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Daily Market Notes

Market Update :

DJIA:	**13042**
S&P 500:	**1396**
Nasdaq:	**3056**
10YR T-Note:	**2.23%**
EUR/USD:	**1.31**
VIX:	**17.22**
Gold:	**1620**
Crude Oil:	**101.50**

Prices Current as of 1:05 PM

Source: CNBC

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I guess that Fed Chairman Bernanke could not deal with his role as the market savior, as it must have gone to his head that when he talks, stocks go higher as a result of that that strong 160 point Dow advance a week ago Monday, March 26. That was the day that he made comments to the effect that further stimulus is possible when I pointed out that this is a pipe-dream. Now it appears that after yesterday's F.O.M.C. statement, he has gone back to his more traditional role as a person whose comments cause the market to decline more often than it rallies after he says something.

As an example of this, yesterday the Dow began the day in a choppy downward pattern, and was 45 points lower when the Chairman's words were released at 2pm. As a result of what was said, the Dow then proceeded to decline to its low of the session with a 133 point loss at 2:40pm, from which level it climbed back to end 65 points in the minus column.

Breadth numbers ended at a negative 10/19 ratio and the VIX, which had risen by 1.01 points to 16.85 when the Dow was on its 133 point low, came down from that level to end with only a nominal gain of .02 to 15.66, which was actually its fourth small advance in a row, despite the market being higher on three of those days and lower only once. It also shows that the 14.30 support level is going to have a very tough time being broken on the downside.

And once again the worst performers were the cyclical types of issues such as the energy, materials, resource and industrial stocks, along with the financials who look like they are running out of steam after their tremendous first-quarter performance during which they started from very low levels. And once again, the Nasdaq held up much better, helped by strong performances and a new al-time high in you know who, in addition to gains in other high-priced leaders such as ISRG and PCLN. It ended with only a six point loss despite the weaker showing from other parts of the market.

So what did the Fed say to cause everyone to get bent out of shape on the downside? They basically put forth the idea that they will hold off on increasing monetary accommodation unless economic expansion falters or inflation rises at a slower than its target 2% rate. I have pointed out that another QE3 program is not going to be in the cards, so it is a little surprising that investors got so rattled by this news. Let us remember that the market made that strong gain on March 26th after Chairman Bernanke said that stimulative monetary policy is still needed to spur job growth. So it now appears as if he backed off from that unrealistic promise of early last week.

In addition to stocks getting sold off, the Fed comments also strengthened the dollar and as a result crude oil prices came down grudgingly by $1 a barrel to around $104, and gold got slammed to the downside as well, as the Euro weakened on the lack of any further U.S. stimulus measures for the time being. And in somewhat of a strange reaction, the bond market declined as well, sending the yield on the 10-year Treasury Note back up to 2.29%, a gain of 11 basis points.

And now for the third week in a row the market is following the same pattern, namely of going up on Monday and down on Tuesday and Wednesday. After yesterday's Fed-induced lower session, things are picking up right where they left off yesterday, with the dollar strengthening once again as the Euro has now fallen to a three-week low, gold is now at a 12-week low despite its being seen as the second coming of the Holy Grail by many market participants, and crude oil having the nerve to decline by over $2 a barrel down to around $101, the lowest in two months (but are gasoline prices at the pump coming down?).

In addition, the European worry tour bus has now come to a stop in Spain after having departed from Athens, Greece, as borrowing costs at today's debt auction of various maturities rose to their highest levels in four months. And in another supposedly negative input, the March ISM Non-Manufacturing Survey came in a little lower than expectations.

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The latter is another example of what we have been seeing all week, namely the attempt to justify market action by saying that a particular number came out fractionally better or worse than expected as the case may be. For example, on Monday the market put in a strong performance because the March ISM Manufacturing Survey came in fractionally higher than predicted, while yesterday one of the reasons for the initial pre-Fed market decline was that February factory orders came in a tad below expectations. Of course ignored in all of the sudden negativity was the fact that the A.D.P. survey for Friday's jobs report came in slightly higher than the estimate, but never mind.

In addition, Moody's cut the cost to protect debt from GE's finance unit against a default rose to the highest in a month, and IBM, which has been on a steady upward path to new all-time highs recently, got downgraded and its share price decline today is accounting for 28 Dow negative points just by itself.

The Dow started out sharply lower and reached its worst level of the day so far with a 178 point loss at 11am, from which level it has steadied a bit and is currently lower by 149 as this is being written. As one would expect, on a day like this, breadth numbers are horrible at negative 1/5.5 ratio and the VIX is up by exactly what it should be relative to the current Dow decline, with a gain of 1.49 to 17.15. Once again, it is going to be difficult to get the VIX below 14.30, which probably means that until the earnings season is well underway, it might not be possible for the market to continue to break above its recent highs unless those first-quarter reports are of the stellar variety.

Now that the pattern of higher Mondays followed by lower Tuesdays and Wednesdays has been in effect for three straight weeks, what is supposed to happen tomorrow? The record shows that during the past three weeks of this pattern, there have been two higher Thursdays and one lower one, and let us not forget that unlike the prior three Thursdays, tomorrow's session will be the final one of the week, and this means that we will have the effect of the weekly options expiration doing their thing on individual stocks and the overall market and outside markets as well.

This week's holiday shortened one is going to be a strange one mainly because the March jobs report is going to be released on Friday when the markets are closed for the Good Friday observance. This means that everyone who will be observing that day or preparing for the first Passover Seder that evening will have to keep their eyes glued to the 8:30am release of this report and the bond market (which will be open because it is not a government holiday) reaction to it, and then instead of getting an immediate sense of joy or disappointment as the case may be in stocks on Friday morning, everyone will have the anxiety of knowing how equities are going to do on Monday to color their religious observances over the weekend, and won't that either be fun or gloom depending on how a person has positioned him or herself ahead of this report.

Other economic numbers include: Thursday – weekly jobless claims and March chain store sales. Friday – the big one as mentioned above.

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%.

The S&P trades at 14.5 times projected 2012 earnings of $104, which has been a major supporter of stocks lately. Earnings were $85 in 2010 and were $93 in 2011, according to the analysts who follow these companies. The estimate for 2013 is $107. The average P/E multiple for the S&P going back to 1954 has been 16.4.

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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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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.