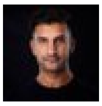
Twitter Thread by Sahil Bloom



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1/ Short Selling 101

With the markets continuing to rally, there has been more talk of “shorting” or “short selling” stocks.

But what does that mean and how does it work?

Here’s a quick educational primer: Short Selling 101

2/ When you believe a stock is going to rise in value, you are said to be “long” the stock (“bullish”). When you believe a stock is going to decline in value, you are said to be “short” the stock (“bearish”).

Short selling is simply how you bet on the decline in value.

3/ Imagine you read that Colombia is experiencing a very wet Summer.

You believe this will lead to a huge coffee harvest, flooding the market with coffee and driving down the price. You want to profit from this.

So you borrow a bag of coffee from Jimmy, your neighbor.

4/ You sell the bag of coffee to Paul, your other neighbor, for $20, the price of the bag at your market.

You now have $20 but you owe Jimmy a bag of coffee (you borrowed it, after all).

One month later, the price of coffee drops 50%. You buy a bag at the local store for $10.

5/ You walk over to Jimmy's house, hand him the new bag of coffee, and give him $1 as interest on the borrowed bag.

So you sold a borrowed bag for $20 and then bought it back and returned it for $11 ($10 plus $1 interest).

You've made $9 profit on your coffee "short" position!

6/ Of course, if you had been wrong and the price of coffee had risen, you still would have had to "cover" your short by buying a bag and returning it to Jimmy. You would have lost money.

Because the price can rise infinitely (in theory), losses from short selling are uncapped.

7/ So this is a quick primer on the topic - Short Selling 101. I hope it was helpful!

Disclaimer: Only experienced traders and investors should think about short selling as a strategy. Given the uncapped losses, it is inherently a more risky strategy than going long.