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Talk About Throwing The Baby Out With The Bath Water

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What a week! What a week! What a week!

(Congrats to the Tiger-less U.S. Ryder Cup team on finally winning back the cup in grand fashion!)

I wasn't alive in the 1930s and there wasn't much of a media presence. But if I was alive then with today's media, I imagine this past week was something very similar.

There are just too many comments to offer in one update, so I am going to keep this short. Yes, I know many of you are rolling your eyes since I have never kept any update short in my life! But this one I promise to since I didn't get much sleep all weekend and have to help clean up after having our family over for a cookout.

Since January, I have pretty much agreed with Bernanke and Paulson's moves. They inherited the makings of the biggest financial mess since the 1930s and I think they've done a damn good job, especially in an election year!

I am going to save my comments on the \$700B mortgage rescue package until Congress does its partisan best to screw it up. The thing about last week that has me hot and bothered lies with the action by the SEC to prohibit short selling on almost 800 financially related stocks.

I seriously do not understand that on so many fronts. To begin with, if they had been enforcing the rules against naked short selling all along, I doubt we would have seen the nasty bear raids by hedge funds. They simply would not have had the stock available to them to sell in the first place!

But last week, the SEC said they were now going to enforce the short selling rules and demand that these folks deliver the stock to their broker within three days, making the naked part impossible.

The problem is that they didn't stop right there. They went on to temporarily ban short selling for 10 to 30 days on financial stocks. First of all, short selling adds tremendous liquidity to the financial markets and is an essential ingredient to a normal functioning market.

Secondly, all they will end up doing is creating a dam of demand for some date to be determined in the future. Short sellers won't go away and shouldn't go away as long as they play by the same rules as everyone else. Imagine putting in a temporary dam on the Mississippi River for 10 to 30 days. When they finally blow up the dam, you get a giant rush of water as gravity takes over.

What do they think is going to happen when this ban ends?

Third on my mind is how damaging this action is to folks who run strategies that short an equal amount of stocks as they own. You've effectively punished a large amount of professionals and investors who had nothing to do with this mess.

Finally, there are a number of funds who only short stocks and act as great hedges to portfolios. Restricting their shorting activity to non financial stocks damages their business. That's just not right.

And for the record and full disclosure, this rule has no effect on my investment strategies, for those of you thinking I must have an ax to grind.

Although, I fully supported the idea last July when it was changed and still do now, if the SEC and government want to curb short selling, why don't they just go back to requiring that stocks be sold on upticks? Why go from one extreme all the way to the other without stopping somewhere in the middle?

Put the uptick rule back in place for a predetermined amount of time to gauge its effectiveness.

For those of you not familiar with the uptick rule, here are a few links to educate you.

[Uptick Rule](#)

[Uptick Rule #2](#)

## Quick Market Comments

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As I mentioned in my special update last week, volatility is always at an extreme when the market is groping for a bottom. Remember the analogy of that snowball being the biggest and traveling the fastest the instant before it hits the bottom of the hill?

That was some snowball on Monday and Wednesday with cumulative losses of roughly 1000 Dow points! Equally as amazing were the dramatic reversals on Tuesday and Thursday from the depths of despair!

As Thursday morning's rally began to fail I swallowed hard more than a few times as the thought of a complete and utter meltdown started to take hold. I have to start keeping a chart of when I get this feeling as it's doing a great job of identifying significant market lows!

Although we saw one of the biggest up openings in history on Friday and closed up 368 Dow points, I was actually disappointed in the action. Big openings, more often than not, tend to act as the high or low for the day as the emotion that caused such a move usually fades.

On Friday, stocks opened right at their highs for the day and chopped around at lower levels for the rest of the day. Yes, volume was huge and winners swamped losers, etc., etc., but it wasn't a complete rout on the bears. It certainly could have been! And it doesn't have the feel yet that they are done growling! But we'll see.

We head into the new week with the market quietly closing in the lower end of the range and that should set the tone early this week. I expect more of Friday's gains to be given back before the market moves out again to the upside.

There are seven trading days left until month end, quarter end and the single biggest hedge fund redemption day ever, in my opinion. Between now and the first few days of October, we should see more extreme volatility before the market launches a major fourth quarter rally that should exceed 10%.

As the dollar is experiencing an expected and healthy pullback from its near vertical rally, gold, silver, energy and the other commodities are seeing their first real rallies since the collapse began in July. Until proven otherwise, I firmly believe we've seen the ultimate commodity peak that will not be seen again for years to come!

Have a great week and make sure to email or call me directly with any questions or comments!

Friends And Family Plan

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