



How To Short the Market

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Shorting the Market Defined

- Being **short** in an asset means investing in such a way that the investor will profit if the value of the asset falls.
- This is the opposite of a more conventional "long" position, where the investor will profit if the value of the asset rises.

Thesis: The broader stock market is currently overpriced relative to the medium/long term economic impact of COVID-19. There are exceptions relative to industries, sectors and companies.

Timing is unknown and nothing is certain!

Short Selling Stock

HOW SHORTING WORKS



BROKER

Trader borrows
100 shares of
stock from Broker



TRADER

Trader sells those
100 shares of stock
at \$45 per share,
collecting \$4500



MARKET

Stock
price
drops



Trader returns 100 shares
of stock to broker and
earns a profit of \$700



Trader buys 100 shares
of that stock for \$38 per
share costing \$3800



Stock Options Overview



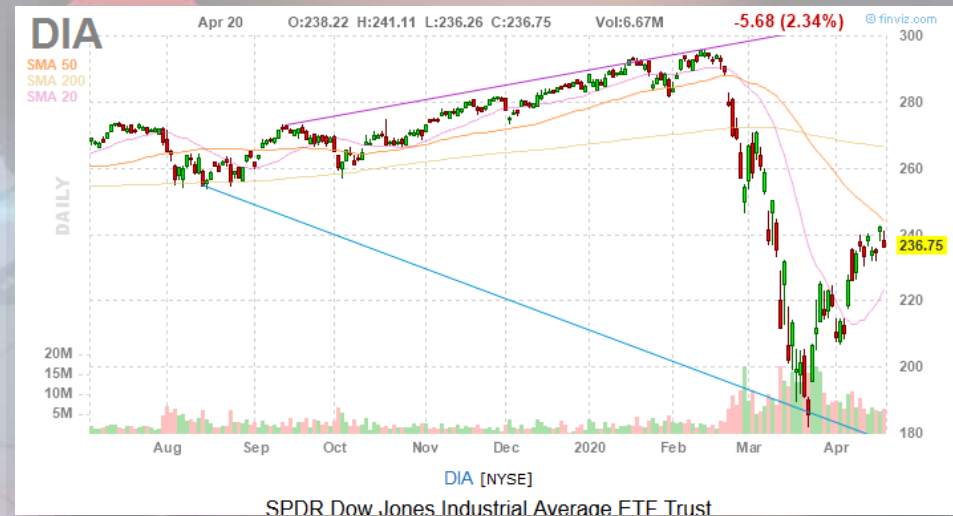
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Shorting Strategies

- **Short Selling Stock** - an investor **borrow**s a **security** and sells it on the open market, planning to buy it back later for less money. Short sellers bet on, and profit from, a drop in a security's price. Short selling has a high risk/reward ratio: It can offer big profits, **but losses can** mount quickly and **infinitely**.
- **Put Options** - A put option gives **you the right, but not the obligation**, to sell the underlying security at a certain price (the strike price) by a certain time in the future. The seller of the put option carries the downside risk and gets paid the option premium by the buyer.
- **Inverse ETF** - inverse exchange-traded funds (ETFs.) Inverse **ETFs are moving inversely with the market** they're tracking – they go down when the market goes up, and go up when the market goes down.
- **Inversely Correlated Asset Classes** - For example, bonds tend to outperform the stock market in times of recessions as investors are looking for a safe haven to park their capital. Gold is considered a secure investment in times of market turmoil, and in the FX market, the Japanese yen and the Swiss franc often appreciate in times of low risk appetite among investors.

What to Short

- A Market, i.e. Dow Jones
- An Industry, i.e. Retail Real Estate
- A company, i.e. Walt Disney



The Targets



- **NNN – National Retail Properties Inc** - a real estate investment trust (REIT). The Company acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases



- **O – Realty Income Corp** – a REIT with 4,944 properties(2016) located in 49 states and Puerto Rico, with over 83.0 million square feet of leasable space leased to 248 different commercial tenants



- **OXY – Occidental Petroleum Corp** - an international oil and gas exploration and production company. The Company has operations in the United States, Middle East and Latin America.



- **CAT – Caterpillar Inc** - manufactures construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives.



- **RYURX – Rydex Inverse S&P 500** – a bear market index fund that seeks to provide investment results that match, before fees and expenses, the inverse (opposite) of the performance of the S&P 500® Index on a daily basis.

The Trades

- O – 10 contracts – Jun 19, '20 \$47.50 Put -
- OXY – Option prices too expensive
- CAT – 4 contracts – Aug 1 '20 \$100 Put
- RYURX – Bought \$2000 at \$50.33

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Resources

- Understanding Stocks
- Understanding Options
 - Michael Sincere
- Investing.com – Markets news and tracking – web & mobile app
- [Mohamed A. El-Erian](#) - [@elerianm](#)
- Zerohedge.com – No spin financial news

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