

PROFIT

INVESTOR PORTFOLIO
THE INTERNATIONAL MAGAZINE OF MONEY AND STYLE

3 1/4% +1/4%
1 3/4% -3/4%
LabSpec +32.1
Lamin un

WALL ST

1 1/2	+1/8	-71.3	Coacyon	2 1/4
2	-1/8	-79.2	LifeRate	2 1/4
1 1/8	+3/8	+100.0	Lifschit	3 1/4
		+14.1	LightP un	7 1/2
		-73.7	LottoW	1 1/4
		0.1	Lucifer	3 1/4

World Money Markets

1/2	-1/8	-60.7	ML Direct n	8
3/4	+1/2	-17.4	ML Dir wt	4 1/4
3 3/4	+1/2	-13.2	MTI Tech	2 1/4
4 1/4	+1/2	+1.8	MVSI n	4 1/4
7 1/2	+1/2	-31.3	MVSI wt	1 1/4
7 1/2	+1/2	+37.5	MacroCh	5 1/2
4 1/4	-1/8	-29.2	Madden	0 1/4
3 3/4	+3/4	-52.7	Madrn wtB	1 1/4

Small Cap Stocks

The Lowdown on Mergers

Oregon Travel

- M -				
1 1/2	-1/8	-80.8	MicroM h	3
1 1/2	+1/8	79.2	MgtTech	1 1/2
1 1/2	+1/8	-70.4	MarkSol	1 1/4
1 1/2	0.0	0.0	MarqG wt	2 1/4
1 1/2	+4.9	+4.9	MarqG un	8
1 1/2	+0.8	+0.8	Matrbrh	2 1/4
1 1/2	-0.9	-0.9	MedvT	4
1 1/2	237.5	237.5	MidDyn	3 1/4
1 1/2	335.7	335.7	Medware	3 1/4
1 1/2	-66.7	-66.7	Mednet	3 1/4
1 1/2	+22.2	+22.2	MehiBio	2 1/4
1 1/2	-62.5	-62.5	Metscid	1 1/4
1 1/2	-15.8	-15.8	MetalR gn	3 1/4
1 1/2	-37.5	-37.5	MetGlob	1 1/4
1 1/2	-4.3	-4.3	Mtr-Gl n	6
1 1/2	-1.5	-1.5	ofdG	2 1/4
1 1/2	+2.4	+2.4		2 1/4

HUNTING DOWN
THE PROFITS OF

1997

WHERE THE
BIG MONEY IS



VOL. I, No 6, 1997

WH Blumenthal
\$6.50
\$8.95 CANADA
Secretary of the Treasury



SHORT-SELLERS UN-AMERICAN OR APPLE PIE?

by Sandy Boldt

Short-sellers. Un-American piranhas that prey on unsuspecting companies, or shrewd businesspersons who spend hours researching and analyzing the investment climate? Which side you're on will determine how the question is answered.

Most investors tend to shun selling short and prefer to go long. *Going long* simply means buying when stock prices are low and selling when they are high, thereby making a profit for the investor. *Selling short*, on the other hand, is the exact opposite of going long. Stock is borrowed from brokers and sold to other investors while its price is high, then later purchased at a lower cost, after the price has fallen. The profit, or loss, is made by the difference between the selling and buying prices.

But back to the original question... Is it un-American to sell short? Most of the pros on Wall Street, especially small stock underwriters, institutional investors and brokerage analysts, will adamantly say "yes!" They believe that short-sellers not only bet on the decline of a stock's value, but cause it to happen. Companies like Diana, Solv-Ex, Wellcare Management and SyQuest have nose-dived, blaming shorts for

their sudden decline. John S. Randall, Solv-Ex CEO, stated in the August 5, 1996, issue of *Business Week*, "Short-selling and bear raids are part of the business. But when you put out false rumors and get the SEC involved – that, I believe, is criminal activity." Circulated rumors regarding company short falls are said to be started by short-sellers. This trait is the one that companies despise. They blame short-sellers for the loss of access to capital due to these rumors.

Short-sellers can, and often do, lead to the demise of a company. Investors like to believe that they are protected by rules that govern short-sellers, but many times these guidelines are ignored and penalties are never enforced. Hanover Sterling and its clearing house, Adler Coleman Clearing Corp., were forced to close their doors due to an attack by short-sellers. These two firms felt they were safe from attacks but soon found that regulations didn't protect them. In February, 1996, both Hanover and Adler were forced out of business due to a lack of funds to continue their counter against the attack the short-sellers had waged.

What corporations call rumors and false information, short-sellers attribute to detailed and accurate research findings. Often a defensive mechanism against fraud and inconsistency, short-selling can assist in recognizing fraudulent companies before the

press or even regulators sense that a problem exists.

Manuel Asensio, President and Chief Executive Officer of Asensio and Company, stated in his speech presented to the IRI/NYSSA Forum, "Short-selling is an important component of our capital markets. It greatly adds to the market's efficiency, and this provides our society with enormous economic benefits. Short-sellers are an integral part of the market's pricing mechanism." Keeping over-valued stocks down is one additional benefit. Companies that mislead the investors by purposely omitting information or offering fallacies have over-valued stocks. Short-sellers research such companies with unreasonably high valued securities to determine the factuality of the increase. Often this leads to short-sellers' recognizing a drop when others are expecting a rise. Asensio believes, "If it were not for the work of short-sellers, there would be far more cases where unexpected events caused erratic trading."

Whether you believe short-selling to be un-American or not, the fact still remains that it is a highly risky strategy and should be practiced only by those skilled in the art. Like any other type of investment, it can be profitable, but it is never guaranteed.



THE SHORT-SELLING TRAP

Because short-sellers borrow stocks they don't actually own, companies can use several techniques to drive the market price back up, beating the short-seller at his own game.

- Market forces or positive press can drive up stock prices. This puts a squeeze on the short-seller, forcing him to replace the borrowed stock or put up more collateral.
- Shareholders in institutional investments like mutual and pension funds can demand immediate return of loaned stock at any time.
- Shares moved to cash accounts from margin accounts force short-sellers to return any stock borrowed from the margin account.
- Consistent, positive attention and press exposure to small investors can drive up thinly traded shares, thus placing pressure on the short-sellers, and causing a rise in stock prices.

- Investors should order the stock out when they purchase it and have the brokerage house deliver the certificate to them. Because the investor holds the certificate in hand, it is unavailable to be shorted.

UNDECLARED SHORTING

Nonexistent stocks are purchased and added to a company's float.

Negatives

- Makes it difficult for investors to profit from their risk capital speculations.
- Hurts public companies.
- Adds great costs to maintaining a market in stock.
- Reduces a company's business options.
- Produces profits only for the stock broker or trader.