



>: A System for Shorting Stocks

Wednesday, February 20, 2008 / Wayne Mulligan

The article you see below was not written by me or anybody else at TickerHound. In fact, ~~with Ethan and Chaos~~ could never know it from the quality of the article, it wasn't written by any "professional" investors or money managers. No sir, the article you're about to read and learn from was written by two TickerHound members who I'm sure you already know rather well?

[Ethan](#) and [Chaos](#) Nantuko!!

A Short Term Method For Shorting Stocks

Ethan and Chaos (Jordan) approached me a few weeks back wanting to know if they could contribute something really unique and special to the TickerHound community. They felt that their contributions to the site, while good, couldn't possibly give them the flexibility ~~to handle problems under their own~~ mind. They wanted to collaborate on a trading system that would allow anyone - and that means you sitting at home reading this right now - to systemically short stocks and profit from it.

Introduction:

So I said go for it!

And below is what they came back with. Now, just to be clear, this is NOT a recommendation to buy or sell any particular stocks. It is merely a system that Ethan and Jordan devised that they found to be successful and wanted to share it with you and the other TickerHound members.

So enjoy it, learn from it, and even comment on it right here on our blog. I know Ethan and Jordan will appreciate and welcome the feedback.

The authors' intent is to develop a method for shorting stocks over a fairly short term period of time, defined as anywhere from a half hour to three days, in which the potential for maximum profit is enhanced, while the risk of loss is minimized.

Investors short a stock when they believe that the stock is weakening and will soon decline in price. The Shorting Process is defined as:

?An investor who sells stock short borrows shares from a brokerage house and sells them to another buyer. Proceeds from the sale go into the short trader's account. He must buy those shares back (cover) at some point in time and return them to the lender.?

<http://www.fool.com/FoolFAQ/FoolFAQ0033.htm>

In the past, market rules dictated that you could only short a stock on an uptick, ie. a rise in the most recent price of the stock, prior to entering your short position. However, that rule has recently been changed, and that change allows for greater profit potential from shorting a stock because one can short a stock while a declining trend is already in progress.

One will often hear that shorting stocks is extremely risky because unlike a long position, which can only go to zero, a trader entering a short position could be the victim of a stock going to infinity. However, let's take a closer look at the real level of risk. First, realistically, how many stocks go to infinity? Second, this belief does not take into account the ability of one to cover their short position in advance with the use of stop loss or stop limit orders, or to simply cover with a market order if absolutely necessary. Third, stocks tend to rise and fall, not go up in price indefinitely. In fact, stocks that rise too fast, in chart terms a "parabolic spike", tend to fall in price much faster than stocks that rise more slowly.

Shorting stocks can be more profitable than holding long positions if done correctly. Stocks will usually drop in price faster than they increase, and declines are more often to the extremes, than advances.

Keep in mind that stocks below \$5 may not be shorted, and in order to short stocks, one must open a margin type account with a broker. There may be fees involved, and one should check with their broker as to what those fees may be. All trading, especially shorting, can involve risk, and readers are strongly urged to consider that risk if they decide to utilize this method. As our goal is to minimize risk, we do not advocate using margin, but rather maintaining enough funds in the account to cover the trades. The results presented here are non-leveraged results. While using the 4:1 leverage afforded to day traders would theoretically boost returns, we do not recommend the use of leverage to our readers. Each loss will also be increased, and it takes a larger % profit in absolute terms to cancel out a % loss. (If you lose 50% of the portfolio, it takes a 100% gain to get you back to break even). It is also likely that you will need to have a minimum of \$25,000 in your account, as the brokerage may deem you to be a "pattern day trader" if you are making at least one trade per day in this manner. The link below explains this term.

http://en.wikipedia.org/wiki/Pattern_day_trader

Since trading decisions are often subjective in nature, even when using objective criteria, our past performance is not and can not be a guarantee of future results for anyone else.

You can read the rest of this amazing article on the TickerHound Blog by [clicking here](#). There are *sample trades*, *charts* and even a *graph* that tracks the *performance* of the system over a short period of time. [Click here](#)

TickerHound Member Spotlight

In last week's TickerHound Weekly I announced that we'd begin doing something a bit special this week - TickerHound Member Interviews!

And this week I'm proud to present our very first interview with none other than the Top TickerHound himself - EthanR! If you've visited the site at least once then you DEFINITELY know who Ethan is - [click here to see his stats!](#)

So if you've ever wanted to know a bit more about the guy with ALL of the answers, here's your chance. I've been speaking with Ethan for a while now and I think this was a great interview - I hope you enjoy it as much as I did!

Q: What's your name?

A: Ethan Roberts

Q: Where do you live?

A: Jacksonville, FL

Q: How old are you?

A: 53

Q: How long have you been investing?

A: I started investing in mutual funds in the mid 1980's. But I was always good at saving money, even as a child and teenager. In those days we had passbook savings accounts and Christmas clubs.

Q: What type of investor are you (aggressive/conservative/ETF investor/Technical trader)?

A: With stocks I am an aggressive, short term investor. I typically use about 80% technical analysis in my decisions, and about 20% fundamentals. I do buy some mutual funds and ETF's at times, but most often I am trading stocks. I love to short stocks, and have been working with another Tickerhound member, ChaosNantuko, on developing a high reward/low risk method of shorting. Interestingly, with Real Estate investments, I tend to be a bit more conservative, much more long term oriented.