The Opposite Of Buying: Shorting

MODULE 16: LESSON GUIDE

Shorting a stock allows investors to earn money when a stock's price declines. Investors short a stock at a certain price with the expectation that the price will fall. This allows them to sell the stock by borrowing it from another investor. When the stock's price drops, investors cover their short by repurchasing shares. But be warned... It's a little more complicated and a lot more risky.

Time Required: 60-90 minutes

SUPPLIES:

Notebooks
Computers, Phones or Tablets
Internet Access
Projector
Activity Sheets (Optional)

ACTIVITIES & ARTICLES

ACTIVITIES

- Shorting A Stock Activity

ARTICLES

- How To Short A Stock
- The Risks & Perils of Shorting A Stock

GUIDING QUESTIONS

- How do investors choose what to invest in and what happens if the investor believes a stock price will decline?
- What does it mean to short a stock and how can investors leverage shorting as a tool?
- How do investors make money from shorting?
- What are the risks associated with shorting?
- Why is shorting a stock more risky than just owning a stock and hoping the price increases?
- Can anyone short a stock?

ENDURING UNDERSTANDINGS

- Shorting can be thought of as the opposite of investing, because investors profit when the value of a company's stock decreases.
- Shorting occurs on margin, which means investors who short a stock, use debt to do so, because they need to initially borrow the shares to sell them.
- For inexperienced investors, shorting can lead to significant losses because a stock price can continue to rise.
- When shorting a stock, your risk is unlimited because a stock's price can increase infinitely.

STANDARDS ALIGNMENT

Not Listed