

BIC LLC News Release

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Putting the Uptick Rule Back

After declining 25% and off its worst start ever, the stock market demonstrated a real sign of life today by rising 6.4 %. We are all familiar with the barrage of bad news powering the market to levels not seen since 1996. It is compelling that today's action is actually the result of good news: Ben Bernanke predicted the recession will be over by year end. Warren Buffet reminded investors yesterday on CNBC that banking is a good business and their currently low funding costs are resulting in very profitable lending spreads. And Vikram Pandit penned a memo to Citi employees this morning informing the company has been profitable through the year's first two months and is on track to report its best quarterly results since the 3rd quarter, 2007, Citi's last profitable quarter.

There is even more good news but not receiving much attention. The rumor on Capitol Hill is the Uptick Rule will be put back. Recall in July 2007, the SEC did away with Uptick. The rule required those planning to sell stocks short (sell borrowed shares first with the intention of buying them back, or covering, at a lower price) to wait until the stock traded higher, or on an uptick. It was established in the 1930s to prevent the Bear Raids contributing to 1929's stock market crash from happening again.

The SEC dumped the rule without justification at the time. In August, 2007 we put out a News Release suggesting the elimination of the Uptick Rule would effectively lower the cost of

shorting and increase its demand. Trading would take place that otherwise would not have and volatility would rise. We went on to suggest there would be painful selling from quant driven hedge funds as their models were adjusted to include higher volatility forecasts -- stocks are worth less when volatility increases.

By putting the Uptick Rule back, the opposite will occur. The cost of shorting shares will increase as traders will have to wait for an uptick before acting. All other things being equal, demand to short stocks will fall, bear raids will slow dramatically and volatility will decline.

The VIX, which measures equity market volatility, was trading in the mid-teens before the rule was dropped. It quickly spiked to 30 after the rule was eliminated and peaked around 80 during the tensest moments of the credit crisis in late 2008. Today the index closed at 44, down 11% from yesterday.

Lower volatility is good for financial instruments, especially stocks. Lower volatility implies lower risk. Less risk will no doubt entice some of the \$4.0 trillion in money market funds, (Half the U.S. equity market value!) back into what is a very inexpensive stock market. Our measures suggest given current normalized earnings and dividend estimates, the market trades at a higher level some 85% of the time. Said another way, the odds today are very much in favor of the long-term investor as superior results are more likely to be achieved by purchasing growing companies at significant discounts to fair value. For some perspective, imagine if you had been around to buy the S&P 500 back in 1974, which was another time stocks were on sale. Back then the Index traded at \$63 with a 6% dividend yield. Today's \$720 level wouldn't seem so bad would it? We believe the opportunity is similar today but caution there could be additional downside before the market moves sustainably higher.

Now is a good time to add to your highest quality investments, as they typically recover first. Don't forget about stocks. Select companies in the Consumer Discretionary Sector are very attractive but don't limit your focus too much. There are many impressive companies out there that will be around a long time and selling at attractive discounts to their intrinsic values. More

aggressive traders might want to consider speculating on the long side in VIX Put LEAPS. Be cautious though. As shorts cover in the near term, volatility could spike temporarily higher. Over the long-term, we expect volatility to fall and the VIX will drop along with...if the Uptick Rule is put back in place!

Please call with questions.

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