

NEWS RELEASE

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The Market Needs the Uptick Rule

The following is our response to today's Wall Street Journal opinion the SEC should do away with the Uptick Rule:

The uptick rule reduces a small portion of the market's negative volatility. All other things equal less volatile stocks are worth more. How much more is debatable. However, to quantify the benefit/cost of the rule, consider that U.S. stocks are worth \$15.4 trillion. For the benefit - or increase in stock market value as a result of the rule - to exceed the \$1.0 billion cost investors must be willing to pay 0.0067% more for every dollar in equity securities purchased. Therefore, if you think real investors will pay \$0.07 more for every \$1,000 invested, an uptick rule makes good sense.

As for "short-sellers make for a more efficient market by allowing all points of view to be expressed in a company's stock price," let's get real. A company's intrinsic worth is equal to the discounted present value of its future cash flows. While we agree shorting does add value to a well functioning securities market, the value certainly doesn't come from its price setting import. Most shorts (not all) are simply connecting the dots of intraday price charts to make a line. They buy when the slope is positive and sell if it is negative - and these are the hard

workers. Others spend the day sniffing around for the next rumor. If they can't find one, they create one.

The underwhelming minority of shorts are actually conducting fundamental research directed at determining a company's true worth. For those that conduct actual securities analysis an uptick rule would not be a bother. If a company's shares are trading at \$50 and through their work a short determines they are worth \$30, do you think an uptick rule will be much of a bother to take advantage of the arbitrage?

An uptick is necessary. Recent changes in market volatility around changes in the rule make the case perfectly clear. Talk to hedge funds that actually conduct fundamental research. Talk to any large, long-only investor who has ever tried to liquidate a big position when the entire market knows what he's doing. Put the uptick rule back - completely. The 10% decline exemption creates a rule with no teeth. An effective, well enforced uptick rule reduces unnecessary market volatility and creates value - well in excess of the cost.

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