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Sold Short: Uncovering Deception in the Markets

by Manuel P. Asensio with Jack Barth

John Wiley & Sons, 2001, 268 pages

Manny Asensio is a short seller - one who dumps stocks that he hopes will fall in price before he buys them to close his positions. Shorts, as they are called on Wall and Bay Streets, are widely regarded as renegades who have no loyalty. In fact, they are cynics who just don't believe that certain overpriced stocks are worth their prices.

"A bum stock is like a straying partner: You may not want to hear about it, but you need to know," Mr. Asensio says. And to that end, he believes his cause to be worthwhile, even noble. "I know of no Wall Street group that works harder, adds more value, and performs less selfishly than short sellers."

Asensio & Company, the author's employer in the business of short selling, has gotten to be good at telling the world why a stock should drop. Among its criteria - how wide is the variance between events that can be predicted and events foretold by management? And how much negative sentiment already exists about the firm? Other questions: how good are the analysts who cover the stock, how legitimate is the market for shares? Are there tangible assets or is the firm just a bunch of promises?

On the trail of corporate skullduggery, Mr. Asensio tells the story of Peter Young, an Oxford University graduate with a degree in math and annual salary and bonuses over US\$450,000 who, having dabbled in shares of a firm called Solv-Ex through some shady European accounts was charged with numerous offenses by the U.K.'s Serious Frauds Office, then showed up in court in drag complete with pink handbag and lipstick. As co-author, Rolling Stone writer Jack Barth helps explain, Solv-Ex hired "goons" to follow Mr. Asensio around. The U.S. Securities and Exchange Commission found Solv-Ex guilty of various misrepresentations, Peter Young, who had attempted to castrate himself, was found mentally unfit to stand trial, and Asensio & Co. "did well."

Sold Short ought to be on every investor's reading list. Funny, shocking, and immensely instructive, it demonstrates that there is often less behind a stock than what its promoters claim.