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Short Sale

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What Does *Short Sale* Mean?

A market transaction in which an investor sells borrowed securities in anticipation of a price decline and is required to return an equal number of shares at some point in the future.

The payoff to selling short is the opposite of a long position. A short seller will make money if the stock goes down in price, while a long position makes money when the stock goes up. The profit that the investor receives is equal to the value of the sold borrowed shares less the cost of repurchasing the borrowed shares.



Investopedia explains *Short Sale*

Suppose 1,000 shares are short sold by an investor at \$25 apiece and \$25,000 is then put into that investor's account. Let's say the shares fall to \$20 and the investor closes out the position. To close out the position, the investor will need to purchase 1,000 shares at \$20 each (\$20,000). The investor captures the difference between the amount that he or she receives from the short sale and the amount that was paid to close the position, or \$5,000.

There are also margin rule requirements for a short sale in which 150% of the value of the shares shorted needs to be initially held in the account. Therefore, if the value is \$25,000, the initial margin requirement is \$37,500 (which includes the \$25,000 of proceeds from the short sale). This prevents the proceeds from the sale from being used to purchase other shares before the borrowed shares are returned.

Short selling is an advanced trading strategy with many unique risks and pitfalls. Novice investors are advised to avoid short sales because this strategy includes unlimited losses. A share price can only fall to zero, but there is no limit to the amount it can rise.

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