Twitter Thread by Maxxron ✍■■■■■



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Even though Ryan did an impeccable job at explaining shorting stocks, I just thought of an even simpler explanation using candy bars instead of stocks. @MattJonesRadio @DrewFranklinKSR @ShannonTheDude @ryanlemond

If you buy a candy bar for $1 and sell it for $1.50 you make $.50 profit. Everyone understands that. You expect that the price of candy bars will go up. But what if you expect the price of candy bars to go down? That is where shorting stocks comes into play.

Shorting a stock is like bumming a candy bar worth $1 from a friend with the promise that you will replace it in a week. You then decide not to eat it, but to sell it to someone else for $1. So you have $1 in your pocket, but you owe a candy bar worth $1 so there is no gain.

But, if the price of candy bars drops to $.50 during the week, you have $1 in your pocket from the original sale but the replacement candy bar only costs you $.50, so you make $.50 profit overall.

Buying stock has unlimited profit potential, but low risk. You can only lose your original cost. Say you buy a $1 candy bar to sell, but your stupid brother eats the candy bar before you could sell it. The most you could lose is the original price of the candy bar or $1.

Selling short is the exact opposite. You can only profit the difference between your purchase price and $.01. But you HAVE to replace the candy bar at the end of the week no matter how much it costs. Say you buy the $1 candy bar but that night the factory blows up. That creates a

shortage and the price of the candy bars skyrockets to $10 per bar. You still have to pay $10 for a candy bar to replace the one you sold for $1, or you just lost $9 on the deal. That is what is happening with $AMC and $GME stock right now. J.P. Moneybags McJerktraders borrowed

and sold shite ton of candy bars thinking they could replace them later at a lower cost and pocketing the money to the point there was now more borrowed bars than bars available for purchase. The Reddit Robin Hoods saw the flaw in McJerktraders' plans and bought up all the bars

creating a shortage that caused the price of the bars to skyrocket. Now, McJerktrader has to pay hundreds for each candy bar to replace each one he sold for a couple of bucks, and he isn't happy about it. It's OK, though. McJerktrader is still heinously wealthy because

he is well invested in a diverse portfolio. Which is also why little guy traders need to approach these stocks with extreme caution before they become heavily invested in relatively few (and very volatile) stocks.
In other words, don't put all of your eggs in one basket.