

MARKET PERSPECTIVE

Now that the SEC's ban on new short sales of financial stocks has expired, are short sellers returning to place their bets? Not quite...

by Brian Traquair, President, SunGard Capital Markets and Investment Banking
and Aaron Gerdeman, Product Manager, Sungard Astec Analytics

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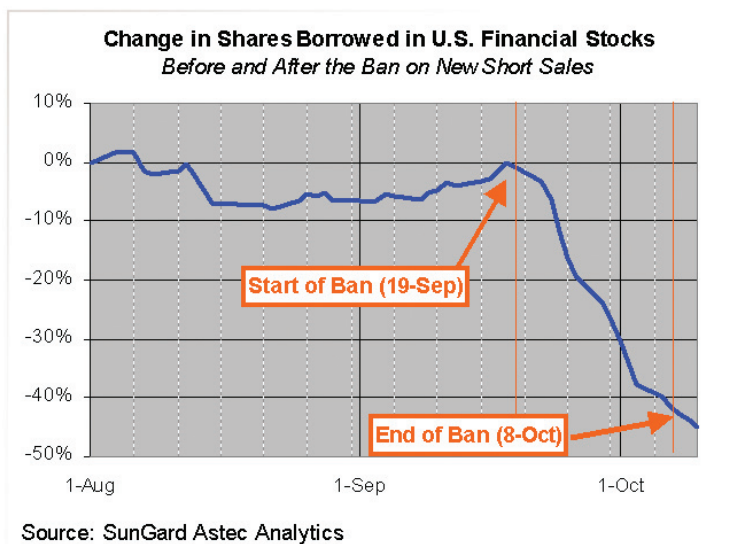
Aaron Gerdeman
Product Manager,
Astec Analytics



Brian Traquair
President, Capital Markets
and Investment Banking

Short selling activity in US financial stocks declined significantly during the two and a half week ban, and new data shows that that trend has not reversed since the ban was expired Wednesday night.

The SEC's ban on short selling financial companies' stocks led to a significant decline in the amount of short sales in the market, as evidenced by a 43% reduction in the number of shares borrowed by short sellers and others in the securities lending market (see Chart 1).



According to this data, which is tracked daily by SunGard's Astec Analytics research group, the SEC's ban seems to have had the regulator's desired effect of reducing short selling activity in the financial stock sector.

To some, this reduction in short selling activity would represent pent up desires to book new short trades once the ban expired, whether to hedge weak-looking long positions, or to express a view that the share prices for some of these bank stocks were overvalued. That may or may not be true, but now that the ban has expired, we see that short sellers are continuing to sit on the sidelines – this time by choice, rather than regulation.

Chart 1: Trends in shares borrowed in U.S. financial stocks since 1-August

New securities lending trading data from SunGard Astec Analytics shows that on Friday, October 10, the number shares borrowed for the previously protected financial stocks continued to decline (see Chart 1 above). The number of shares borrowed by short sellers and others in the stock loan market for these financial equities has fallen 4.1% since Wednesday, October 8, the last day on which the short sale ban was effective in the U.S.

The net change has been a reduction in the amount of short selling and consequent share borrowing volume in the market in the past two trading days that followed the ban's expiration. While there are some financial companies whose shares have been borrowed more since the ban expired, they are in the minority. As seen in Table 1, almost two-thirds of the previously protected financial stocks have seen since last Wednesday a further decline of borrowing in their shares. Only one-quarter have seen an increase in their shares being borrowed by short sellers and others since the ban was lifted.

The continuation of the downward trend in the number of shares borrowed in the financial sector could be a reminder that prices, which dropped globally Thursday and Friday last week, are not dictated by short sellers,

but rather by company fundamentals and market fears. The downward trend also suggests that many investors who usually engage in short selling as part of their investment strategy might be expecting the market to reach a bottom soon. Or then again, it might reflect the fact that many such investors are in need of cash for purposes other than short selling right now.

Whatever the reason, the continued downward trend in shares borrowed for short selling in these US financial stocks is an interesting occurrence after the expiration of the ban. SunGard will continue to monitor the changing securities lending market day-to-day to track if and when short sellers re-enter the market.

Table 1: Percent of U.S. financial company stocks whose shares were borrowed more or less since the short sale ban expired. Data is effective through 10-October. Source: SunGard Astec Analytics.

Since Ban Lifted	Percentage of Stocks
LESS BORROWING	63
MORE BORROWING	24
NO CHANGE	13

About Astec Analytics

SunGard Astec Analytics is a research company specializing in market information services for the global securities lending industry. Astec Analytics services also integrate with SunGard's leading solutions for US and international securities finance, including the Loanet, and Global One realtime multi-currency solutions for international securities lending and Martini, a real time trading platform for bond and equity securities financing.

To contact an Astec Analytics solution specialist:
+1 212 514 8340 or visit our website at www.sungard.com/astec.

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