

Daily Market Notes

Market Update : After the major averages made new upside highs early this week for the rally that began off of the lows of last October 4th, things cooled off the for the second day in a row yesterday, as for the second time in as many days, the market started out nominally higher but faded as the day wore on. The Dow

DJIA: 13068 opened with a 14 point gain, which turned out to be its high of the day, as it

S&P 500: 1394 tried to correct that very late selloff on Tuesday. But this turned out to be the best it could do as it went negative at 10am and proceeded to deteriorate as

Nasdaq: 3077 the session moved along, reaching its worst level at 2:15pm with a loss of 122 points before lifting off of this worst level to end with a closing decline of 71.

10YR T-Note: 2.16%

EUR/USD: 1.32

VIX: 16.73 Breadth numbers also deteriorated as the day moved on, with a closing negative 11/19 ratio. In order to “explain” the declines, market experts pointed to the fact that the February durable goods orders report rose by only 2.2% when a gain of 3% was expected, despite the fact that this was the fourth advance in the past five months. This seemed to be sort of a weak excuse for the market’s decline, so other negative explanations had to be brought in, and when everything else fails, one can always turn to Fed Chairman Bernanke, whose amorphous remarks on Monday morning were given credit for accelerating the market’s upside. Yesterday, however, he went back to his usual pattern of saying things that knock the market lower, so perhaps the positive reaction to what he said on Monday swelled his head a bit and resulted in his trying to repeat the act when perhaps the more prudent cause of action would be not to grab the spotlight so much.

Gold: 1653

Crude Oil: 102.71

Prices Current as of
1:35 PM
Source: CNBC

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He said that “It is far too early to declare victory”, sounding more like some sort of military official in lost causes like Vietnam, Iraq or Afghanistan, and this remark was certainly peculiar, because what metrics was he referring to for “victory”? In addition, he added that “The recent news has been good, but I think we need to be cautious and make sure this is sustainable. And we haven’t quite yet got to the point where we can be completely confident that we’re on track for a full recovery.” These comments sound like a bunch of gobbledygook of hedging his bets all over the place, and no wonder the market **did not like what he said.**

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And in that sick metric that has been present for the longest time now, lower oil, gold and other commodity prices were construed as negative for stocks because they show economic slowdown. And if this isn't the sickest reasoning I have ever heard then I do not know what it, and if this bizarre reasoning holds, then we might be in for a repeat of last year when crude oil prices topped out at the same time that stocks did, meaning that the negative effect of higher energy prices for the consumer does cause people to pull back their spending, which makes up 70% of G.D.P. So when stocks made that huge rally on Monday, higher oil prices on that day were good for the economy, but when oil prices sold off yesterday, it was negative for stocks and by extension for the economy, go figure.

That late improvement for stocks off of their worst levels was fueled by the financials, which made a decent comeback after getting sold off on Tuesday, but they still appear to be finding further reasons to rally a bit more difficult after the tremendous percentage returns they have made from the low levels at which they began the year. On the negative side, naturally on a day when commodity prices decline, the stocks that are involved with them get whacked around as well, and the worst performers were the industrial, resource (coal stocks in particular), materials and energy and these of course are the classic cyclical issues.

And what about the VIX? In one of the most bizarre performances ever, it made a sharp gain of as much as 1.68 up to 17.27 at that 2:15pm time when the Dow was on its worst level of 122 points down as mentioned above. This is okay, but what happened next was completely bizarre, as from that moment on, it underwent a steady deterioration at the same time that the major averages also battled back off of their low – and we are okay with this relationship. But as the Dow turned its 122 point loss into a closing one of 71, the VIX just kept going lower and lower and finally ended with a LOSS of .12 down to 15.47.

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What I believe is happening is that the proliferation of ETF's and ETN's related to the performance of the VIX with leveraged ones both positive and inverse has whacked out the performance of the VIX to an extent that it can behave the way it did yesterday with absolutely no relation to what the indexes that it is based on do. As an example, one could have said that the lower close in the VIX meant that there was a bullish sentiment for today, which obviously is not the case, because right off of the opening bell, the VIX gapped higher by 1.30 points or so as stocks started out and have remained lower all day.

And this week looks a lot like last week, as the first day of both weeks saw the market gain and then the next three days saw things retreat back to the downside. And naturally we have to look for the villain "du jour", and today the blame is being put on the bank stocks because Standard & Poor's, which was the bane of the market's existence during that difficult summer and early fall period last year, awoke from its slumber and decided to throw some cold water on the European situation once again by saying that none other than Greece may have to restructure its debt once again. And then other nervous nellies pointed to the fact that despite weekly jobless claims at their lowest level since 2008, today's number of 359,000 was worse than the forecast for 350,000, and last week's number was revised higher as well. The final estimate for fourth-quarter of 2011 G.D.P. remained unchanged at a rate of 3% and the Match Kansas City Fed Manufacturing Activity Index declined, which makes it the third regional index to come in lower than expectations, following Richmond and Dallas earlier in the week.

The Dow hit its worst level with a loss of 93 points just after 10:30am and is currently lower by 63 as this is being written. Breadth numbers are poor at an almost 1 to 4 negative ratio and the VIX is currently higher by 1.33 to 16.80 which sort of makes up for yesterday's strange behavior and begs the old question to those VIX ETF's that sold it off – so what did you accomplish?

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Tomorrow is the last trading day of the first-quarter and it could be a doozy considering how far we have come this year with the S&P still on track to record its best performance during this time frame since 1998 and with the additional kicker of weekly options and also quarterly options for various indexes, and the maneuverings around with these things will make for quite a session.

The economic calendar for this week finishes with: Friday – February personal income and spending, March Chicago Purchasing Managers' Survey, final March U. of Michigan consumer Sentiment Survey and NAPM Milwaukee March Index.

Now that we have passed the third anniversary of the bear market low earlier this month, 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%.

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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.

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.