



THE ART OF SHORT SELLING

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SUMMARY

- We were active short sellers over nearly two decades
- There were some epic highs – most notably identifying in early 2008 the bursting of the housing bubble and discovering in 2012 that Lumber Liquidators was selling formaldehyde-tainted, Chinese-made laminate flooring, both of which led to appearances on 60 Minutes – but overall we lost a lot of money over the years on the short side
- Shorting is brutally difficult, especially during a long, complacent bull market like this one, which has inflicted great pain upon most short sellers
- We advise most investors to learn about short selling - there are many important skills and lessons from which all investors can benefit - *but not actually do it*
- That said, for some investors it makes sense
- For them, the increasing level of overvaluation, complacency, hype and even fraud in our markets (can you say “bitcoin”?) make it a good time to be looking at opportunities on the short side
- Lastly, we think that short sellers are very healthy for our markets, especially the ones with the courage to go public with their bearish views

MY HISTORY WITH SHORTING

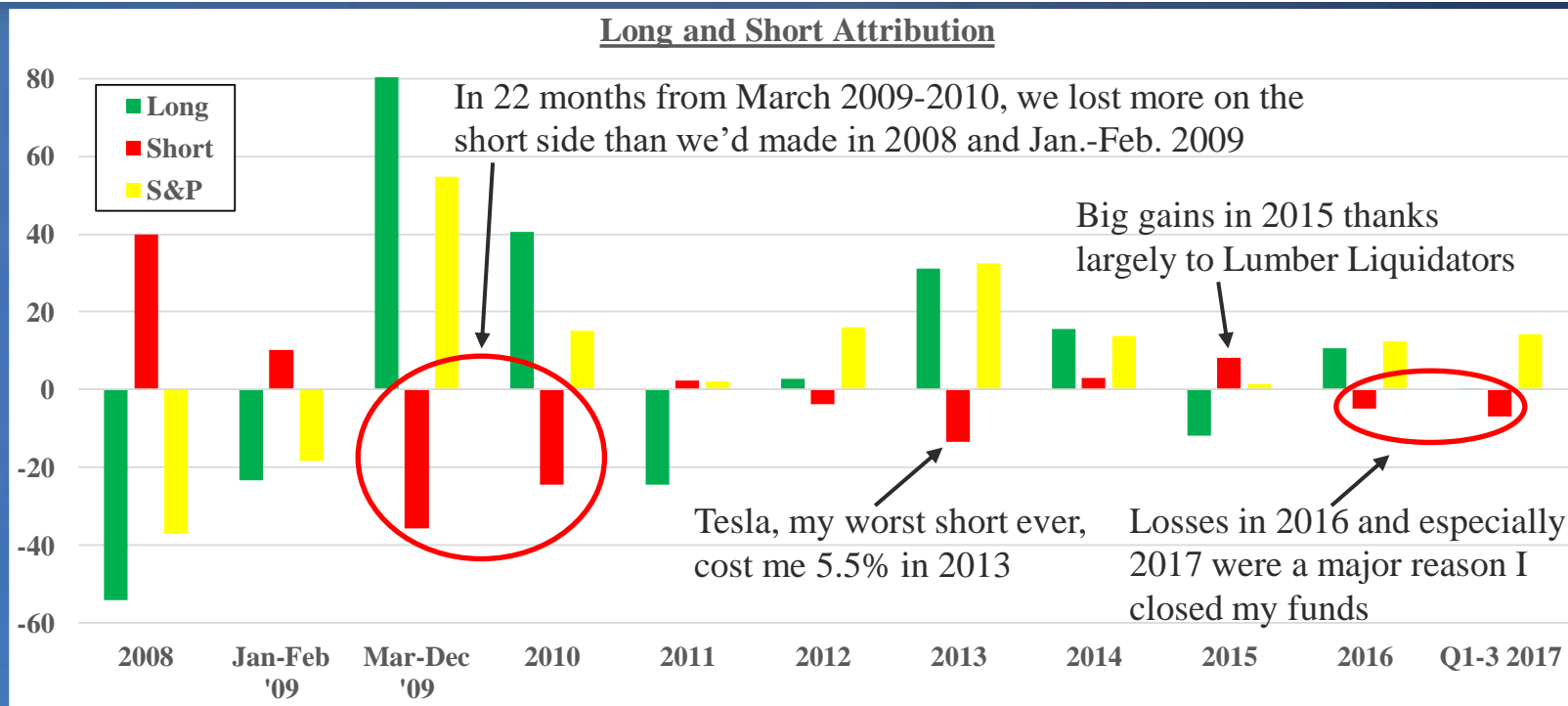
- I first shorted my first stock, Farmer Mac, in April 2002
- Slowly built short book to ~20% exposure by the end of 2007
 - Fairly costly over five years
- As we gained conviction that the bursting of the housing bubble was going to be really bad, we ramped up our short book in early 2008 to ~60%
 - Really paid off over 12 months
- Maintained large short book coming out of the crisis
 - Very costly
- After I re-launched on 1/1/13, I rebuilt my short book to ~50% exposure
 - Made a little money, but sucked up huge amounts of time
- Covered 80% of my short book in October 2014
- Despite small short book, had big year (+810 bps) in 2015 thanks mainly to Lumber Liquidators
- Short book killed me in 2016 and early 2017 (-1,170 bps)
- I covered all single-name shorts in mid-2017 (kept three ETF shorts), but it was too late...

Summary: Over my 15 years of short selling, I made a lot of money in 2008-early 2009 and 2015, but otherwise mostly took a beating

SHORTING KILLED ME

- During the first part of my career, I was long only
- But as I became more experienced – and had success shorting in 2007 through February 2009 – shorts became a significant part of my portfolio
- This cost me dearly in two ways: 1) I lost a lot of money doing it; and 2) It sucked up a *huge* amount of time
- It may have also led me to become more short-term focused and therefore to trade more

AFTER THE MARKET BOTTOMED IN MARCH 2009, OUR SHORT BOOK KILLED US



ARGUMENTS FOR AND AGAINST SHORTING

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SHORT SELLING IS *NOT* SIMPLY THE OPPOSITE OF LONG INVESTING

- In many ways, shorting appears to be nothing more than the inverse of long investing
- On the long side, investors generally seek companies with good management, strong growth, high margins and returns on capital, clean balance sheets, and sustainable competitive advantages - all at a low price
- Conversely, short sellers look for weak or dishonest management, low or negative growth, margins and returns on capital, high and increasing debt, accounts receivable and inventory, and weak competitive advantages - all at a ridiculously high price
- But shorting is not simply the opposite of long investing – it's much harder and more dangerous

12 REASONS NOT TO SHORT (1)

- 1) Your upside is capped and your downside is unlimited - precisely the opposite of long investing. When shorting stocks, you could be right 80% of the time, but the losses from the 20% of the time that you're wrong could exceed the accumulated profits. Worse yet, a once-a-century storm such as the Internet bubble might wipe you out entirely. If there's even a 1% annual risk of such an event, there's a 40% chance of it happening over 50 years (and 63% over 100 years).
- 2) To prevent such an occurrence, most short sellers use stop loss limits, meaning they will start covering the short if it runs against them a certain amount. This means short sellers not only have to be right about a stock but also about the timing. If a stock rises significantly, many short sellers will be forced to lock in losses, even if they are later proven correct.
- 3) In order to short a stock, you first must get the borrow from your broker, who has the power to call in the stock you've borrowed at any time - or, worse yet, buy stock to cover for you. Brokers are most likely to do these things if the stock is rising quickly, and they're probably doing it to other short sellers as well at the same time, so all of this buying pressure can cause a stock to rise even further, triggering even more covering. This vicious cycle is called a "short squeeze" and it isn't pretty - I can show you the scars on my back.

12 REASONS NOT TO SHORT (2)

- 4) Shorting has gotten much more competitive. There are now thousands of hedge funds (and who knows how many individual investors) looking for the same handful of good short ideas in contrast to a few dozen a couple of decades ago. This results in “crowded” shorts, increasing the odds of a short squeeze.
- 5) A short squeeze can also be created if the “float” - the number of shares that trade freely - is suddenly reduced. Such a case occurred in October 2008 when Porsche (OTCPK:POAHY), which owned 35% of Volkswagen (OTCPK:VLKAY), unexpectedly disclosed that it had raised its stake in Volkswagen to 74.1% through the use of derivatives. The German state of Lower Saxony, where Volkswagen is based, owns 20%, so that left a float of only about 5% of VW shares on the market. The short interest in VW was 13%, so moments after Porsche announced its higher stake, the mother of all short squeezes ensued and the stock instantly quintupled from \$200 to over \$1,000, momentarily making VW the most valuable company in the world. This was extraordinarily painful for many shorts. The rise of indexing has also increased the risk of a short squeeze.
- 6) Short sellers used to earn interest on the cash they held while they were short a stock, but this has disappeared due to low interest rates - and brokers even charge “negative rebates” on hard-to-borrow stocks, meaning that short sellers have to pay 5%, 10%, 15% or more in annual interest to get the borrow.

12 REASONS NOT TO SHORT (3)

- 7) The long-term upward trend of the market works against you.
- 8) Gains are taxed at the highest, short-term rate.
- 9) Shorting generally requires many more investment decisions, thereby increasing the chances of making a serious mistake.
- 10) It's a short-term, high-stress, trading-oriented style of investing that requires constant oversight. For most investors, time is their most precious commodity - and shorting can suck up a lot of it.
- 11) Mistakes become more and more painful as they run against you, since a rising stock on the short side becomes a larger percentage of your portfolio. In contrast, if you make a mistake with a long position, it becomes a smaller percentage of your portfolio as it drops.
- 12) If you go public with your short thesis, a company can attack you in many ways: file a lawsuit (Fairfax), complain to regulators (who occasionally investigate) (MBIA and Farmer Mac), tap your phone (Allied Capital), etc. You can also lose access to management in general. Lastly, expect to get flamed on message boards and in the media, as many people view short selling as evil and un-American.

10 REASONS TO SHORT (1)

- 1) If you're very good at it, you can make money over time. The list of people we're aware of who have, cumulatively, made money on the short side is getting smaller and smaller as this bull market continues, but there are a few.
- 2) Every investor has a long book, but only a few short, so developing a well-articulated bearish thesis on a company or industry is a great way for an emerging manager to make a name for him/herself. This is what we did early in our careers in 1999-2000, nailing the Internet bubble, and then again in 2008 with the housing bubble, which led to an appearance on 60 Minutes. It doesn't get any better than that.
- 3) Having a short book allowed us to invest more aggressively on the long side, both in terms of overall portfolio positioning, individual position sizes, and willingness to take risks in certain stocks. Here are some examples:
 - We wouldn't have been comfortable taking our fund's long exposure up to 100% at times without meaningful short exposure;
 - We stayed longer (and therefore made more money) in certain high-beta long positions like Netflix and SodaStream because we were simultaneously short a number of similarly volatile stocks;
 - We felt comfortable owning certain economically sensitive stocks like CSX (railroad), Howard Hughes (housing/real estate), and Spirit Airlines because our funds had short exposure that would pay off if the economy weakened.

10 REASONS TO SHORT (2)

- 4) A short book typically pays off just when you need it most, during severe market declines, providing cash – and the psychological boost – to invest aggressively on the long side when it's most attractive. It also improves returns, thereby stemming investor redemptions, which is effectively another source of cash. This is exactly what happened to us in 2008 and early 2009, when our substantial short book cushioned the downturn – our fund was down less than half the market in 2008 – and allowed us to invest aggressively on the long side, which translated into big gains after the market bottomed in March 2009.
- 5) We sleep better at night with insurance. At the beginning of every year, we pay for homeowner's insurance, and at the end of the year, when our homes haven't suffered a flood or fire, our insurance expires worthless and we have to buy it again. Is it a mistake to buy insurance that turns out to be worthless almost every year? Of course not.
- 6) The psychological rewards are enormous, especially to value investors like us, as shorting is much more contrarian than buying an out-of-favor stock. It's also incredibly interesting and entertaining thanks to the preposterous lies and incredible cast of shysters, crooks, charlatans and promoters one encounters. We love betting against these cretins. For all these reasons, we found that making \$1 on the short side to be much more gratifying than making \$1 on the long side (however admittedly irrational this is).

10 REASONS TO SHORT (3)

- 7) Even if you never short a stock, having the mindset of a short seller is very valuable: it helps to develop healthy skepticism, know where to look for bombs on a balance sheet, and be able to identify value traps.
- 8) Being a short seller put us in the flow of short ideas, so we often heard/read about problems with companies whose stocks we were long (or considering going long), which saved us from some blowups.
- 9) One of our biggest problems over the years was an inability to sit on our hands and do nothing. Selling Netflix after it had gone up 5x - and missing another eight-bagger. Getting fatigued by Micron Technology and selling right at the bottom less than two years ago – and watching it rise 6x since then. The list goes on and on... Because shorting involves a lot of small positions and more frequent trading, it kept us occupied and therefore less likely to do stupid things with our long book.
- 10) Lastly, if you're running a hedge fund, many investors are going to have a problem paying very high hedge fund fees for a fund that doesn't do any shorting.

Conclusion: As these 10 reasons show, shorting can make sense for certain investors - but be careful! Don't get sucked in - as we did - to an extremely costly activity at which you are not well positioned to succeed.

WISE ADVICE

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DON'T GET SUCKED IN FOR THE WRONG REASONS

- Shorting is incredibly alluring for many reasons, so you must be very careful not to get sucked in – as we did – to an extremely costly activity
- One of our friends who, like us, closed his fund due to underperformance, much of which came from the short side, wrote:

We used to highlight the effectiveness of our shorting program, but we were way too slow to recognize the change in the market since 2008 and how the flow of funds and indexing made it nearly impossible to short successfully.

It was so easy to focus on (and take out of context) the joy of an individual short working and not recognize the poor return on time, effort and capital that shorting has now become and the pain and anguish it has brought.

There were way too many examples of fundamentals playing out as we expected, yet the market rewarding rather than punishing a stock.

The other really disappointing aspect is the prime brokers' mortal lock on that business and the opacity.

WISE ADVICE FROM A FRIEND

- “Very important to being good at shorting is: “Do you like it”? Enjoyment is key to success.
- “There are certain people like myself that are okay being told they are wrong every day by the market right before a one-day catalyst that knocks the stock down 50%. I’m not sure if the emotional state is being twisted, comfortable in contrarian solitude or what...but the good short sellers love it while most of my Tiger cub friends despise their short book and view it as a necessary evil.
- “Also, good short sellers are willing to dig and find edges where no one else looks. To crack Lumber Liquidators, you found a source in China, but sometimes it’s as simple as reading boring legal filings you had to get from a local courthouse that no one has read or customer visits to discover channel stuffing. Getting out of the 10Ks & 10Qs to understand what is actually happening is essential to finding an edge.”

CHARLIE MUNGER'S ADVICE TO ME

In a call with Munger in 2002 he told me:

- You're right on MBIA: "the idea that anyone would ever think that MBIA is triple-A is *so ludicrous!*"
- From a societal perspective, what you and Bill are doing is great
- But if you go through life stepping on people's air hoses, they're going to hate you and attack you
- So my advice to Whitney Tilson is, don't do it
- I shorted three stocks in my life and they eventually worked out, but not before running against me and causing me total misery so I stopped
- But every young guy seems to have to learn this for himself...

Why didn't I listen until 15 years later (and it was too late)??? Answer: Hubris

LESSONS

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LOOK FOR AN EDGE

- Whether investing long or short, the key to investment success is having an edge, typically important information, analysis or insight that isn't widely known by other market participants
- For example, in the case of Lumber Liquidators (LL), my most successful short ever, someone who used to work in the flooring industry in China called me and told me that the company was buying toxic, formaldehyde-drenched laminate flooring and selling it to its American customers. Once I confirmed this story by having the product tested myself, I helped expose what the company was doing and the stock collapsed by more than 90%
- In contrast, on too many occasions than I care to remember, I shorted a stock based on hearing a compelling thesis but doing little work myself, which often led to severe losses
- The lesson here is simple: if you don't have an edge, don't invest!

HOW TO MITIGATE SHORT RISK IN A BULL MARKET

- Be extra focused on catalysts
 - Only be short the stock for short periods of time around expected catalysts (e.g., earnings reports, articles/presentations)
 - Be your own catalyst
 - Go public with your short thesis or feed it to someone who will (e.g., I gave what I'd uncovered about Lumber Liquidators to 60 Minutes)

“GUERILLA SHORTING”

- “Guerilla shorting” is the name I’ve given to the process when a short seller:
 - Prepares an in-depth short report
 - Takes an extremely large short and/or short-term put option position
 - Publishes/publicizes the report
 - Exits or at least dramatically reduces the size of the position shortly thereafter
- There are many upsides
 - Can be an extremely high IRR (if the stock drops in response to the report)
 - No time & money expended on a long campaign like HLF
- There are also many downsides
 - You miss any long-term drop
 - While legal – you can trade on your own research – it strikes many people as market manipulation
 - The trading pattern is identical to market manipulation, so you’d better be prepared to defend your work and that you genuinely believe it
 - Does it pass the front page of your local paper test?

ONE FRIEND'S APPROACH

- “Over my 20+ year career, it was easy making a lot of money on the long side by buying high-quality growth stocks, so my analysts and I spent 70% of our time on the short side, where we made a lot of money. It really differentiated us.”
- “When I analyzed our performance on the short side, we made 200% of our profits on stocks that went to zero. In other words, we lost a lot of money on all of our other shorts, collectively.”
- “So my advice is simple: ONLY SHORT STOCKS THAT YOU THINK ARE GOING TO ZERO.”
- “A corollary to this is that if you are short a stock because you think it’s going to zero, and the facts change, removing the possibility of a zero, then you must cover and move on. This is exactly what happened when Tesla reported a profitable third quarter on 2019.”

THREE TYPES OF SHORTS IN WHICH WE'VE GENERALLY NOT BEEN SUCCESSFUL

- 1) Total frauds like those promoted by "boiler rooms" (the subject of the movie *The Wolf of Wall Street*) or the hundreds of Chinese companies that went public via reverse mergers, highlighted in the excellent new documentary, *The China Hustle*
 - 2) Stocks in overhyped sectors like cryptocurrencies, cannabis, 3D printing & alternative power
 - 3) Market darlings like Netflix and Tesla, whose stock prices appear to be far ahead of the fundamentals
- We've had limited success with these types of shorts
 - While the typical outcome is a stock falling 50-100%, we've also gotten destroyed on more occasions than we want to remember
 - Once a stock becomes totally disconnected from reality, there's almost no limit to how far it can soar
 - If a stock is trading at 5x its intrinsic value, then it can trade at 10x...or 20x
 - We've seen it happen – and experienced it happening! – too many times...

WE HAVE BEEN SUCCESSFUL WITH ONE TYPE OF SHORT

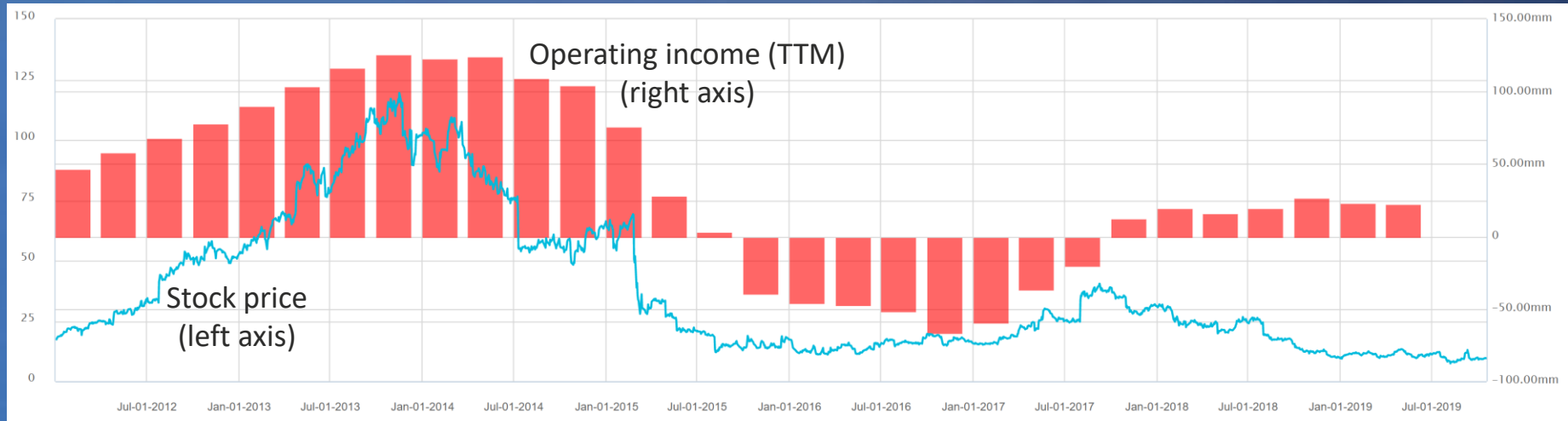
- We've had quite a bit of success shorting stocks that are valued on a multiple of earnings - and the earnings collapse
 - "Well, duh," you might be thinking, but sticking to this simple approach would have kept us (and countless other short sellers) out of stocks that crushed us like Salesforce.com, Tesla (our worst short ever, from \$35 to \$205, pre-split) and Netflix (which doubled against us in 2010 before we covered and later went long it – very profitably – in 2012-13)
- Generally, these stocks are neither in the top or bottom quartile of valuation/business quality; rather, they are ones in the 2nd quartile that move down to the 3rd or, ideally, 4th quartile as their businesses fall apart

STOCKS USUALLY FOLLOW EARNINGS

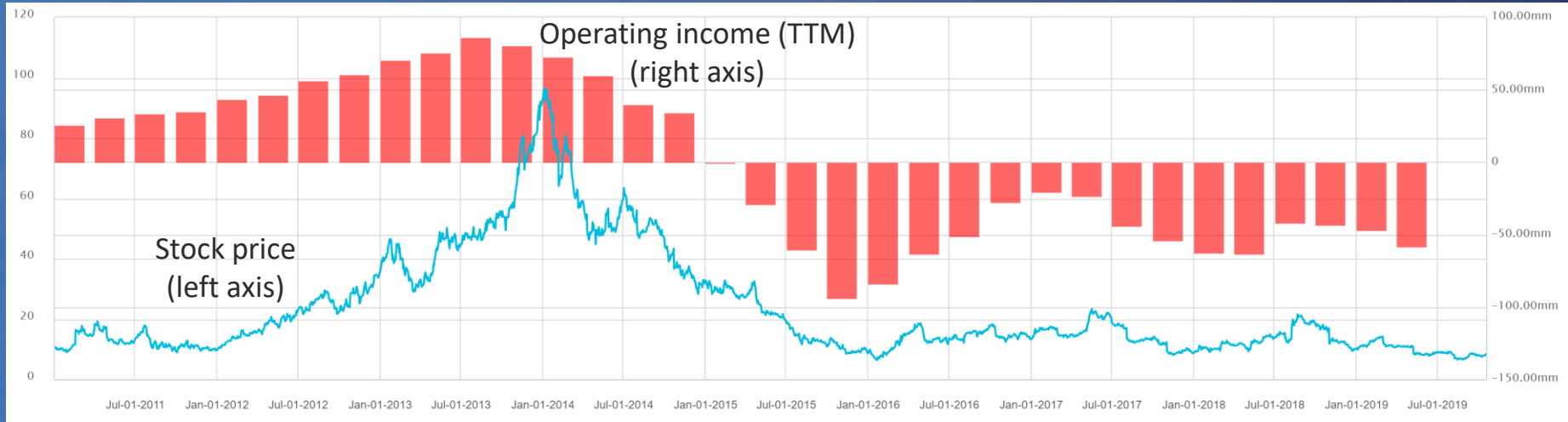
- Even the most well-publicized, airtight case that a company is, for example, committing blatant accounting fraud, bilking its customers, is dangerously under-reserved and over-levered, etc. is usually not enough to cause the stock to decline materially
- As long as a company continues to report growing earnings, its stock usually follows
- Case study: Bill Ackman and MBIA
 - Ackman published a devastating 66-page report, *Is MBIA Triple A?*, in 2002 and in subsequent years continued to warn investors, ratings agencies and regulators about the company and the danger it posed to the financial system
 - But nobody cared as long as the company continued to report strong earnings, so the stock doubled – until the financial system collapsed, as did MBIA's earnings and stock price



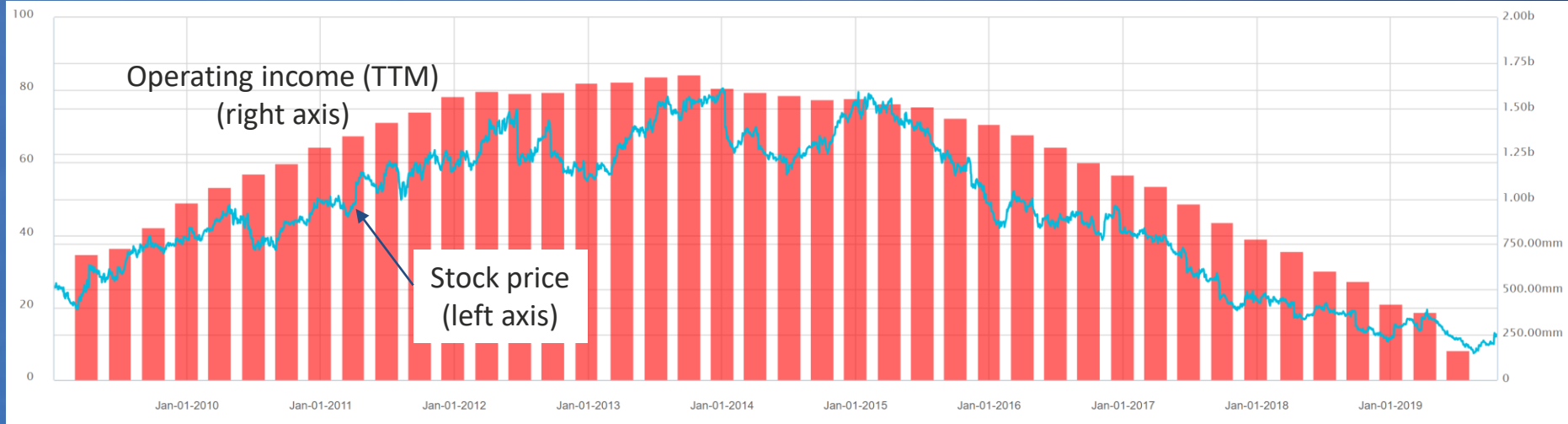
CASE STUDY: LUMBER LIQUIDATORS



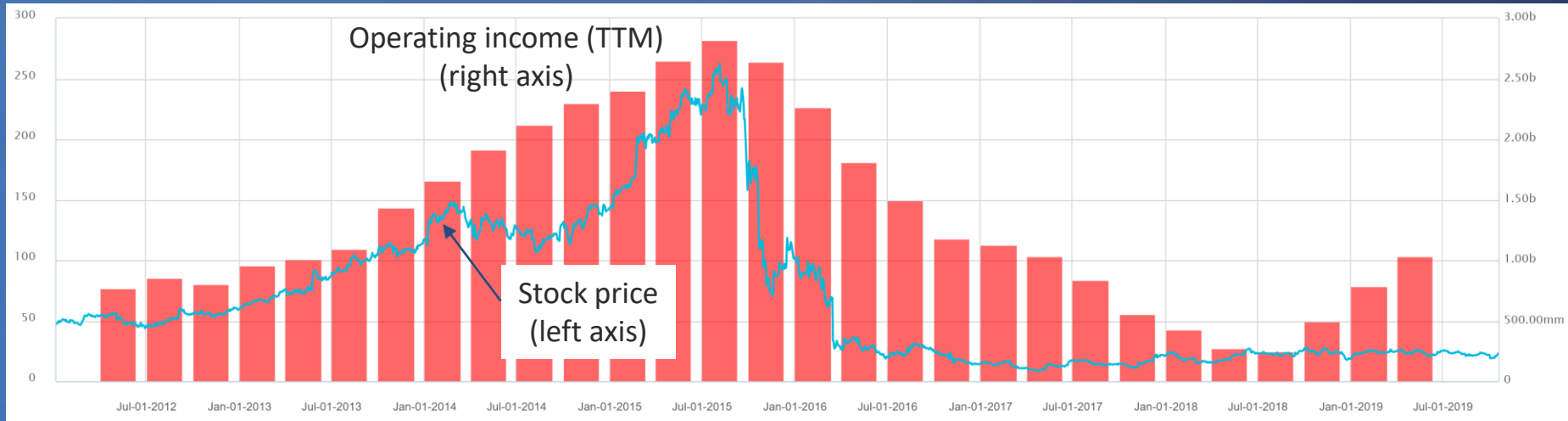
CASE STUDY: 3D SYSTEMS



CASE STUDY: BED BATH & BEYOND

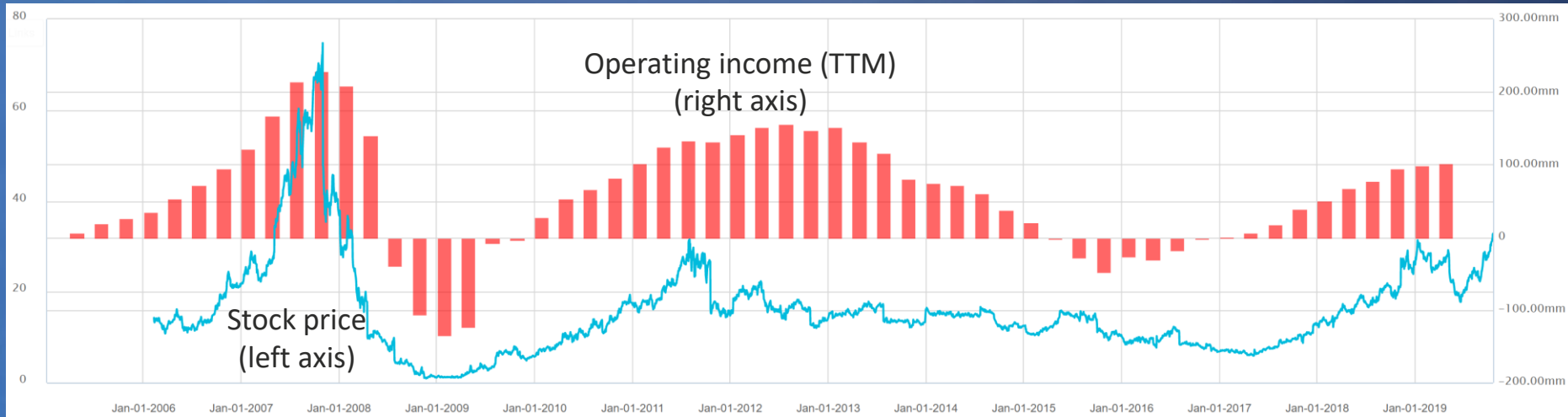


CASE STUDY: VALEANT



Note: Valeant renamed itself Bausch Health Companies (BHC) in July 2018

CASE STUDY: CROCS



HOW TO FIND COLLAPSING EARNINGS

There are many reasons why a company's earnings might collapse – the primary ones are:

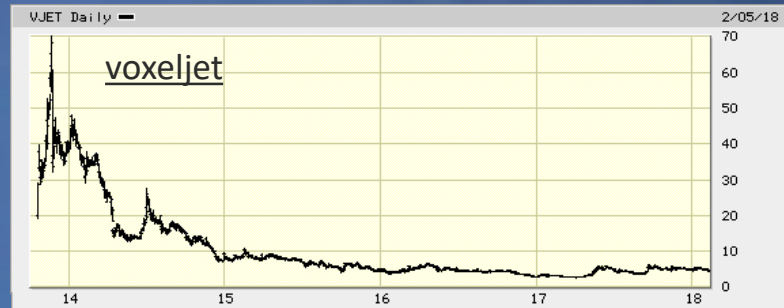
- 1) Unsustainable or illegal business practices (e.g., Lumber Liquidators buying Chinese-made formaldehyde-tainting flooring; Valeant making endless acquisitions and jacking up prices of acquired drugs);
- 2) A business model made obsolete by technology (e.g., numerous retailers such as Bed Bath & Beyond, Staples and Barnes & Noble getting crushed by Amazon; Netflix's DVD-by-mail business; Blockbuster video; newspapers);
- 3) Accounting fraud (e.g., Folli Follie, Enron; WorldCom);
- 4) Legal/regulatory scrutiny (e.g., Lumber Liquidators; Valeant; Insys Therapeutics);
- 5) A wave of new competition (e.g., 3D Systems; will this happen to Tesla in the near future?);
- 6) The aftermath of one-time events (e.g., Hurricane Sandy (Oct. 2012) juiced Lumber Liquidators' earnings);
- 7) Cyclical companies over-earning at the peak of a cycle or due to random industry events; and
- 8) Fads coming to an end (e.g., Crocs).

BEING TOO SMART CAN BE PAINFUL

- Let's say you've done your homework and correctly identified a company whose earnings are sure to collapse. Short it immediately, right? Not so fast...
- It's also critical to have some sense of when earnings might start to decline because being early can lead to years of painful losses, as the many examples in previous slides show
- The lesson here is often a cruel one: being too smart can work against you
- The goal of investing is to develop insights before everyone else in the market – but if you do so too far in advance, it can be a long and painful wait for your investment thesis to play out, so you need to be clever and patient on the timing
- You don't need to be a hero by trying to top-tick a rising stock; instead, be patient and wait until it's clear that the fundamentals are deteriorating before putting on the short position
 - You might miss the first 20% drop, but you will avoid rocketship stocks that destroy you

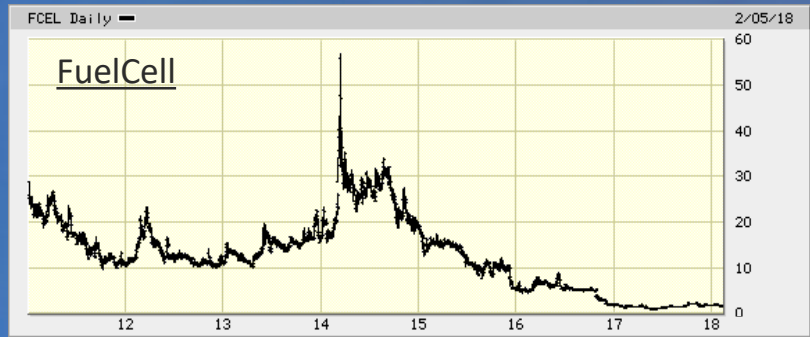
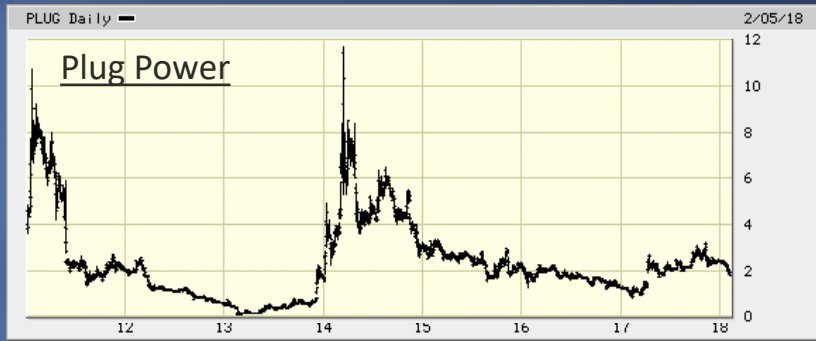
LOOK FOR OBVIOUS BUBBLES (1)

3D PRINTING



LOOK FOR OBVIOUS BUBBLES (2)

ALTERNATIVE POWER PROMOTIONS



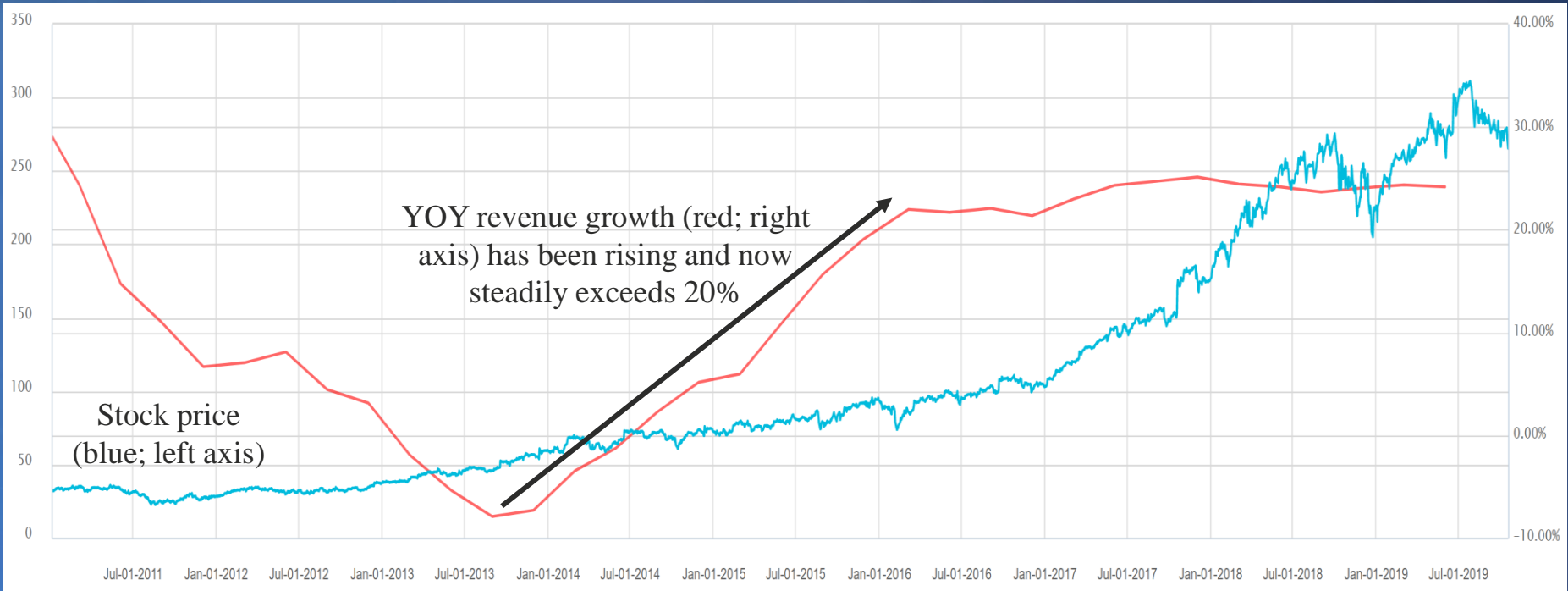
AVOID VALUATION SHORTS

- My experience is that if a company's revenues and earnings are rising rapidly, the stock will rise as well, *irrespective of how highly valued it is*



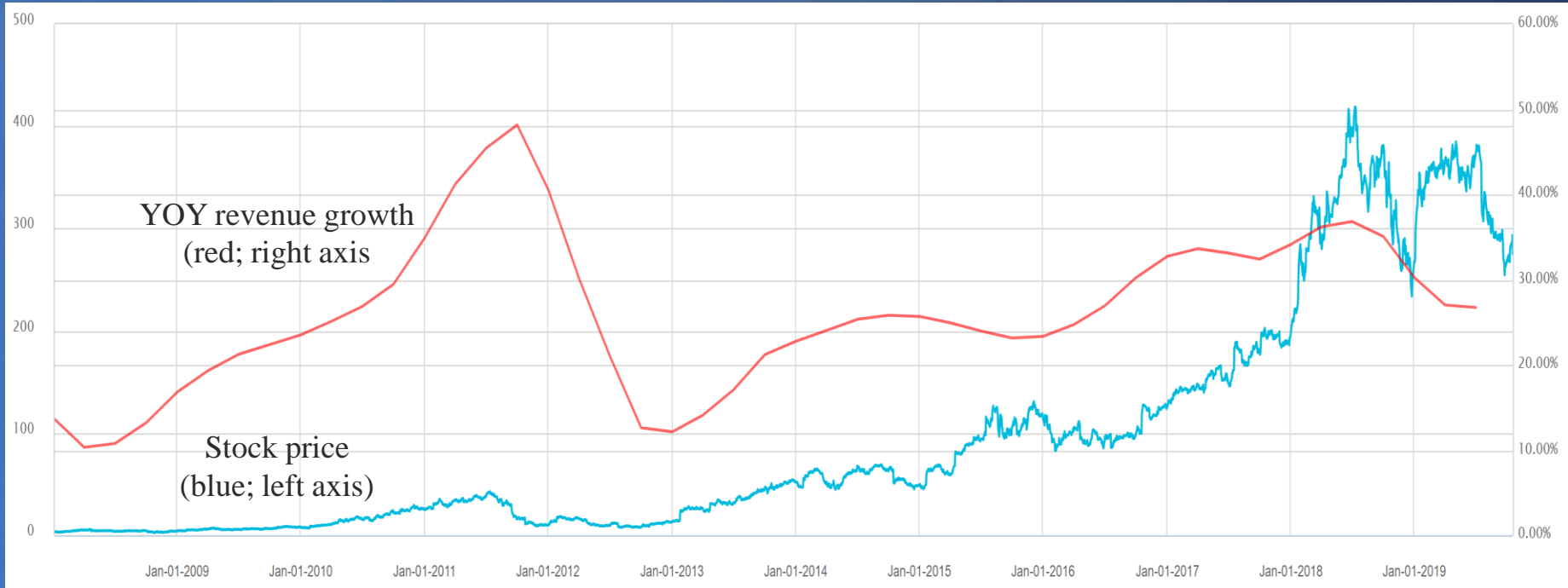
NEVER SHORT ACCELERATING GROWTH: ADOBE

The stock is up more than 7x in the last six years as the growth rate has accelerated



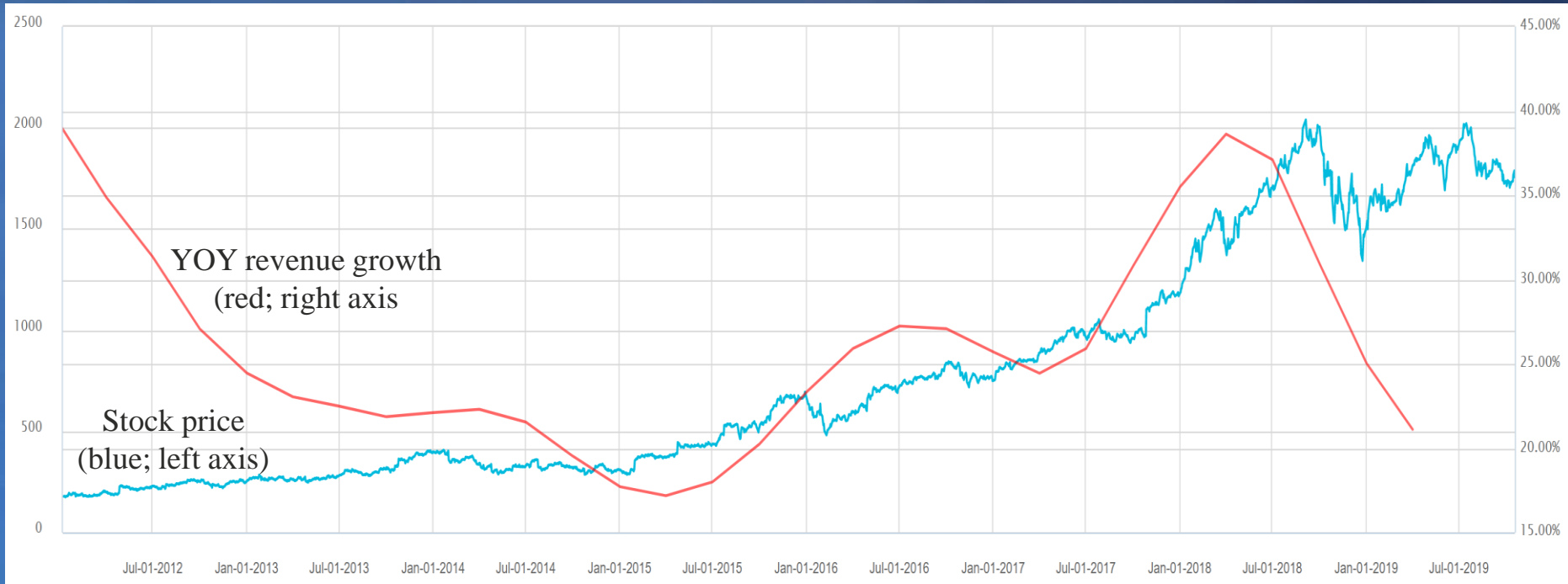
CASE STUDY: NETFLIX

The stock is up nearly *40x* in the last seven years as the growth rate accelerated



CASE STUDY: AMAZON

The stock is up 6x in the past four years



DON'T SHORT COMPANIES WITH INSANELY HAPPY AND LOYAL CUSTOMERS

- It's been our experience and observation that the stocks of companies with insanely happy and loyal customers are almost always bad shorts – think Apple, Netflix, Starbucks, Green Mountain Coffee, Lululemon, Costco and Southwest Airlines
- Such strong customer loyalty gives companies so many advantages: pricing power, free word-of-mouth advertising, etc.
- The most vivid example we can give in recent years is Tesla
 - It has so many things short sellers look for: a highly promotional CEO as well as declining free cash flow and rising debt
 - But everyone we know who owns a Tesla loves it with a burning passion
 - It was dumb of us to bet against this loyalty
 - I foolishly shorted this in 2013 and paid a steep price as it rose 5x against me before I finally realized my mistake and covered

DON'T SHORT STOCKS OWNED BY IRRATIONAL INVESTORS

- It is very dangerous shorting story/faith stocks owned by irrational investors
- Case study: Tesla
 - There is a value-oriented case that can be made for Tesla's stock: project a certain market share 5-10 years in the future, which leads to a certain number of cars sold, estimate the sales price and margin of each car to arrive at profits, and then put a multiple on those profits to (presumably) conclude that the stock is trading at a discount today
 - But let's be serious: the vast majority of Tesla shareholders own it based on a belief that Elon Musk is a genius (he is!) and that Tesla is going to revolutionize the global auto industry (it is!) and change the world for the better (we'll see)
 - These investors don't care that Tesla has never reported a profitable year and has consistently missed nearly every deadline Musk has promised

BE CAREFUL OF IRRATIONAL ACQUIRERS

- Be extra careful shorting stocks in industries like tech and pharma in which there is substantial M&A activity and a lot of big, dumb, deep-pocketed buyers
- It was really irritating (and costly) being short Palm years ago when Hewlett-Packard bought them, and when Mallinckrodt bought Questcor, which was a total scam

DON'T USE OPTIONS

- Many investors think they're mitigating risk by buying put options on a stock rather than shorting it because it reverses the math: gains are theoretically unlimited, while losses are capped at 100%
- While this is true, you now have to be right on both the stock *and the timing*
- It's hard enough to be right on one, much less both, which is why most options expire worthless
- Owning something that is likely to go to zero isn't our idea of mitigating risk
- A wise friend once said to us: "Options are like heroin. They feel soooooo good...but they'll kill you!"

DON'T BE AFRAID OF SMART INVESTORS OR MANAGEMENT

- We have trouble thinking of a successful short in which there wasn't at least one smart investor who was long the stock
 - Though we never had a position, think of all the brilliant investors who were long Valeant as it declined by 97%
- Depending on who the investor is, it's worth taking the time to fully understand what that investor's long thesis is, but it shouldn't deter you from putting on the short position if you're convinced you're right

TRY TO MATCH LONG AND SHORT POSITIONS

- If you're going to run a big short book (50%+ exposure), try to match long and short positions
- There's a serious mismatch between a long book focused on large-cap blue-chips like Berkshire Hathaway, Apple, Visa, Procter & Gamble, Microsoft, and ExxonMobil, and a short book focused on smaller, more volatile, heavily shorted and/or battleground stocks
- These stocks tend to be the most overvalued and have the potential to fall the furthest – often 100% – but they can also rise the most during periods of excess liquidity and complacency (like today)
- Owning riskier/volatile/heavily shorted stocks like Netflix, Sodastream and Deckers can balance the pain on the short side
- If you have a large-cap, low-beta long book, look for large-cap, low-beta shorts (e.g., IBM)

DON'T FORGET TO COVER

- If you are fortunate to short a stock of a company that goes bankrupt, don't forget to cover
- If a stock is delisted and you can't find shares to buy to cover your short, your broker could charge you exorbitant fees indefinitely
- To this day, I'm unable to close my funds because I never covered one of my best shorts ever: Lehman Brothers
 - The company went bankrupt in 2008 and the stock was cancelled in 2012, so I'm not able to buy the 68,013 shares I'm short, but a theoretical liability still exists so my prime broker won't cancel the position
 - After months of aggravation, the compromise we reached is that I have to keep \$2.50/share (\$170,000) in my account until the bankruptcy is finalized (likely in two years)

SOURCES OF GOOD SHORT IDEAS

- Other short sellers
 - Build relationships/networks, and swap ideas
- Investing conferences
 - My two shorting conferences in 2018 (hopefully will be another in 2020)
 - Robin Hood Investors Conference (every fall)
 - Ira Sohn Conference (every May)
 - Value Investing Seminar (in Italy every July)
- Value Investor Insight
 - Go to www.valueinvestorinsight.com/freetrial for a free trial
- ValueInvestorsClub.com
 - Can access ideas as a guest with a 30-day delay
- Activist Shorts Research (www.activistshorts.com)
- Seeking Alpha
- SumZero
- Sign up for notifications from Citron Research, Spruce Point, Kerrisdale
- Stock screens
- Newspapers, magazines, business television

ARTICLES

I wrote a four-part series on short selling, *Lessons from 15 Years of Short Selling*, which you can read here:

- *12 Reasons Not To Short*
 - <https://seekingalpha.com/article/4152732-lessons-15-years-short-selling-12-reasons-short>
- *10 Reasons To Short*
 - <https://seekingalpha.com/article/4156799-lessons-15-years-short-selling-10-reasons-short>
- *How To Find Great Shorts*
 - <https://seekingalpha.com/article/4164016-lessons-15-years-short-selling-find-great-shorts>
- *A Veteran's Advice*
 - <https://seekingalpha.com/article/4166837-lessons-15-years-short-selling-veterans-advice>

CONCLUSIONS

- Shorting is really difficult
- Size positions small and aggressively manage risk
- Focus on stocks valued based on earnings – and then earnings collapse
- Look for multiple ways to win
 - Companies/industries in secular decline
 - A fad coming to an end
 - Leverage/financial distress
 - Market under-reacts to an earnings miss/guide down, etc.
 - Impact of new competitors
 - Regulatory problems
 - Very high valuation – far above historical and peer averages
 - Very high margins – far above historical and peer averages, and what common sense says is possible
- Be patient – don't try to be a hero
 - Stocks tend to follow earnings not analysis or headlines
 - Often there is time to get into a short after the writing is on the wall
 - Short stock rather than use options
- Balance long and short book

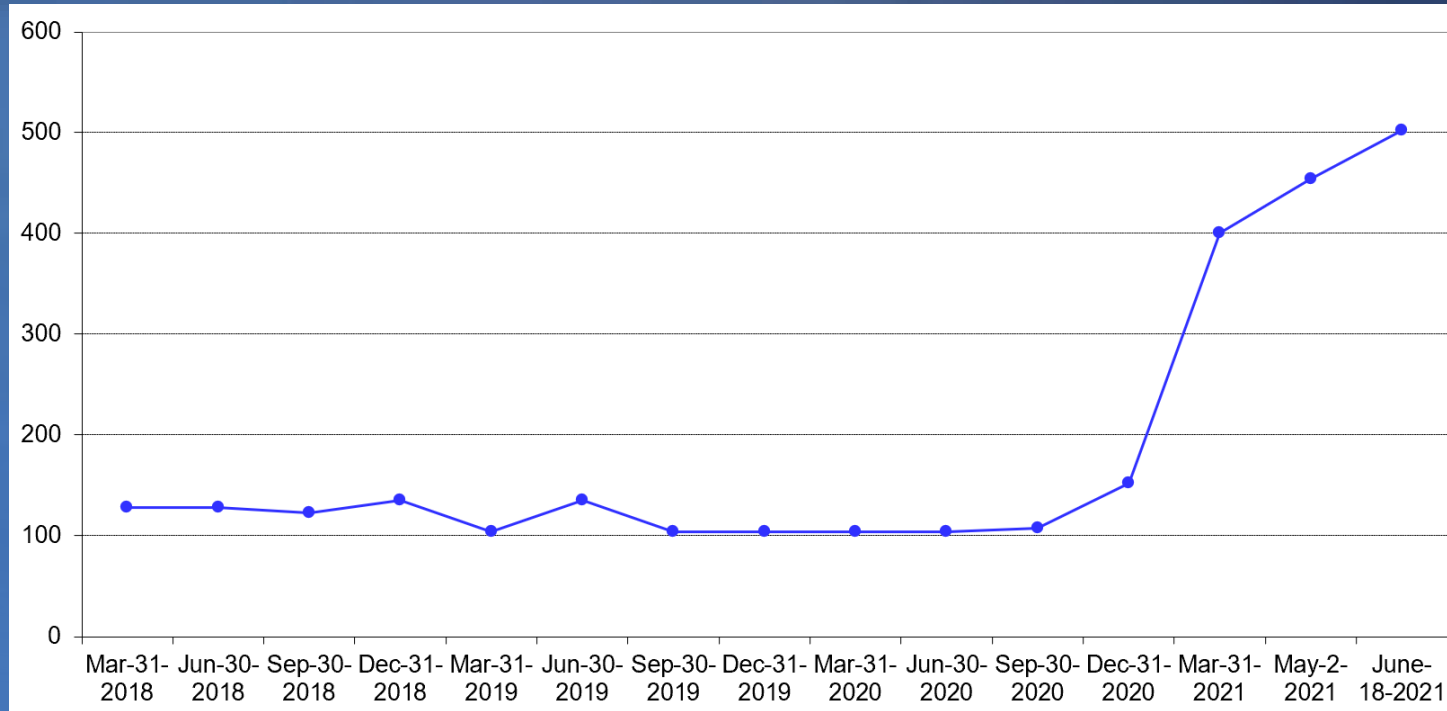
CURRENT FAVORITE SHORT IDEAS

- Melting ice cubes
 - AT&T (T)
 - IBM (IBM)
- Short squeeze bubble basket
 - AMC (AMC)
 - KOSS (KOSS)
 - Plug Power (PLUG)
- *Empire Investment Report*
 - PureCycle Technologies (PCT)
 - Vuzix (VUZI)
 - Nano-X Imaging (NNOX)
- *Empire SPAC Investor*
 - Romeo Power (RMO)
 - Spring Valley Acquisition (SV) (acquiring AeroFarms)
 - Triterras (TRIT)

AMC'S SHARE PRICE IS UP 9X FROM PRE-PANDEMIC



AMC'S DILUTED SHARES OUTSTANDING ARE UP 5X



THE BUSINESS HAS GOTTEN MUCH WORSE

- AMC's market cap is up ~45 *times* (though the enterprise value is “only” up 4x), but the business – already in trouble – has gotten much worse:
 - Studios are releasing films directly to streaming
 - People are accustomed to watching at home (and many have bought big screen TVs and high-end audio)
 - Lingering reluctance to sit in crowded indoor spaces