emotions of the energy and Treasury markets, is the action in our old friend the VIX. Remember last year when it got as low as 14.30 in late April at the same time that the market topped out, well, guess what, it got down to those levels both yesterday and late last week as well, not counting some of the bizarre intraday trades that I will not include in this discussion because they do not

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have any validity, in my opinion. The fact that the VIX is once again near those levels is a sign that how much higher can the market go without some sort of correction?

And sure enough, this is what we are seeing today, as after the best start to a year for the S&P since 1998, things are taking a well-needed breather, and the excuses offered to “explain” this decline seem a bit flakey to me. In other words, instead of saying that the VIX is too low to support further upside uninterrupted upside market moves, the “reason” why stocks are lower today is that commodity prices are down because of “concern” about a Chinese economic slowdown. Wait a minute – I thought that everyone, the politicians included, were getting all bent out of shape because of higher energy prices and their potentially negative effect on the consumer, so today with crude oil lower by \$2 a barrel to \$106, this is somehow interpreted as negative for stocks – give me a break.

Also to illustrate the negative effect of the very low VIX, the one economic report released today, namely the February housing starts number, came in with a smaller loss than expected, January was revised higher and building permits, an indicator of future activity, rose to their highest level since October 2008.

Apparently China is going to raise fuel prices for the second time this year as their automobile sales might come in less than forecast as their economy slows, but hello, hasn't that been one of the problems for American consumers, namely that despite adequate supplies here, drivers in this country have become victims of strong demand for fuel from these emerging economies like China and India. So now that fuel prices are easing off, shouldn't this be positive for the overall stock market?

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And then you get the entire litany of camp-followers that inevitably decline on these types of days, namely the cyclical industrials, energy, material and resource stocks which tend to do the best on the up-days. On the other hand, most retail stocks are doing well on good earnings from TIF and the large financial issues are also bouncing from their late-day selloff yesterday on reports that BAC will not have to issue new shares to meet capital requirements, and also on a continuation of their 2012 very strong uptrend from low levels at the end of last year.

The Dow opened with a very fast loss of 116 points right after the opening, from which level it has been able to claw its way back to some extent, and as this is being written, the Dow is at its best level of the day with a loss of “only” 64 points, courtesy of those financial components and retailers. Breadth numbers are poor at a negative 1 to 3 ratio and the VIX is higher by just about what it should be relative to the Dow decline, up by .40 to 15.44, but still below the expiring March contract, so this dynamic could affect things to some extent. And naturally as the market is finally selling off, yields on bond are declining as well, as now the scenario has shifted to the “slower” economic scenario, also give me a break here as well.

Believe it or not, earnings could influence things one way or the other tomorrow, as two important technology companies report after the close today – ORCL and JBL.

Economic reports are on the light side, and the calendar is as follows for the rest of the week – Wednesday – February existing home sales; Thursday – weekly jobless claims, February L.E.I.; Friday – February new home sales.

And how about this statistic –the daily swings in the S&P this year so far have averaged .46% a day, compared to 1.04% last year, and this is one of the largest declines ever for one year after the prior one. At the same time, trading

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volume has decline to the lowest in 13 years even as the S&P as mentioned above is out to its best first-quarter start since 1998.

Now that we have passed the third anniversary of the bear market low a week ago Friday, there is a statistic which says that of the eight previous bull markets since 1928 lasting at least three years, which this one now has, seven rose in the fourth year (i.e. 2012), with an average gain of 14%.

And if one looks at the performance of various markets over these past three years, the S&P has risen by 102%, crude oil has risen by 127% (\$47 to \$107), gold is ahead by 85% (\$922 to \$1,700), the U.S. 10-year yield has declined by 30% from 2.86% to 2.01% and earnings have risen from \$49.51 to \$96.43 for the S&P, a gain of 95%. This doubling of profit growth has come despite revenues hardly rising at all, which is a function of the six million jobs that have been lost during this time.

The Fed balance sheet has expanded from \$2 trillion to \$2.9 trillion for a gain of 43% while total Federal debt has also risen by this amount, from \$11 trillion to \$15.5 trillion while G.D.P. has risen by 6.6%.

For those market historians out there, AAPL has achieved a \$500 billion market cap, and this follows in the glorious history of the other companies to have gotten to this exalted status- and they are in order- MSFT, GE, CSCO, INTC and XOM, all of whom were lower in price a year later and none of them might ever get back to that level again, so let us see if history is going to change with the present situation. A price of \$536.34 put it at exactly \$500 billion with 932 million shares outstanding, and as it has continued to move ahead, its market cap is increasing as well, so perhaps history will be made if the price is able to maintain these higher levels. At \$557 billion, it is still slightly below the fleeting levels achieved by CSCO, GE and MSFT at their best-ever levels.

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The S&P trades at 14.5 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 16.4. Since 2006, the average P/E multiple has been 14.7

For 2011, earnings rose by 9.4% to \$97. This is the highest ever earnings for the S&P in one year. 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.*