



Ticker's Tales

"Short Story"

The following events took place late at night, high in an office building near the New York Stock Exchange. It was quiet - except for a soft noise that sounded like ... someone chewing on cheese.

"Stocks can talk," said a mouse named Crackers. "Last night I heard a couple of stock certificates talking about someone selling them short that day. I just wish I knew what they meant."

"Let me explain what selling short means," answered another mouse named Queso. "Remember the stock you almost bought a while ago? If you had made the investment, how could you have earned any money?"

"Buy low and sell high," answered Crackers. "I thought about buying shares and holding them for a long time. Later, I could have sold them at a higher price. But I'm glad I didn't buy the stock because its price went down, not up."

"What if you had sold the stock short?" said Queso. "Instead of buying low and selling high later, you could have sold high first and then bought low."

"I can't sell what I don't own," snapped Crackers.

"Sure you can," answered Queso. "You borrow shares from a stockbroker and have the broker sell them for you. Later, you buy the stock after its price has fallen and pay back the stockbroker. You would have earned money because the stock's price dropped between the time you sold them short and when you bought them to pay back the broker."

"Not bad!" squeaked Crackers. "I'm going to look for stocks that are about to fall. Then I'll sell them short and earn a bundle."

"Hold on," cautioned Queso. "Short selling is very risky. Picking stocks that are overpriced and are going to drop is harder than biting into a brick of stale Parmesan cheese. Suppose you sold a stock short and its price went up instead of down? When repaying the borrowed stock, you'd pay more to buy the shares than you got when selling them."

"I'd lose money," answered Crackers.

"Right," agreed Queso. "Then you'd really be short tempered."

Write Now

Pick a stock and find its listing in the newspaper. Suppose you had sold the stock short when it was selling its 52-week high. Given its current price, would you have gained or lost money?

Suppose, instead, you had sold the stock short when it was selling at its 52-week low? Given its current price, would you have gained or lost money?