The Oxford Club
105 W. Monument St.
Baltimore, MD 21201
410.223.2643
800.992.0205

The Secret to Fast Profits In a Falling Market:

The Fine Art of Short Selling

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Introduction

Dear Fellow Oxfordian,

This is a scary time for most investors. The U.S. is under attack and engaged in war. The American economy is in a recession, with a global recession a very real possibility.

And the stock market's volatility has led everyone to question their investment philosophies – especially after looking at their depleted portfolios.

Everyone, it seems, but us... That's because we use an investment technique as part of our overall investment strategy that provides a great hedge during a bear market.

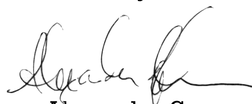
But that's not the best part. The best part is how quickly this investing technique works... especially when the market is behaving badly. Unlike conventional "buy and hold" strategies, this investment technique is designed to make profits in a matter of days – so you can reinvest them and enjoy the miraculous wealth building power of compounded returns.

You're about to learn how to safely make 40%, 50%, even 60% profits in a matter of a few weeks – without the use of options, futures or any other kind of risky derivative.

When you're finished reading, you'll understand how to make profits in up and down markets, and immediately recognize what Wall Street has hidden from you for years – the awesome profit taking potential of short selling.

With that, I leave you to learn about The Secret to Fast Profits in a Falling Market: The Fine Art of Short Selling.

Sincerely,



Alexander Green, Investment Director

The Secret to Fast Profits in a Falling Market: The Fine Art of Short Selling

What you are about to learn contradicts much of what you have been taught about investing by brokers and the mainstream media. It's an investment technique that will have you making decisions other investors either don't know about or don't understand. And, it's not just profitable; it's ridiculously so.

That's not the best part, however. The best part is how quickly this technique works... especially when the market is acting shaky. Unlike conventional "buy and hold" strategies (which the past two years' market action proved is more like "wish and hope"), this system is designed to make profits in a matter of days so you can reinvest them and enjoy the miraculous wealth-building power of compound returns.

If you've been hurt by the magnitude of the recent bear market, you now have the opportunity to be made whole again. And profit substantially beyond that.

What Stock Market History Tells Us

Almost any investment technique will work well in a bull market – but they collapse when the markets turn treacherous... like they have recently.

But the past two years have been outlandishly profitable for investors who used this technique.

Get ready. You're about to learn how to safely make 40%, 50%, even 60% profits in a matter of a few weeks – and in some instances a few days.

Let me tell you right up front – this does NOT involve the use of options, futures or any other kind of risky derivative!

You Can Be Different – You Can Be Making Grand Profits Even When the Market Suffers!

As you'll see, this technique is one part *"contrarian investing,"* one part *"short-term profiteering,"* and one part *"capitalizing on the biggest financial conspiracy since the breakup of Standard Oil nearly a century ago."*

When you're finished reading this report, you'll understand how to make profits in up and down markets, and immediately

recognize what Wall Street has hidden from you for years.

How to Profit from Plummeting Stocks

We first started to consider this technique when a number of us attended a workshop given by *The Oxford Club's* Investment Director, Alexander Green, at **The Agora Wealth Symposium** a few years ago in Las Vegas. There, he introduced a radically different approach to investing.

During that presentation, Alex put some numbers on the screen that took us all by surprise. He showed exactly how he had been earning some big short-term profits using a simple technique that rang true just as soon as the words left his mouth.

Usually when the average investor hears someone describing a contrarian investment technique, he's skeptical... or completely turned off. But this resonated with all of us immediately. As it will with you.

Because what he told us then – and what we're about to tell you now – will simply confirm what you've learned from your own experience with the market... but never used to your advantage.

The Secret Alex Explained That Day

When Alex gave us the names of some of his biggest winners in this past couple of year's lousy market environment, he listed the names of several companies you might recognize. In fact, you may hold them in your portfolio. It included **Lucent, AT&T, Kmart, Disney, Global Crossing, WorldCom,** and many others.

Of course, then the hands went up in the room. Someone blurted out, "But virtually all these stocks have plummeted!"

Alex smiled. *"Exactly,"* he said.

The Wall Street Sin of Omission

We'd like to say up front that, at *The Oxford Club*, we're not conspiracy advocates. But when you understand how this technique works, you may feel as we do – **that Wall Street bankers systematically conspire against us.** They have specific knowledge they could share with us that would help us profit – but they don't provide it. In fact, they hide it.

And yet these same people are using this knowledge to make themselves millions every day.

The story begins with a very well known fact: There is almost never an official sell recommendation on Wall Street. Each day, hundreds or even thousands of buy recommend-ations are made. Sell recommendations – virtually never!

Don't get us wrong. There are times when a broker does discuss selling. (Often at precisely the wrong time, we might add.) But this recommendation didn't come from his firm's research department. For instance, a broker might say, "I think we should take some profits here," or "Let's cut this loss now before it gets out of hand." But no matter how disastrous a particular company's financial results, no matter how pathetic its business prospects, the brokerage firm itself rarely – if ever – says, "Sell this stock."

Turns out that this is not the least bit unusual. According to Gretchen Morgenson of *The New York Times*, there is virtually no such thing as a sell recommendation from Wall Street analysts today. **And of the 8,000 recommendations made by analysts covering the companies in the S&P 500 Index only 29 were sells**, according to Zack' s Investment Research in Chicago. That's less than half of 1%.

Let me put this bluntly. If you look at it from the inside – or if you look at the official data – you will conclude that the brokerage community is not designed to help you profit...

It's designed to encourage you to buy. The more you buy, the more the brokerages makes. Individual brokers may be good or bad, helpful or not – but they have one primary responsibility – to sell you stock.

If the brokerage firms are not interested in helping you, whom do they help?

Beat the Wall Street Insiders at Their Own Game

In reality, the brokerage firms' favored clients are not you and me, *but the very public companies they recommend.*

It's shocking but true. What most big wire houses earn from you (in commissions and other customer fees) pales compared to what they make from the companies they recommend (by providing ***"investment banking services"*** such as IPOs, bond issues and secondary offerings).

Yet rarely did the financial media talk about it. At least not until Wall Street's biggest firm – Merrill Lynch – was recently forced to pay a $100 million fine to the New York Attorney General's office. And why? Because their own analysts were privately referring to their investment recommendations as *"dogs," "powder kegs"* and *"pieces of junk."*

Think about this...

If you're an investment banker hustling out there to lock up a $10 billion bond issue for AT&T or a $500 million secondary issue for UPS, do you want your firm's research department to have a 'sell' recommendation on the company's stock? Absolutely not. You wouldn't stand for it. That's not going to help you close the deal. Quite the opposite. Your competitors will use that very fact to steal the deal from you.

The real life result: Wall Street almost never tells clients to sell specific stocks. At best, they will write a mildly positive to ambivalent research report that will leave the average investor in a state of inertia (which means the stock remains unsold). In rare cases when the outlook for the company is particularly bad they might say they are ***"neutral"*** on the stock. Or, a favorite, ***"reduce."***

Even if the company's outlook is atrocious, Wall Street firms don't want to step out front and say, *"Sell this stock."* Because if they do, that's one company that definitely won't use their investment banking services. And who needs the advice and services of an investment bank more than a struggling, downtrodden company?

Bottom Line: When you need to know which stocks are troubled and headed down, *Wall Street is mute.* Like we said before, it's a silent conspiracy. And the people they're conspiring against are you and every other investor out there. Here's what they don't want you to know...

The Secret to Fast Profits

Stocks go down faster than they go up. A lot faster. For example, it took the Nasdaq from July, 1996 until March, 2000 for the market to peak, but less than 12 months for it to drop to where it started.

History shows that stocks throughout the 20th century rose just over 11% a year. Yet individual stocks routinely tumble by that much or more in a single day. In a single hour. Why wait years for an 11% profit if you can earn these kinds of returns in a matter of days when a stock sells off?

And you can. Imagine earning an immediate 54%, for instance, when a stock gets sacked at the opening bell. It would take five years of average stock market returns to get that kind of performance. Yet you can profit from plummeting stocks... simply... easily... safely... and effectively.

Unfortunately, too many investors are mystified when it comes to the investing technique called "selling short." But there is nothing complicated or difficult about it. <u>Selling short is simply acting to capitalize on falling share prices</u>.

And there are plenty of opportunities for short sellers... even in the hardiest bull markets.

Why Short Selling Is a Safe Part of Our Profit Strategy

At this point, you might ask yourself, *Why do I need to sell short?*

First of all, we're not suggesting that investors abandon stock buying recommendations. On the contrary, this is a more powerful combination – for safety and profits – than only buying stocks. But even in the strongest bull markets, there are always plenty of stocks going down. In 1999 alone, with the Dow up 30% and the Nasdaq up an astounding 86%, the vast majority of stocks, almost two-thirds, actually declined. Despite the huge run-up, 1999 was a banner year for short sellers.

The carnage that began in March of 2000 made it even easier. The Nasdaq declined 73% from its high to a recent low. And when the market leaders are dropping in half, you can bet the lesser companies are really getting steamrolled.

Most short-term investors try to make money by shorting the big companies – the market leaders. They figure that bad news generally will affect them first – since they are most widely known.

This is a very bad investing idea. At the Wealth Symposium, Alex put it this way: "My method is to short the most vulnerable, problem-laden stocks I can find. Why attempt the long shot when you've got an easy layup? There are plenty of companies with serious problems and vulnerable share prices."

Sounds simple, but still many investors don't short sell... even when there are compelling reasons to do so.

So Why Sell Short?

The answer is simply that short selling is a tool that can be valuable in a number of ways.

For instance, you may want to speculate that a stock is likely to decline. There could be any number of reasons. You may feel that its *sales have topped out,* that *earnings will fall short of expectations,* that the *company has too much debt or too many successful competitors*, that its *industry is in a slump*, or simply that the *shares are overpriced.* Short selling allows you to take advantage of these situations without resorting to using options or other derivatives.

While options can give you leverage that a short sale cannot, ***they have one very serious drawback: their time premium.*** That means when you buy a put option, unless the stock falls fairly substantially and within the relatively short time period defined by the premium, you may miss out on the profit if the stock falls after the expiration of your option.

Short positions don't have time premiums. You can hold a short position indefinitely. *They do not expire.*

Another reason to sell short is to hedge your existing stock portfolio. Perhaps you have a substantial percentage of your liquid net worth tied up in stocks. If the broad market declines, so will the majority of your stocks.

By selling short a few stocks, or even the market index, you allow the potential profits in your short positions to offset the decline in the share prices of the stocks you own. For example, if you have technology stocks you can offset the risk here by selling short the Nasdaq 100, symbol QQQQ.

Or you can offset the risk in your blue chip stocks by selling short either the Dow, via the publicly traded index "DIA," or the S&P 500, via that publicly traded index "SPY." Both are highly liquid and easily available for brokerage firms to lend. But please consider this... we never recommend shorting the Dow or the S&P 500 indexes, unless you're doing it as a hedge. These indexes consist of the best companies in America. We think you should be shorting just the opposite – the worst or, at

least, the most-troubled companies you can find.

In fact, often times, investors will follow the strategy of buying the strongest stocks in an industry while simultaneously shorting the weakest ones. That may mean buying Dell Computer and shorting Compaq. Buying Wal-Mart and shorting Kmart. Or buying Southwest Airlines and shorting Delta.

And, of course, if you're feeling bearish you can short any of the foreign market indexes. If you want to short Japan, the symbol is EWJ. Hong Kong is EWH. Switzerland is EWZ. Mexico is EWW. And so on. There are a whole list of market indexes you can buy or short at www.ishares.com.

Again, the main reason that you may want to try it is this simple: It can be an awfully profitable piece to your overall investment philosophy when done right. So, here's how to do it right.

Short Selling Made Simple – Investing in Reverse

Let us begin by stating that **selling short is simply the reverse of a normal stock transaction**. Ordinarily, if you're buying a stock to take advantage of its expected rise, you might buy it at $15 and then close out your position by selling it at $30, making $15 a share.

Short selling is just the opposite. To take advantage of a company's potential share price decline, you might sell it short at $30 a share, and then close out your position by buying it back at $15 a share. *You would make the same $15 a share on this short sale transaction that you would earn on the previous transaction described above.*

But how, you might ask, can you sell something you don't own? Well, that's why it's called selling short. That means selling something you don't own. But to transact the sell, you must offer the shares up in the market. And you do that by borrowing them from your broker. In theory, he lends you the shares, so you can short sell them. Then when you buy them back these shares are returned to your broker, completing the transaction.

For that reason, it's sometimes easier to think of a short transaction as borrowing and then returning... rather than selling and then buying back.

Two Important Considerations When Short Selling

First, by law, **all short sales must take place in a margin account.** So your broker will have you open a margin account if you don't already have one before you can execute a short selling transaction.

Second, because these trades are executed via a margin account, it is not possible to sell short in an IRA, Keogh or some other qualified retirement plan. **You must sell short in a non-retirement account.**

So the first thing you would do is check with your broker to see if he has shares in his inventory to lend. A broker's inventory includes virtually all shares held in his clients' margin accounts, so most big, liquid stocks can be sold short fairly easily.

However, not every stock is marginable (or eligible to be traded through a margin account). For instance, if a stock is not marginable, it cannot – by definition – be sold short. That precludes most penny stocks and foreign shares. And, most brokerage firms have their own restrictions on margin trading – including not lending shares to be shorted if the price is under, say, $5 or $3. They often feel that these shares are too risky to be sold short.

What to Tell Your Broker to Short Sell Correctly

After you have set up a margin account with your broker and have checked to be sure that you can borrow the shares you would like to sell short, you then read your broker the order (or place it online).

The exact terminology is this: *"I would like to sell short 1,000 shares of XYZ at the market."*

You can, of course, place a ***"limit order"*** if you like, and thereby stipulate the price you'll get when your order is filled. If you do set a limit price, however, you will not get the order filled until that price is met.

Also, most firms will not accept a ***"good-'til-cancelled"*** order on a short sale. The order generally will be canceled if unfilled at the end of the day. Then you must enter the order again the following business day.

When you go to take profits or complete the trade, your terminology would be this: *"I would like to buy to cover 1,000 shares of XYZ at the market."*

Again, you can use a limit order to stipulate your price if you prefer, but it's subject to the same restrictions as when you first borrowed the shares to sell.

So, transacting a short sale is fairly simple. Now let's discuss the returns possible with short selling.

The Potential Upside From Short Selling – Faster Profits and More Opportunities

One upside is the historical fact that <u>stocks always go down faster than they go up</u>. So your profits could come much sooner. However, your maximum upside in any short selling trade is 100%. Or 200% if you're fully margined. The reason for this, of course, is that stocks cannot fall more than 100%. Hence, that is your maximum profit unless you're using leverage (i.e., margin).

Another upside is that the whole market may be trending lower at times. When that happens, <u>the trend is your friend</u>. Studies show that three-quarters of all stocks follow the broad market trend. That puts the percentages on your side during a bear market like we're experiencing now.

Still another advantage of short selling is that <u>you don't have to put up any money to take your short positions</u>. You can simply use your existing equity in your brokerage account as collateral. Of course, your broker will charge you margin interest until you close out your position.

And Now the Downside – Why Your Neighbor Doesn't Sell Short

There are risks to selling short, of course. The first is that, theoretically at least, there is no limit to how high a stock can go. We say theoretical risk because there's never been a stock that rose an infinite amount. Not even close. Yet nay-sayers will tell you not to sell short because there is no limit to how high a stock can go, meaning that there is no limit to how much money you can lose.

What this means, of course, is that if you're going to be a successful short seller, you must adhere to a discipline to cut your losses if a position begins to go against you.

A good rule of thumb is 25%. Any time a short position goes against you by that amount, get out by telling your broker to ***"buy to cover."*** There will always be other short sale opportunities. Never try to rationalize that the

stock will eventually come back down. Being a successful trader means having an exit discipline and sticking to it. You can always short a stock again if it begins moving down.

Another risk to short selling is known as a ***"short squeeze."*** A short squeeze occurs when the brokerage firm must return your borrowed shares to the owner, perhaps to settle trades that have taken place. This is a rare occurrence, but it can happen, especially if a stock is somewhat thinly traded. In such an event, you have no recourse, you must buy the stock back regardless of whether you are in or out of the money. Again, this is a fairly rare occurrence, but you should be aware of it.

It is also important to know that short sellers are responsible for any dividends paid. The reason is this. If a stock pays a $1 dividend, it will open $1 lower on the ex-date (the date the dividend is paid), all things being equal. That is not simply a windfall to short sellers. Your account will be debited $1 per share. For this reason, it is often wise to avoid high-dividend-paying stocks unless the fundamentals are truly atrocious, or perhaps the dividend itself is in jeopardy.

The Best Short Candidates – Fundamentally Challenged Companies

So let's get down to brass tacks. The approach most short selling advocates take is pure guesswork – they have a hunch that the overall market is going down and short Dow stocks... or they believe a certain sector is overvalued, and they advocate shorting the leaders in that sector... or they short companies that are simply too expensive.

Our approach is vastly different. We target troubled companies: Companies that are already stumbling because they're wrought with fundamental problems. The more intractable the problems, the better we like the odds. Here are just a few of the criteria we use to exploit these opportunities:

- **Corporate malfeasance**, like the lawlessness at Enron (EONPQ.PK) that caused the seventh largest company in the country to wind up in bankruptcy court.
- **Industry overcapacity**, like the fiber-optic bubble that drove down JDS Uniphase (JDSU) and Lucent (LU) over 98%.
- **Antitrust problems**, like the kind that has driven Microsoft (MSFT) shares down from $120 to under $50 recently.
- **A heavy debt load**, like the kind that has driven down Global Crossing, a leading telecommunications firm, from $60 a share to the price of a gumball.
- **Earnings shortfalls**, like the kind that caused Oracle (ORCL) to plummet from over $45 a share to less than $9.
- **Lost market share**, like the kind Wal-Mart has wrestled from Kmart (KMRT), causing Kmart to tumble from over $40 a share into bankruptcy, and less than $1 per share.
- **Industry-wide image problems**, like the type in the prison-privatization industry that caused Wackenhut Corrections to dive from over $40 a share to less than $7.
- **Accounting irregularities**, like the 700 acquisitions that Tyco International (TYC) made without disclosing them to shareholders. The result? The stock plummeted from over $60 a share to less than $13.
- **Perceptions of potential fraud or abuse**, like the audit cloud that has hovered over MicroStrategy, Inc. (MSTR), causing its share price to rain down from over $300 a share to less than 50 cents.
- **Weak pricing power**, as in the telecommunications industry, causing a former ***"widows-and-orphans stock"*** like AT&T (T) to swan dive from $58 a share to less than $10.
- **Mergers gone bad**, like the tie up between Hewlett Packard and Compaq (HPQ). Within weeks shares of the combined companies lost more than a third of their value.

And these are just the high-profile bombs. The list could go on and on. Anyone who has run a business knows that there are endless ways for things to get off track.

Pulling the Trigger – The Easiest Way You'll Ever Find to Profit from Short Selling

If you're interested in selling short and would like some ideas, you may want to consider subscribing to *The Oxford Short Alert*, a trading service run by **Alexander Green** dedicated to uncovering companies that are ripe to tumble. (For more information

visit the *"Short Alert"* section of *The Oxford Club's* website: www.oxfordclub.com.)

Quickly though, here's what you should know about this short selling system...

Each week, Alex combs through hundreds of stocks, using a sophisticated combination of technical charts, fundamental analysis, short-term earnings estimates, and insider information from his network of Wall Street and business contacts to select the tiny handful of stocks that appear to him to be precariously perched.

Alex also spends each day watching the markets, looking to ferret out the one company in a thousand that offers the greatest shorting opportunity. Then he alerts subscribers. And the service's performance tells the rest of the story...

Just months after Alex began this service, it scored time and again. Take a look at the chart below for yourself. There's a list of just some of the stocks Alex recommended shorting in the first few months of his service's existence – and the profits we captured in a matter of weeks!

If you shorted just $10,000 of each of these stocks, you would be up an average of $3,360 on each one of them. But that's not the best part. This 39.2% return was generated in an average of just 63 days!

Most recently, over a five-month period last year from March 2002 to October 2002, Alex recorded a remarkable win streak, nailing down troubled company after troubled company.

Specifically, 16 of 18 picks were profitable, earning a

Stock	**Recommended Price**	**Closing Price**	**%Profit**
Louisiana Pacific	$12.55	$11.00	12.3%
Novellus	$47.90	$29.00	39.4%
UnitedGlobalCom	$14.33	$12.56	12.4%
Click Commerce	$10.70	$7.25	32.3%
Multex.com	$7.04	$4.00	43.2%
SeeBeyond	$7.23	$1.87	74.1%
Seattle Genetics	$5.10	$4.00	21.6%

remarkable 20%+ average return in little more than six weeks, on the average.

That's how fast and significant short-selling profits can be. But don't worry if you've never sold short before.

When you sign up for *The Oxford Short Alert* we'll go over an easy-to-follow checklist. You'll know exactly what you need to do to begin selling short immediately.

And the instructions will be crystal clear. Each alert will not only detail exactly what we're selling short and why, but will include explicit instructions you can read to your broker or enter into your online account, including stop loss orders to protect your profits... and your principal. And there has never been a better time to start short selling than now...

Why the Next 18 Months Are Going to Be Particularly Profitable for Short Sellers

We are experiencing a truly perilous economic period. The world economy is in recession. The U.S. consumer is swimming in a mountain of debt. Stock valuations, even after the past two years' free fall, are still high.

And now in addition to a long and expensive war against terrorism, we have to factor in war in the Middle East.

Together, these events are destroying the expected budget surplus. This hasn't happened before.

There are no historical parallels to draw from. This is not a comforting thought for folks without short positions.

As we've explained, short selling works in all market environments. And since there are always troubles developing at various companies, it's likely that the next 18 months are going to be particularly profitable, especially when you consider the following:

1. Despite the magnitude of the recent market decline, valuation measures like earnings ratios and prices to book value are still near record highs. Dividend yields are negligible.
2. Fed Chairman Alan Greenspan is not interested in saving the market. He never believed in the ***"irrational exuberance"*** to begin with and is more interested in non-inflationary economic growth than supporting share prices.

3. Energy prices are rising. Easy money combined with the threat of potentially higher energy costs may set off an inflationary spiral. Bad news for stocks.
4. The put-to-call ratio indicates a high level of complacency. Many more option investors are betting on prices rising rather than falling.
5. Technology stocks, even after the Nasdaq implosion, still trade at stratospheric multiples not seen since the biotechnology craze in the early 90s. Analysts are already calling it the ***"echo bubble."***
6. The day-trading phenomenon was indicative of an extreme market top. (Incidentally, more than 95% of all day-traders never sell short. Their game is over.)
7. Investors have an abiding faith that the market "always" comes back. It does. But historically it has sometimes taken as long as 20 years.
8. The "War Against Terrorism" and concerns over Iraq continue to unsettle the market and are potential sources of future instability.
9. The trend is your friend. Over the past year, the general direction of stocks has been lower... and lower

Conclusion: Four Keys to Unlocking the Profits of Short Selling

That's it then. You now have a basic understanding of an investment technique that should be a part of every investor's overall philosophy.

It's based on a secret that Wall Street doesn't want you to know about.

And it's quite possibly the quickest way for you to score consistent double-digit gains without the use of risky derivatives.

It's called selling short.

And with a little diligence and a bit of patience, you can succeed at selling short in virtually any market environment.

More importantly, you may never have a better chance than in the market we have now.

However, when considering a company to short, always keep the following four key points in mind:

- Focus on poor fundamentals.
- Look for weak technical support (i.e., a poor chart).
- Use limit orders to eliminate surprises.
- Limit any losses to 25%.

Good luck and good shorting.

For more information on short selling or Alexander Green's Oxford Short Alert, *contact Member Services at 410.223.2643 or toll free at 800.992.0205. Or visit our website and click on to the "Oxford Short Alert" at www.oxfordclub.com* ■

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From time to time, *The Oxford Club* will recommend stock investments that will not be included in the VIP Trading Circle or in the *Communiqué's* Portfolios. There are certain situations where we feel a company may be an extraordinary value but may not necessarily fit within the selection guidelines of these existing portfolios. In these cases, the recommendations are to be considered as speculative and should not be considered as part of the *Club's* more conservative *Communiqué* portfolio.

Also, by the time you receive this report, there is a chance that we may have exited a recommendation previously included in a VIP or *Communiqué* portfolio. Occasionally, this happens because we use a disciplined "trailing stop" philosophy with our investments, meaning that any time a company's share price falls 25% from its high, we sell the stock.

THE OXFORD CLUB
105 West Monument Street • Baltimore, MD 21201
Tel: 410.223.2643 • Fax: 410.223.2650

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