

Enjoying the Ride: Don't sell yourself short!



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In honor of the shortest month of the year I figured we take a quick dive into short selling.

There are many ways to make a profit in the capital markets. You can do this by selecting specific securities like stocks, bonds, mutual funds, ETF's, commodities etc. and holding these as "long" positions. Being long means you are betting the asset price will rise and if the value goes higher you will make a profit. However, you can also make money when these securities lose value by going "short."

Short selling is an investment or trading strategy that speculates on the decline in a stock or other security's price. It is an advanced strategy that should only be undertaken by investors who understand the trade and associated risk.

Traders may use short selling as speculation and investors or portfolio managers may use it as a hedge against the downside risk or loss of a long position in the same security, or a related one. Speculative trades like short selling carry the possibility of substantial risk and are considered an advanced trading method. Hedging is a more common transaction involving placing an offsetting position to reduce risk exposure.

In short selling, a position is opened by borrowing shares of a stock or other asset that the investor believes will decrease in value. The investor then sells these borrowed shares to buyers willing to pay the market price. Before the borrowed shares must be returned, the trader is betting that the price will continue to decline and they can purchase them at a lower cost. The risk of loss on a short sale is theoretically unlimited since the price of any asset can climb to infinity. (Information sourced from Investopedia)

It is important to note that there are no set rules regarding how long a short sale can last before being closed out. The lender of the shorted shares can request that the shares be returned by the investor at any time, with minimal notice, but this rarely happens in practice so long as the short seller keeps paying their margin interest.

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