



Book Review: Sold Short

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[BRIEFING.COM - Robert V. Green] Frequent visitors to message boards know that any one criticizing a company can get labelled as a "short seller." In some people's minds, there is no lower appellation. But most of that antagonism is misplaced. If you want a real glimpse into the mind of a major-league short seller, you should read this book.

The Book

- Sold Short
- by Manuel P. Asensio, with Jack Barth
- John Wiley & Sons
- \$29.95

Asensio and Company

Who is Manuel Asensio?

He is the founder and Chairman of Asensio, Inc., an investment company in New York. Asensio and Company specializes in short selling. Mr. Asensio explains part of his focus on short selling as a result of his own style of focusing on fundamental investing, got into short selling because "we were fundamental analysts copying with a raging bull market." When there is nothing worth buying, it only stands to reason, selling must be a good thing.

And while Asensio and Company found a niche in short selling, they did not base their premises on overvaluation due to market exuberance. They went looking for outright deception.

Short Selling Premise

Most people assume that short sellers actually want to destroy a company.

But the truth is that short sellers are only the opposite of value investors. Value investors search for places where the market has failed to place the proper value on a company. Short sellers search for places where the market has placed value where there is none.

Both the short seller and the value investor want the same thing: *for the market to come to its senses.*

But Asensio's short selling prowess is aimed at inept management or outright fraudulent management. They don't wait for market trends to reverse themselves, or for the market to return to a reasonable valuation.

As Asensio states in most of the company's research reports, short sell recommendations are made when "overvaluation exists as a result of the dissemination of incomplete, inaccurate or false information, or the failure to disclose material negative information." Pure "irrational exuberance" is not cause for shorting, in Asensio's approach.

Searching Out Mismanagement, Deception, and Fraud

Where Asensio has made its mark over the past five years is searching out mismanagement, deceptive management, and fraudulent management. When the extensive due diligence uncovers a situation where Asensio feels that their is "incomplete, inaccurate, or false" information, he shorts the stock.

By taking a short position, *and publishing the results of its own due diligence*. Asensio profits, as the rest of the world comes to the same same realization that he has.

All of the Asensio and Company research reports are available, without charge, at the web site, at www.asensio.com

The Proper Reaction

It never fails when you read a message board entry about Mr. Asensio: impassioned holders of stocks on the Asensio short list are enraged. Just check out the Yahoo Finance boards. Try the Verisign board, for the most recent short position.

The "proper reaction," in our view, if you own a stock that appears on Mr. Asensio's list, *is to start reading his reports*. Judging from Mr. Asensio's track record, there is usually something at the core of his reports.

Book Structure

The book is designed around stories about actual shorts made by the company, including the details on how the company was uncovered, how the "deception" or "misinformation" was learned, and what happened to Asensio's short positions. Some of the companies discussed include:

- Diana Corporation 1996
- General Nutrition (GNC) 1995
- Solv-Ex (SOLVQ) 1997
- Chromatic Color Sciences (CCI) 1998
- Avant! (AVNT) 1997-98
- Network Solutions (NSOL) 1999

Each of these stories is presented in fascinating detail, with a fuller level of explanation than you find almost anywhere else. If you are a student of the market, the stories behind these companies are practically required reading. Of particular interest is both the Avant! story and the Network Solutions story. Asensio focused on the "theft" of software by the founders of Avant!, while the rest of the world virtually ignored it. Avant! founders recently settled this case with an admission of guilt. Also of interest is the story of how Network Solutions lost the monopoly on domain name assignment, and the spin the company put on the sequence of developments in ICANN. No matter what you think of short sellers, these are fascinating stories.

An interesting adjunct to the book are the actual reports, published at the time of the short positions, at Asensio's web site. The book gives a much fuller explanation of the thought process behind the short position and "deceptive" practices, as seen by Asensio. After reading the stories of each company in the book, go to the web site and read the archived research reports.

Best Parts

"Sold Short" should really be seen as a primer on two basic topics:

- Selling short: the mechanics
- Stock promotion: how "stories" are sold on Wall Street.

If you want to learn about the mechanics of short selling, you will find only one chapter on the topic. It is one of the best, shortest description of selling short that we have seen. But this isn't a book on how to sell short based on overvaluation, which is the approach most individual investors take.

The real value of "Sold Short" comes from the stories about the companies, and how management tried to promote their stocks. More than learning about how short sellers operate, you can get a great, inexpensive education, about how stocks are promoted.

What Is Missing

The greatest shorting possibility of all time just occurred in the year 2000. Nearly \$2 trillion of misplaced market capitalization vanished.

For anyone who shorted *overvaluation*, the year 2000 was a great year. Briefing.com readers who followed our assessments of overvaluation in Red Hat, Excite@Home, and Priceline, to name just a few we hammered on valuation, with short sales, know how lucrative the short side was.

Short selling based on overvaluation is extremely risky, however, because it is fundamentally based on the idea that *rationality will return*. Only the most patient short seller in 1997 was able to ride out the long hiatus that rationality took in 1998 and 1999. Nevertheless, rationality usually does return.

Some Complaints

While we highly recommend this book, as a great primer on the darker side of Wall Street, there are a couple of points you should know in advance before shelling out \$30.

First of all, an entire chapter is devoted to Mr. Asensio's biography, complete with a long story about how Mr. Asensio's learned firsthand of the accomplishments of his great-grandfather, a Cuban hero of the 1870's. Although somewhat interesting, it has virtually nothing to do with the main topic of the book. But the rest of the book makes up for this indulgence on Mr. Asensio's part.

Another complaint about the book is Mr. Asensio's own numerous strong complaints about the requirements and rules surrounding short selling, including the requirement that shares actually be borrowed before short selling. We found this a little misguided.

Without the requirement to sell borrowed shares, short selling could become overextended. The creditability of the buying process, *from the buyer's perspective*, would be severely eroded. After all, if

shares could be shorted without being borrowed, it means that buyers would not be buying shares at all. They might be buying the "promise" of shares later. Mr. Asensio is sharply articulate about the markets ability to serve as a source of capital, to the good of society. But allowing buyers to purchase "promises" would greatly weaken the market's ability to generate capital.

Short Selling

Wall Street has always had its fair share of "shady" characters. While most investors think of "short sellers" as part of that dubious crowd, Mr. Asensio makes a strong case for short sellers being the "policemen" of the market's shady characters. Without short sellers, no one would provide a check on stock prices.

Whether you agree with Mr. Asensio's view of short sellers as heroic free-market policemen or not, you can find value in his book. The extremely well documented scandalous behavior by numerous companies in this book is practically required reading. Nearly every story in here is relevant to all investors.

The years between 1996 and 2001 were filled with "concept" stocks. While not all runups of stocks with dubious business models were the result of unethical management or investment bankers, if every investor in the late 1990s had been experienced with "hollow runups," as documented in this book, we might not have had the bubble that we had.

From that perspective, you will find Mr. Asensio's book rewarding.

But we do wonder if Mr. Asensio would mind if Amazon.com "borrowed" a few copies of his book to sell to you.

Comments may be emailed to the author, Robert V. Green, at rvgreen@briefing.com
