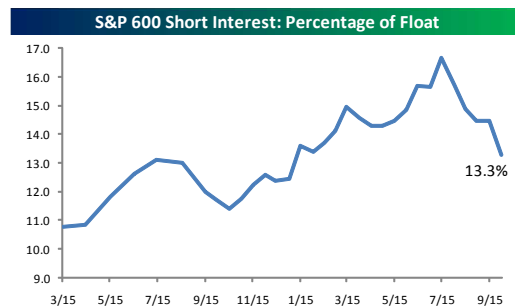
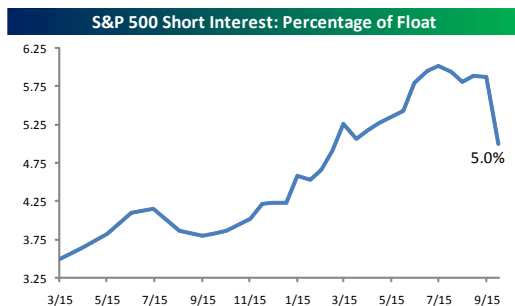
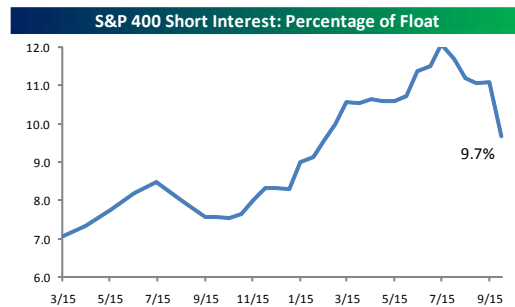
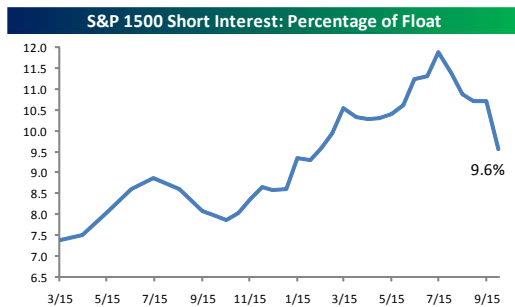


Short Interest Declines: Does the SEC Care?

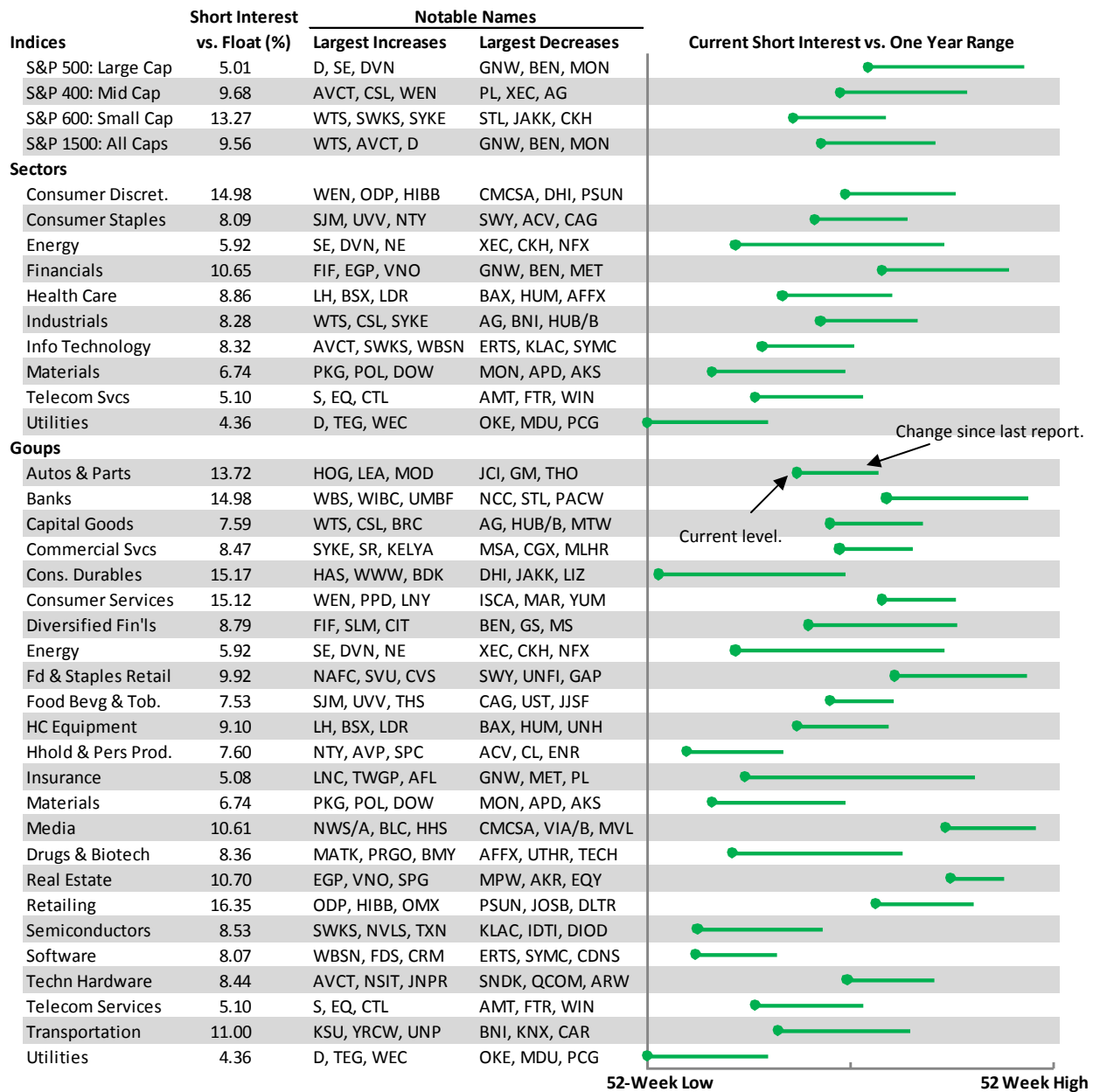
After the SEC announced that they would begin enforcing the current laws regarding short selling, and also prohibiting new short sales in any financial stock (or any other company that lobbied hard enough), the first “No Short” short interest figures were released after the close today. As shown below, each of the major S&P indices declined sharply during the second half of September, falling to their lowest levels of 2008. As shown on page two, for every sector and group, short interest showed substantial declines.

On a sector basis, Consumer Discretionary stocks remain the most heavily shorted with 15% of their float sold short. The Discretionary sector is followed by Financials (10.7%), Health Care (8.9%), Industrials (8.3%), and Consumer Staples (8.1%). On a group basis, the effectiveness of the SEC’s ban on short selling in financials was evident as Banks (15.0%) are no longer the most heavily shorted group. That honor now belongs to Retailers (16.4%), Consumer Durables (15.2%), and Consumer Services (15.1%).

According to the SEC, the purpose of the ban on short-selling in financials was to “protect the integrity and quality of the securities market and strengthen investor confidence.” Then on October 2nd, the SEC said they would extend the ban until details of the legislation regarding the financial rescue package were ironed out. Yesterday Treasury Secretary Paulson said it would take “several weeks” to put the plan into place. So what was the SEC’s response? The SEC let the rule expire at the end of the day yesterday, allowing short sellers to put on all the shorts they took off in September knowing that they had free reign for another “several weeks.” *Continued on page three.*



S&P 1500 Short Interest Summary



Short Interest Report Explained:

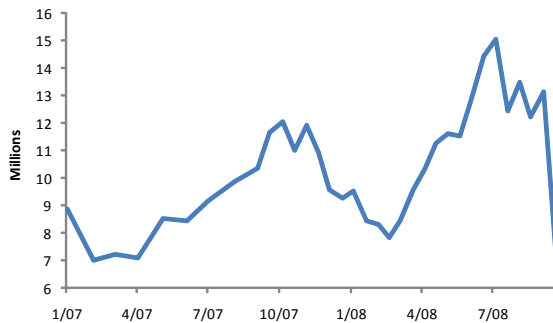
Short Interest vs. Float (%): Average short interest as a percentage of float for companies in that index, sector, or group.

Largest Increases: Highlights the three stocks in each group that have seen their short interest as a percentage of float rise by the largest margin relative to their one-year range.

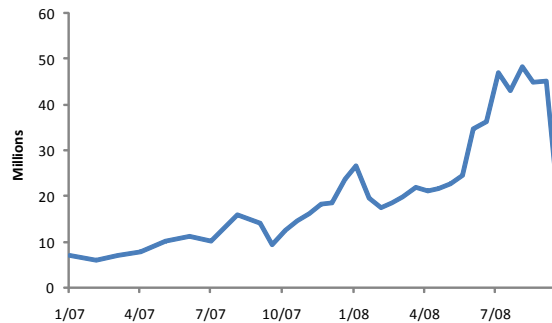
Largest Decreases: Highlights the three stocks in each group that have seen their short interest as a percentage of float fall by the largest margin relative to their one-year range.

Below we highlight charts of the short interest for several key stocks in the Financial sector as well as the sector ETF (XLF). The decrease in short interest during the second half of September illustrates the effectiveness of the SEC's temporary ban on short selling. Given that the temporary order expired yesterday, and given the trading in these stocks today, you can bet that in a matter of weeks, short interest in these names will be right back where it was. Why the SEC decided to let the temporary ban expire before the implementation of the TARP program is extremely puzzling, but if there was ever a time when the market would have preferred to see the SEC's typical wait and see approach, it was with this. While it was a bad idea to implement a "No Short" rule in the first place, it's ten times as bad to put it in place and then eliminate it before their goal was attained.

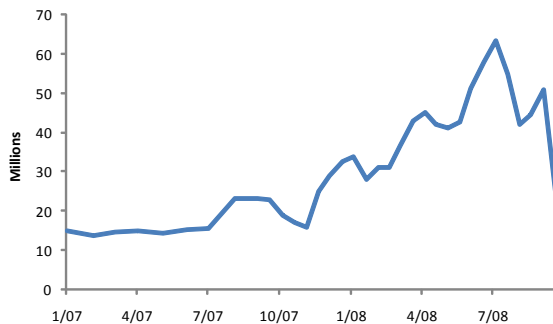
GS: Short Interest



MS: Short Interest



MER: Short Interest



XLF: Short Interest

