



**LET'S TALK ABOUT...**

FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

## Short selling

Short selling, or just *shorting*, *short*, within the financial environment means selling securities and other financial instruments, such as listed shares, commodities, currencies, which are not currently held in the investor's portfolio. Such actor is thus moved by a bearish market vision, as he/she considers the instrument overvalued and subject to depreciation. The securities to be sold are borrowed from a broker and an interest is paid, and are then actually purchased and delivered to the counterpart at the future date (covering). If the price really falls the investor, when purchasing the securities at that future date, gains the difference, minus the interest paid for borrowing. Should the price have increased, a loss is born, which may be heavy. During the contractual time, the short seller may cover at any moment, buying the instruments should he/she think the market trend is not in line with his/her strategy. "Short" owes its name to the negative position the transaction creates, and is the opposite of "long" stances, where securities are held as their prices are expected to go up. However the term "short" also has a broader meaning in referring to all financial strategies in which, using derivatives such as options and futures, profits are however made when the market prices turn down. Although such practices are disputed and opposed by many, who view them as causes or amplifiers of the market turmoils, all the more recently, with the result that they are limited, restricted or even suspended and forbidden in some countries since the 2008 crash, short selling is not a modern strategy, having come into practice no less than in the XVII Century's Holland. If in most cases the securities are borrowed, another form of short selling is the "nude" one: the instruments are sold for a future date on the basis of just an agreement to deliver them. However in many markets such type of transaction is not allowed.

The advocates of short selling claim it allows better market evaluations and adapts prices to the real fundamental conditions, even favouring the emersion of "irregular" corporate conditions. For contrarians, such practice is just speculative, fuels excessive volatility and distorts the essence of the market itself, particularly during critical phases as the current ones. May we remind that short selling is strictly prohibited in the area of Islamic banking and finance, according to which nothing may be sold which is not actually and really hold. - *GLT*

---

The views expressed are not necessarily those of the Swiss Association of Asset Managers