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# HOW TO PLAY

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# THE STOCKS MOST LIKELY NOT TO SUCCEED

Even in a red-hot market, huge numbers of declining issues have short-sellers soaring

**Y**es, a bull market is raging. And the response from the short-selling community can be summed up in two words: So what? Making money by betting that stocks will decline—never an easy feat in even the worst markets—is actually becoming one of the most reliable ways of making money, despite the increases in the stock indexes. With vast numbers of stocks declining, professional short-sellers racked up hefty profits—15% and better in the first three months of 1997 alone.

One reason is the declines that have beset many small-company stocks, particularly the most heavily promoted micro-cap stocks. Such companies remain the most reliable short-selling candidates. While outright frauds—the Nirvana of short-selling—are difficult to find, short-sellers remain on the prowl for the next Bre-X Minerals Ltd. or Centennial Technologies Inc. One happy hunting ground is the Internet and the online services, where investor over-enthusiasm is rife. Small investors are finding that checking out questionable companies is easier than ever, with corporate filings on the Securities & Exchange Commission's EDGAR Web site (page 108).

**UNBOWED.** Some short-seller favorites have already had big declines, and shorts are wagering that the worst is yet to come. A good example is Solv-Ex Corp., a controversial Albuquerque company that has a process for extracting oil from tar sands. Short-sellers continue to pile into the company's NASDAQ-traded stock, even though it has declined 54% so far this year as investor doubts have mounted. Shorts say that the stock has been easy to borrow, making it a good bet for short-selling for even small investors. To engage in a short sale, an investor must borrow shares and then sell them, in the hopes of being able to replace the stock at a lower price.

Another perennial short favorite that has been easy to borrow lately—"like water," says one short—is Presstek Inc.



in Hudson, N.H., which is developing new printing-press technology. Presstek's stock is extremely volatile. The company's shares have soared recently, climbing 18 points in two days, on news that would hardly budge most other companies: a stock split. Shorts believe the company is destined for greater things—on the downside. "Where's the

printing revolution?" sneers one short. But Presstek is unbowed. "We believe that the company's business performance, both financial and operational, has continued to prove the shorts wrong and will continue to do so," a spokesperson says.

Also turning up lately on the short-seller radar screens is Avant! Corp., a



Sunnyvale (Calif.) software developer. The company's legal troubles are making short-sellers practically weep with joy. Avant! incurred criminal charges on Apr. 16, when prosecutors in Santa Clara County, Calif., accused the company, five top executives, and two other persons of felony theft charges for allegedly stealing the source code for one of its software products. On June 2, word hit the financial wires that the company had been hit with a shareholder class action, which cited the criminal charges. An Avant! spokesman said the company was vigorously fighting the criminal charges and lawsuit. The company's stock declined to a 52-week low of 9% when the charges were announced, but it has since roared back to 22—even shrugging off the shareholder suit. One prominent short, who requested anonymity, believes that the market's faith in the company is misplaced. He is wagering on a share price decline—with a target price of zero.

Another potential "zero target" for the shorts is Cellular Technical Services Co., which develops billing and data-processing software for the cell-phone industry. Cellular's stock has fallen 30% so far this year, and shorts believe it's headed for a roller-coaster ride—with a section of track cut away. One short notes that the company's phone-security software is heading swiftly toward obsolescence, because the next generation of cell phones won't require it. Indeed, the company acknowledged in one recent prospectus, in a lengthy listing of risk factors, that "technological changes or developments in the cellular industry... could reduce or eliminate demand for the company's user/device authentication products."

**NOTICEABLE FLAWS.** Yet another short-seller is wagering against a Canadian gold mining stock—International Precious Metals Corp., which trades over the NASDAQ Small Cap Market. International was trading at just over 2 in December, but climbed to 13 in March. But then, Arizona authorities maintained that IPM's "Black Rock" mining site, under development near Phoenix, has little or no gold, contrary to the company's statements. An IPM spokesman insists the company's assessment of the site is correct and says that IPM has filed notice of a possible suit against the Arizona officials. This short-seller is voting with the Arizona authorities, however, and feels IPM's shares are destined to collapse.

Some worthy short-selling candidates are otherwise sound companies—but happen to have noticeable flaws that might well send their share prices lower. One outfit in this category is Shared Medical Systems Corp., which is being

## THESE COMPANIES MAY BE RIDING FOR A FALL

STOCK		PRICE JUNE 3	% CHANGE YEAR-TO-DATE
<b>ACTION PERFORMANCE</b>	A souvenir-collectible company—and overpriced, from the short perspective	23%	31
<b>ADVANCED FIBRE</b>	Its price-earnings ratio—254—is questioned by some shorts	53%	-4
<b>AVANT!</b>	Legal troubles beset this software company	21%	-32
<b>CELLULAR TECHNICAL SERVICES</b>	Its fraud-protection software may soon become outmoded	13%	-33
<b>INTERNATIONAL PRECIOUS METALS</b>	Is there gold in them thar hills? Shorts say no	6%	43
<b>LIPOSOME CO.</b>	Its \$1 billion market capitalization may be excessive	26%	39
<b>PRESSTEK</b>	The company's recent runup has shorts zeroing in	87	22
<b>SHARED MEDICAL SYSTEMS</b>	Shorts feel its software sales will soon wane	50%	3
<b>SOLV-EX</b>	A perennial short-seller favorite, the shorts are betting on still more declines	6%	-54
<b>U.S. OFFICE PRODUCTS</b>	High debt has drawn the attention of one short-seller	27%	-20

shorted by Manuel Asensio, who runs Asensio & Co., a money-management firm in New York. Asensio is prominent among shorts for his willingness to attach his name to short sales, which has won him no fans among corporate managers. He has gained prominence for his public war of words with Diana Corp.—a war that he has clearly won, with Diana's shares plummeting 97% over the past 12 months. One company that has recently caught Asensio's attention is Shared Medical, now trading at about 50, which Asensio believes will soon decline to the area of 25 to 30. Asensio is wagering against the company in the belief that its software sales are destined to decline. Not surprisingly, Shared doesn't, well, share that view. "Our long-term goal is sales growth in the 10% to 15% range," says Shared Vice-President Michael Costello.

Asensio is betting that a share-price decline is also in the offing for one high-flying stock, Action Performance Co.

Action is a designer and marketer of collectibles—such as miniatures of sports vehicles—and also sells T-shirts, key chains, and other souvenirs. Asensio believes the company's price-earnings ratio of 40 is "ridiculous." He sees the shares, now at 23%, plummeting to 12 in the not-too-distant future.

**RIFE WITH DANGER.** One trait that shorts often look for is a weak balance sheet. U.S. Office Products fits the bill, in the view of Asensio and other short-sellers. Shorts note that U.S. Office has high debt, and Asensio says its "cash flow has fallen out of bed." He believes the company is destined for a severe decline. No way, responds U.S. Office Chief Financial Officer Donald Platt, who describes the company's debt as reasonable and its cash flow as strong. Another red flag that shorts often seize on is insider selling—as at Liposome Co., a pharmaceutical outfit. Shorts believe that its high market capitalization—\$1 billion—is unsupported by the company's prospects.

Even though short-selling is more lucrative than it has been in years, the usual dangers have not gone away. Shorts are always vulnerable to manipulators driving share prices upward, putting them in a "short squeeze" that can force shorts to buy back their shares at a loss. But if you're patient, fear not. If a stock is truly lousy, you will win in the long run.

By Gary Weiss in New York

### Online services and the Net are a happy hunting ground for shorts on the prowl for weakness