

## >: Stocks to Short for the Recession

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**Editor's Note:** Today's article was submitted on our website by *Tycoon Report* reader and frequent contributor Ethan Roberts. Please be sure to let him know what you think by clicking "Post a Comment" below and leaving your feedback!

A recent T

article asked members what they would invest in during a bear market. That sparked some very interesting and good answers. Readers talked about gold and defensive stocks and bonds, strong fundamentals, value stocks, etc.

As another alternative, I would like to discuss shorting stocks that are likely to suffer the most during a recession. I like shorting because stocks can go down faster and harder than they go up. If you are on the right side of a shorting trade, you can make a lot of money in a (forgive the pun) "short" period of time.

One thing to remember is that Wall Street always looks ahead several months. Stocks often drop precipitously BEFORE the recession arrives. So if you believe we will be in recession six months from now, then now is the time to short stocks, not in six or twelve months. In fact, many stocks will begin to rise well before the recession ends. People are often amazed at how stocks can be going up when the economy is in such a bad state. That is because Wall Street is seeing ahead to a time when the recession has ended.

Is a recession coming? That is the key question. I believe it is. Recent bearish events in the real estate markets have predictably spilled over into the stock market and have caused massive declines in the financials (Countrywide, Washington Mutual, Citigroup), retailers (Lowe's, WalMart), and most recently, the tech stocks (Cisco).

It was only a matter of time before a Real Estate crash caused a ripple effect upon the stock market. When people have a hard time paying their mortgage, there is little money left over to be spent on luxury goods and services. If people lose their jobs, the first thing they do is stop spending. Think about all the people whose work is related to the housing industry, and who have either lost their jobs or are now working only limited hours.

There are tradesmen (carpenters, plumbers, painters, electricians, etc), new home salespersons, title companies, attorneys, home inspectors, surveyors, and appraisers, all of whom depend on real estate sales. And of course, you have mortgage and real estate companies and all of their staff. Massive cuts at Countrywide and other lenders have been well documented. So there are thousands of people whose livelihood has been eliminated or reduced, and who will now be spending far less money in an effort to survive.

So where do we look for candidates to short? Think about those things that are NOT essential products and services. Start with the specialty retailers, the fancy restaurants, and the travel related stocks. These are all sectors that cater to people spending discretionary money during good economic times. But in bad times, people stay away, and the earnings of these companies can suffer. Bad earnings = Lower stock prices.

My short list of shorts (again, no pun intended) might begin with stocks such as Coach, Pier One, Darden Restaurants, Ruth Chris Steakhouse, Starbucks, and Starwood Hotels. Who needs expensive handbags and \$5 coffee when the economy is under water? Businesses will curtail travel, and families will forgo vacations and start eating more at home.

There are many other companies in these industries you can investigate. I like to analyze charts of multiple stocks within the same industry. The weakest stocks during the time when the market was rising will probably be the ones to fall the most in anticipation of a recession.

Caveat: These stocks represent my opinion only. Do your own research before investing. Shorting is speculative, so do not use money you cannot afford to lose. Always remember to use stop limit orders to cover your short positions. For those who do not like shorting, an alternative is to buy the Exchange Traded Funds that short the major indexes or particular sectors. ETFs such as the QID, which shorts the Nasdaq 100, or DOG, which shorts the Dow 30, are two that come to mind. These can be bought in the same way that you would buy a stock.

We all hate to see a recession and falling stock markets, but shorting individual stocks and buying an ETF that shorts the market are two ways that

you can still profit during a recessionary period.

I would also like to hear from other people about stocks you think would be good shorting candidates if the recession comes.

-- Ethan Roberts



Ethan Roberts  
Chief Investment Officer

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