

# Why Short Stocks?

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Shorting is very hard because the market goes up more often than not. And there's a great deal of satisfaction in getting things right when you know that it's a difficult task. Alger is a great organization to be able to employ that deep fundamental research and also do it in a way that it benefits the long funds as well.

It's a common misconception that shorting is the opposite of what one looks for on the long side; they're actually quite different. For starters, the market goes up 2/3s of the time. As a result, as a short seller, you're effectively going against the grain. You have to have different idea generation, tactics, execution, and different methodologies. As a short seller, you're looking to make money in the first one or two quarters. The passage of time is the enemy of the short seller and is to the benefit of a long investor, and that's why catalyst investing is so important on the short side.

Psychology is very important. You make an awful lot of money on the short side when investors go from being optimistic to pessimistic and nervous. As a result, we look at things like short interest ratios or put call ratios or technical analysis. Managements are not necessarily always forthcoming. You have to think like a detective and you have to use things such as forensic accounting.

The first goal of shorting is to make money. In order to do so, you have to be outstanding at stock selection because the deck is stacked against you. Fortunately,

fundamental bottom up stock selection is something that we have an expertise here at Fred Alger.

The other thing is that you have more of your capital employed. If you're running a portfolio that's 100% long and 20% short, you're 80% exposed to the market, but you have 120% of your capital working for you. If you're a good stock picker, you can make money on both sides.

And then having a short book allows you to be hedged on the downside when the market declines. Doing so allows you to be in an offensive mindset and also make less emotional decisions. When the market is declining, because you're in an offensive mindset, you might be covering your shorts, which you're monetizing at a profit, and adding to your long positions which you hope will rebound when the market bounces. Similarly, when the market is rallying, you're able to take profits on the long side and start to get into short positions at really advantageous prices.

Short selling works with Alger's investment style because at Alger we pride ourselves on unbiased critical thinking. This is a great organization to bring that discipline, that depth of research in order to execute on what is a very difficult, but a very necessary part of the process.



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Short sales could increase market exposure, magnifying losses and increasing volatility.

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