

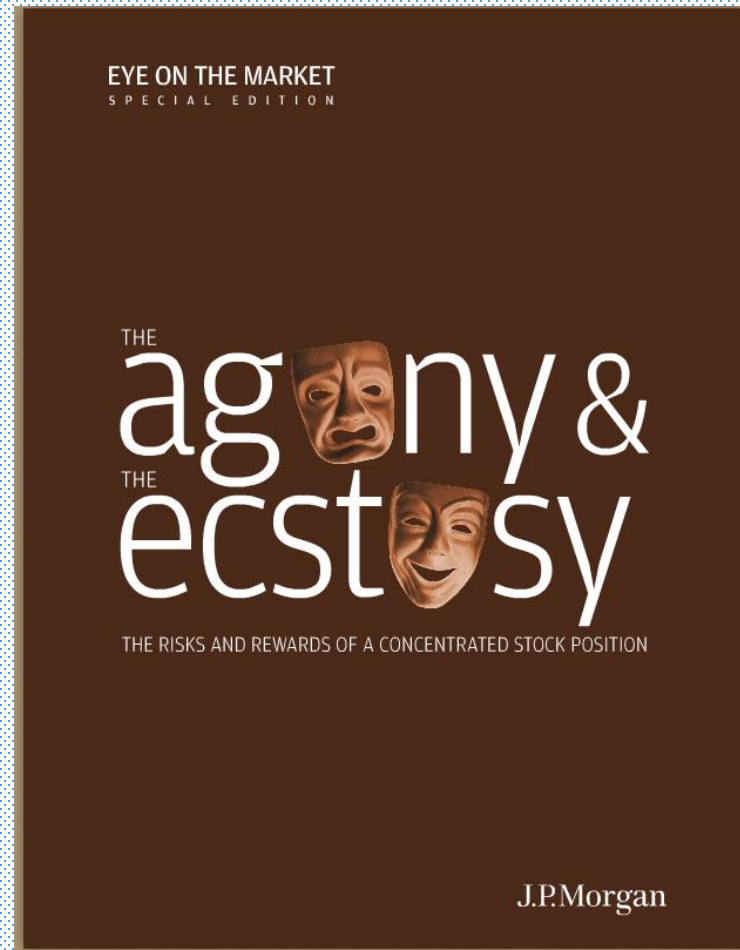


Everything You Need To Know About Shorting Stocks





Why Short Stocks?





Facts-Small Caps

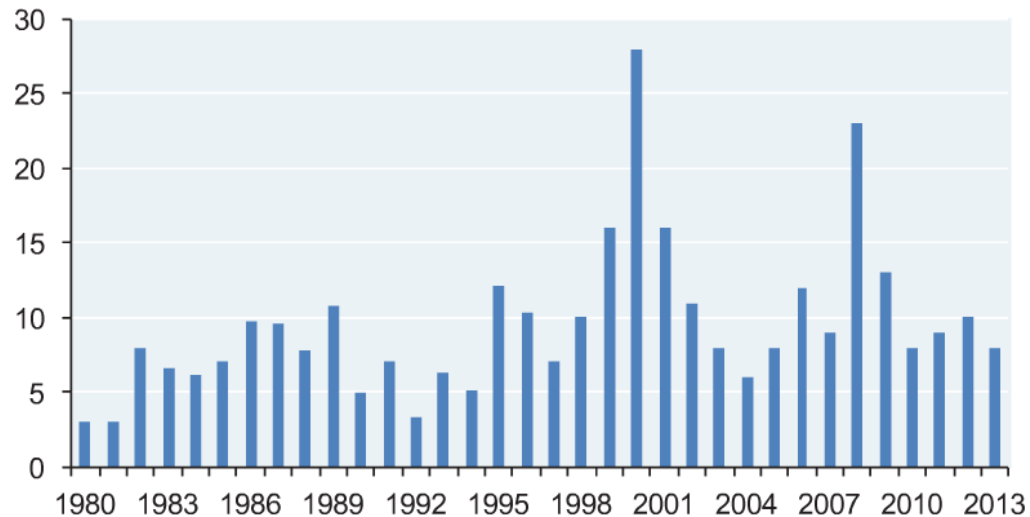
- Using a universe of Russell 3,000 companies since 1980, roughly 40% of all stocks have suffered a PERMANENT 70% decline from their peak value
- For tech, biotech, and metals and mining, numbers are considerably higher
- Recent Examples-GPRO, DDD, YELP
- 40% of all stocks in Russell 3000 had absolute negative returns



Facts-Large Caps

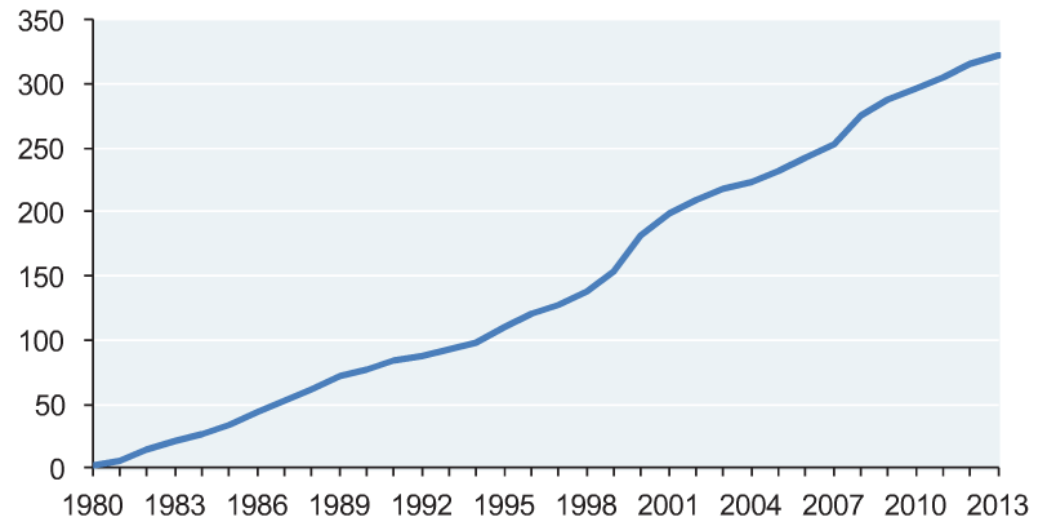
- Since 1980 over 320 companies have been deleted from the S&P 500 for business distress reasons

Number of companies removed from the S&P 500 due to distress by year, Number of companies



Source: FactSet, Bloomberg, Standard & Poor's, JPMAM. 2013.

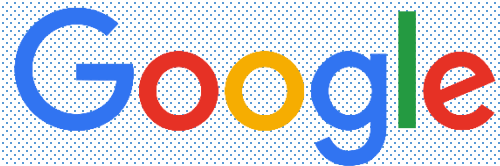
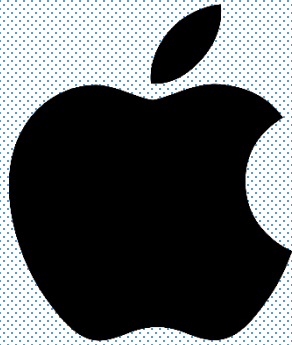
Cumulative number of companies removed from the S&P 500 due to distress, Number of companies



Source: FactSet, Bloomberg, Standard & Poor's, JPMAM. 2013.

Does This Surprise You?

- Survivorship bias
- People focus on the winners never the losers
 - Apple
 - Tesla
 - Google
 - Facebook, etc.





Shorts Are Different Than Longs

Structural Differences

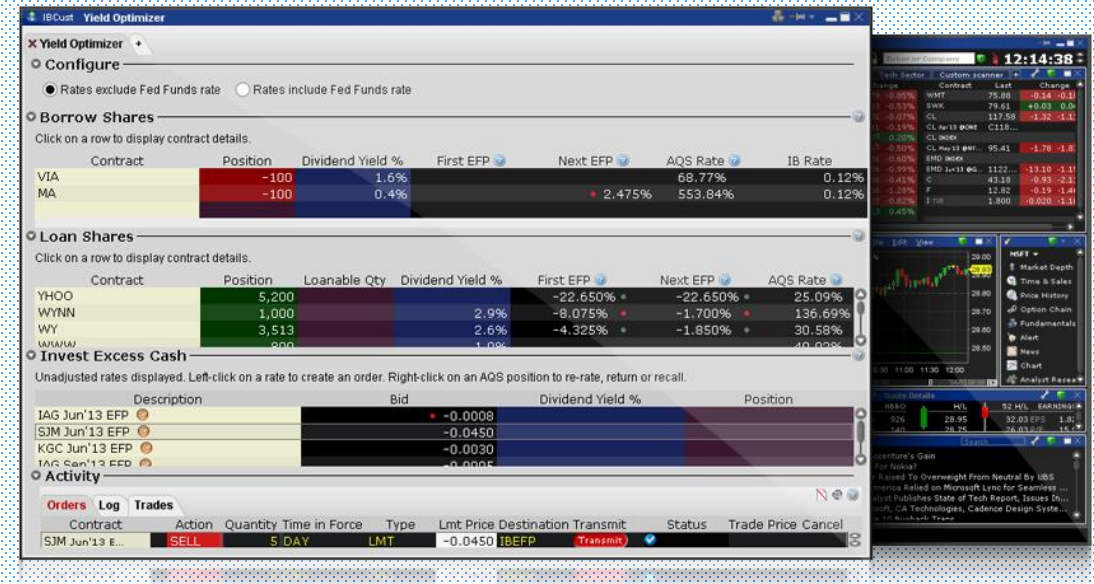
- The world is “levered long”
- Shorting is playing against what the system is designed to promote, for the most part people get paid when things go up
 - Institutions
 - Governments
 - Banks
 - Mutual funds
 - Financial Advisors
 - Robo-advisors





Cost Differences

- Borrowing costs
 - Pay to borrow shares
- Dividend Payments
 - Pay any dividends issued while short
- It costs money to hold shorts





Regulatory Constraints

- Cannot outright short stocks in IRAs and 401(k)s
 - Need a margin account to short
- There are strategies you can use to get short exposure in retirement accounts
 - Put options
 - Inverse ETFs



Trading to the Short Side

Price Action

- When stocks go down they move much differently than when they go up
- Technical entry and exit strategies for the long side DO NOT carry over to the short side
- Reason-Escalator Up Elevator Down Effect





Volatility

- As stocks fall volatility increases!
- This means countertrend rallies are vicious
- These rallies are called “short squeezes” or “bear market rallies”
- Prepare for more snapbacks and less “basing” like in longs





Foundation Investing



Tips

- Wider stop losses, do not trail as tightly
- Take some partial profits on down moves
- Reload after the short squeezes
- NEVER short stocks without a stop loss



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