SquiggleTrader
Shorting a Position

Owning an investment position is being **"long"** that position. You expect it to go up. You buy (go long) the security and you own it. You close the position by selling it.

If you expect something to go down, you may want to go **"short"** or inverse (opposite of owning it).

To express this, you sell a security that you do not own. Your account becomes negative or short of that security.

You borrow the security and sell it. It is a loan. You owe the security and must someday give the security back to the brokerage firm.

You pay a stated margin loan interest rate on the borrowed security. You must have margin privileges in your account and have enough capital to handle the trade.

To close this position, you must "cover" the deficit in your account. You buy the security back and it is automatically returned to the brokerage firm.

Example:

- You expect XYZ Corp to go down.
- The current price for XYZ is $10.
- You sell 100 shares of XYZ "short" in your account.
- The brokerage firm loans you 100 shares and sells them for you at the same time. This uses $1,000 of your capital or margin line of credit.
- You bring in $1,000 cash and owe 100 shares of XYZ.
- You owe 100 XYZ shares back to the brokerage firm.
- You have a deficit of 100 shares of XYZ in your account.
- You pay a stated interest on the loan and it is debited from your account.
- To end this trade, you buy back (buy to cover) 100 shares of XYZ and they revert to the brokerage firm.
- If XYZ goes down to $8 and you close the trade, you spend $800 to buy back XYZ to cover your deficit. You brought in $1,000 and spent $800 to close the position. You created $200 of profit less the interest charge on the loan.
- If XYZ goes to $12, you spend $1,200 to buy it to cover the deficit. You brought in $1,000 and it cost you $1,200 to close it. You lost $200 plus the interest charged.
- Your stop-loss is set above the price of the position. If it goes up, you lose money.

You can "pair" a "long" and a "short". Hypothetical…if you believe the S&P500 will go up but the financial sector will go down and you want to use ETFs, you can go long the SPY and short the XLF. There are ETFs that can do this for you. They are not exactly opposite due to high expenses in the fund.