

Jump on Bankrate's Roller Coaster

Bankrate (NASDAQ:RATE) shares have been on a roller coaster ride for the last 12 months. RATE shares made a round trip ride from under \$40.00 to over \$50.00 three times over the last 12 months. By following a simple discipline of buying RATE shares when they fall below \$40.00 and selling RATE shares when they go above \$50.00 an investor would have realized trading gains of 85.1% even though their money was at risk for only 108 out of 253 trading days over the 12 month period between July 1, 2007 and July 1, 2008.

Bankrate (RATE) share price action over the last 12 months (closing prices)						
BUY price	BUY date	SELL price	SELL date	Gain per share	% Gain	No. Days at risk
\$39.10	08/3/07	\$50.46	10/10/07	\$11.36	29.0%	47
\$39.95	11/10/07	\$50.72	01/29/08	\$10.77	26.9%	52
\$39.50	03/06/08	\$51.85	03/26/08	\$12.35	31.2%	9

There are two reasons why Bankrate shares have been so volatile. The first is that the company is considered to be a bellwether for consumer mortgages because it provides online mortgage information to millions of consumers. The simple theory or bear case behind RATE's frequent trips back to under \$40.00 is that the problems with US real estate will reduce consumer demand for mortgages and hence will reduce demand or traffic to Bankrate's web sites and its shares should decline. Thus, Bankrate shares are driven by news about real estate. When the news about real estate or home sales is overly pessimistic its shares get over sold. When the news becomes more optimistic its shares get over bought. The second reason that contributes heavily to BankRate's volatility is that there is a significant short position in its shares. According to the most recent statistics the number of RATE shares sold short equated to 43% of its trading float.

It is not that uncommon for companies such as Bankrate to have aggressive short sellers. When investors become extremely pessimistic about a company's prospects due to the industry in which it participates they sell its shares short because they believe that they can make money on the downside. If one truly believes that the U.S. is going into a depression because of the real estate bubble then he or she would likely have a solid conviction that Bankrate is going to go out of business. Selling its shares short gives them an opportunity to place a bet on their conviction. After the short position has been established the news inevitably becomes more optimistic. When the shares then start

going up instead of down the short seller panics and buys them back at a price which is higher than the price they were sold short. Short selling is a major reason why BankRate shares are so volatile. The shares trade on the raw emotions of fear and greed and will continue to do so until the negative effects of the real estate bubble have been fully discounted.

Finally, I also believe that Bankrate shares are a good buy at under \$40 for those who are more interested in buying and holding instead of trading. I currently hold shares in Bankrate.