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Paulson's Visible Hand Hurls Stocks Skyward Wall Street headed for second day of mega-gains as Washington takes steps to bolster the market.

Wall Street was a melting pot of government intervention Friday, with a major plan to shore up market confidence, moves to bolster money markets and new provisions that will temporarily ban short-selling in 799 financial firms. Treasury Secretary Henry Paulson took to the podium to announce the initial steps in the government's plan to restore confidence and provide critical funding to mortgage markets.

Paulson said the government's recently acquired **Fannie Mae** (nyse: FNM - news - people) and **Freddie Mac** (nyse: FRE - news - people) will increase their purchases of mortgage backed securities, and the Treasury will expand its own MBS purchase program, announced earlier this month.

Meanwhile, officials from the Treasury and Federal Reserve are working to construct a legislative package that will pump several hundred billion dollars into efforts to remove toxic assets from the U.S. financial system. Paulson said he plans on working through the weekend with Congress, in the hopes of action next week.

Henrich, predicted the Treasury will form an institution similar to the Resolution Trust Corp., which auctioned off the assets of failed lenders during the savings and loan crisis of the late 1980s and early 1990s. In this case, Goldberg said, it is clear the government does not want to actually be in the business of holding the toxic assets, merely provide a conduit for financial firms to locate buyers. Goldberg acknowledged the valuation of the assets makes the model tricky, but predicted there is plenty of money on the sidelines waiting to buy such assets once there is a market for them.

Daniel Alpert, managing director of Westwood Capital, called an RTC-like solution ridiculous, pointing to the very same valuation question. Even more ridiculous, Alpert said, is the concept the government will take on the bad assets of finance companies and then allow them to get back on their feet and return to business as usual.

"**Hank and Ben [Bernanke, the Federal Reserve chairman], are attempting to save the system for the rest of the economy and commerce, not for the shareholders," Alpert said, pointing out that each time the Treasury and Fed have stepped in to rescue a firm they have virtually wiped out equityholders and ousted management as the cost of their aid.**
"Government intervention needs to be like a capital infusion from another firm, but worse," Alpert said. "When the new capital is coming from the taxpayer, penalties need to be stiff."

Investors were not fearful of being wiped out of financial shares Friday though, as the sector paced a broad-based advance on optimism for the government's newest plan. There may have been other factors at play as well though, most notably new short-selling rules that was likely causing a flurry of covering trades.

The U.S. Securities and Exchange Commission, following the lead of Britain's Financial Services Authority, announced Friday morning that it will outlaw the short-selling of 799 financial firms through Oct. 2. Banks, brokers, insurance firms, money managers and others are included under the ban, but there were also notable exclusions, like credit-card companies, some insurers and mutual-fund companies, and even **General Electric** (nyse: GE - news - people), which has a substantial financial arm. The list may be growing larger soon though, as Forbes.com has learned several companies not on the SEC's roster are in touch with the commission to be included, and CNBC reported that its parent GE may be included as well, a development that sent its shares up $2.05, or 8.3%, to $26.84.

A hedge fund industry group said Friday that the bans on short selling in financial shares in the U.S. and Britain, where the FSA disallowed the practice on 29 stocks through Jan. 16, could raise the cost of capital for banks. The Alternative Investment

Management Association also called for the FSA's rule to be reviewed as soon as possible; the agency said Thursday it plans to review the provisions in 30 days. Between the short-covering and Paulson's plans, U.S. stocks were roaring in the early afternoon. The Dow was up 448 points, or 4.1%, to 11,467; the S&P 500 gained 58 points, or 4.8%, to 1,264; and the Nasdaq added 82 points, or 3.7%, to 2,281. It was hard to believe, especially following Monday's bankruptcy filing by **Lehman Brothers Holdings** (nyse: LEH - news - people) and Tuesday night's $85.0 billion Fed bailout of insurer

American International Group (nyse: AIG - news - people), but the major averages were actually posting narrow gains for the week.

Among Friday's notable leaders was embattled brokerage firm **Morgan Stanley** (nyse: MS - news - people), which added $6.88, or 30.5%, to $29.43. Morgan Stanley is still in talks on a variety of options, but reports suggested the Treasury's plan could be a "game-changer" for the firm, according to TradeTheNews.com, potentially giving it more time for a deal or even allowing it to remain independent.

Traditional safety plays were abandoned by investors during Friday's frenzied gains. Gold fell $35.50, to $861.50 an ounce, while Treasury prices plunged and yields popped. The 10-year note yield was at 3.79%, up from 3.44% Thursday, while the two-year note offered 2.20%, up from 1.61%. The one-month Treasury bill, which momentarily saw its yield drop to zero during the panic earlier in the week, was at 0.46%.

In addition to the big headlines, the Treasury Department also said it will insure and guarantee money-market funds, and the Fed said it will extend non-recourse loans to banks and depositary institutions to finance purchases of high-quality asset-backed commercial paper from money-market mutual funds, to assist the funds in meeting demands for redemption by investors and promote liquidity. The Fed also plans to purchase federal agency discount notes, which are short-term debt obligations issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, from primary dealers to support market functioning.