

This tutorial was originally titled “Winning Strategies for Selling Short” and was recorded at the Online Trading Expo

# **A Beginner’s Guide to SHORT SELLING**

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# **What It Means**

## **When you sell short . . .**

- You borrow the shares from your broker  
(He borrows them from another client's account.)
- You sell stock position--so your account is "short" that stock--with the intent of buying back at a lower price.
- The difference between the two prices is your profit.

# Why We Avoid Selling Short

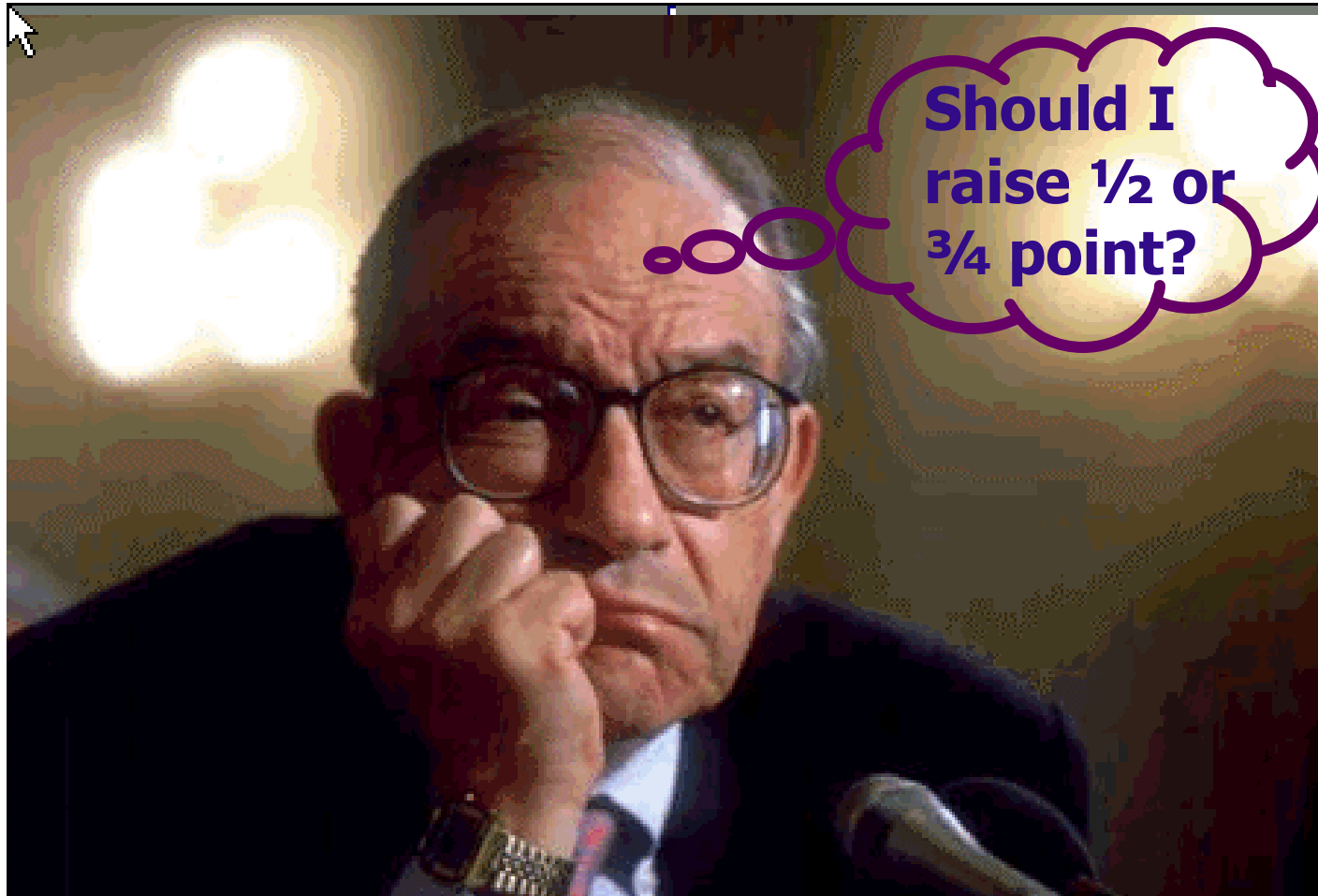
- Americans are optimistic
- The market has an upside bias
- It's mean to “kick the underdog”
- Risk is unlimited... loss could equal many times original stake
- Getting caught in a Short Squeeze is

*no fun!*

# Why Selling Short Fattens Your Wallet

- The market falls at least 1/3 of the time
- Stocks drop 3 times faster than they rise
- So, profits are made quickly

# What Makes Your Shorts Fall Down!



# What Makes Your Shorts Fall Down . . .

- Stock tops out after steep uptrend — exhaustion gap
- Market/Industry in downtrend
- Company announces bad earnings, or news, read: “accounting irregularities”
- Indifference toward the stock

# What to Look For on a Daily Chart

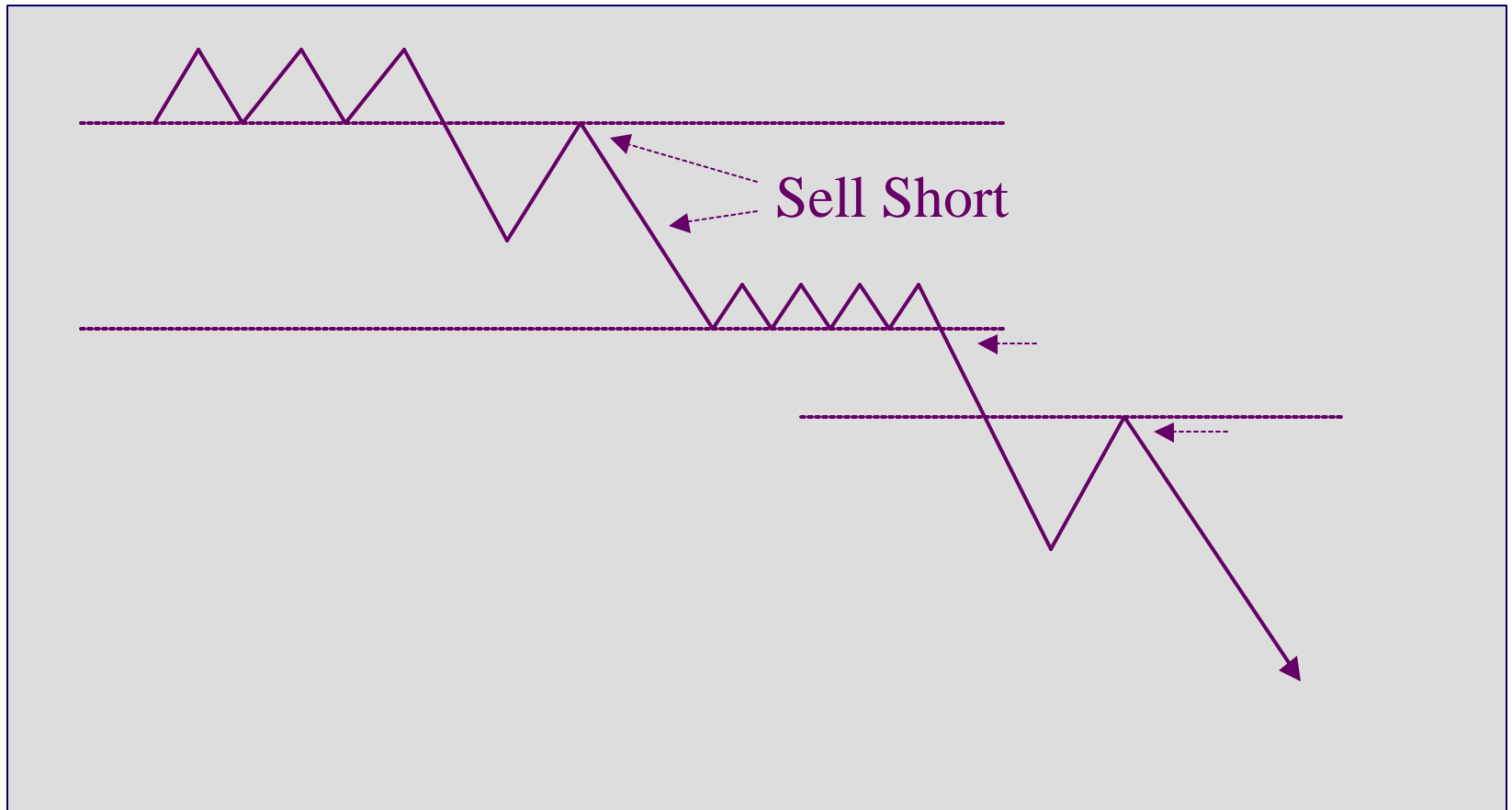
- An “overextended” stock trading high above its 20-day moving average.
- A stock in a solid downtrend that is ...
  - ✍ rebounding to resistance
  - ✍ breaking down from a consolidation pattern

# Find an Overextended Stock





**A stock in a solid downtrend that  
is ...  
rebounding to resistance  
breaking a consolidation pattern**



# Stock is Overextended



# Convergence of Signals

- Price pattern at top of Bollinger Bands
- Five days up
- RSI = oversold + negative divergence
- Dark Cloud Cover candlestick pattern
- Strong volume on negative day

# BEBE 15-minute Chart



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# SDLI Resumes Downtrend

## Get ready to put on your shorts!



# SDLI Resumes Downtrend



# Convergence of Signals

- Jan. 31, SDLI can't make higher high
- Feb. 2, breaks below support of 199
- Falls under 20 & 50 MA
- RSI in downtrend
- OBV tanking
- NDX coincides



# SDLI 60-Minute Chart





# Sell Signal on 15-Min. Chart



# Sell Signal on 5-min. Chart



# Shortin' the Q's

## It's Easy!



# Shortin' the Q's

- You can short on a downtick
- HAS to follow the NDX 100 futures
- Moves at a reasonable, orderly pace
- In this case, made a lower high
- Double top on RSI (Gulp!)
- Broke 50-day MA



# Shortin' the Q's



# Shortin' the Q's



# Shortin' the Q's



# The Uptick Rule . . .

- Nasdaq: **Uptick/Downtick** Arrow is generated by movement in the **Price of the Inside Bid**
- If the the Inside Bid increases in price by  $1/16$  – **green up** arrow appears—an “uptick.”
- If the Inside Bid decreases in price by  $1/16$ , then a **red down** arrow appears—a “downtick.”
- NYSE “Ticks” are created by the prints.



# How to Execute

- On an uptick, only, you can sell short on the bid, offer, or anywhere in-between
- You may not send an order to open a short position **AT THE BID PRICE OR BELOW** on a downtick.
- On a Downtick, through an ECN, you may **OFFER** to open a short position if it is at least **1/16th ABOVE** the inside bid price.

# Technique: Be 1<sup>st</sup> in New Line Not Last in Old Line

Prepare order entry screen to make offer short offer at 54 on ISLD.

Pull the trigger when 54 leaves the bid.



Brocade Communications					
BRCD		54	↓ +9/16	100	Ot 15:30
High	55 7/16	Low	49 5/8	Acc. Vol.	26602400
Bid	↓ 54	Ask	54 1/16	Close	53 7/16
Name	Bid	Size	Name	Ask	Size
GSCO	54	2	ARCA	54 1/16	2
AGIS	54	1	MWSE	54 1/16	1
SNDV	53 15/16	1	MASH	54 1/16	6
BRUT	53 15/16	3	WCAI	54 1/16	2
WCAI	53 15/16	2	BTRD	54 1/16	1
SLKC	53 15/16	2	AGIS	54 1/16	1
MONT	53 15/16	1	INCA	54 1/16	25
ISLD	53 15/16	24	FLTT	54 1/8	1
ISLAND	53 15/16	2440S	FBCO	54 1/8	1
TWPT	53 7/8	1	REDIBK	54 1/8	4
INCA	53 7/8	4	BRUT	54 1/8	1
ARCHIP	53 13/16	1	REDI	54 1/8	4
CWCO	53 13/16	1	ISLAND	54 1/8	4
ARCA	53 13/16	1	ISLD	54 1/8	4
FACT	53 3/4	1	NDBC	54 3/8	1
JPHQ	53 3/4	1	ISLAND	54 7/16	11
ARCHIP	53 3/4	10	ISLAND	54 1/2	10
ISLAND	53 3/4	4	SLKC	54 1/2	2
PERT	53 3/4	2	ISLAND	54 33/64	10
HRZG	53 3/4	5	MLCO	54 9/16	2
MWSE	53 3/4	11	MADF	54 5/8	1

54	200
54	100
54	500
54	200
54	200
54	200
54	200
54	10000
54	4400
54	100
54	600
54 1/16	200
54 1/16	100
54 1/16	2200
54	600
54	400
54	500
54	100
54	500
54 1/16	200
54	200
54	100
54 1/16	300
54	200
54	500
54	100
54	400
54	200
54	200
54	100

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# Money Management

## ● Set stop-loss . . .

✍ Swing Trade: .25 over high of day

✍ Day trade: .25 over high of entry candlestick on 15-minute chart

## ● Take profits . . .

✍ Swing trade: 2 days down or next support level on daily chart

✍ Day trade: at support, or before close

# Good Luck and Good Trading!

## TONI TURNER

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