

MODULE 16: Vocab & Key Terms

The Opposite of Buying, Shorting

Shorting a Stock

Shorting a stock involves borrowing shares to sell them with the expectation that the price will drop, allowing repurchase at a lower rate to earn a profit.

Margin Account

This is a specialized brokerage account used for shorting stocks that provides assurance to the brokerage firm that any losses from shorting will be covered.

Covering a Short

The act of repurchasing the borrowed shares to return them to the lender, ideally at a lower price, is known as covering a short.

Dividend

A payment made by a corporation to its shareholders. In the context of shorting, the short-seller is liable to pay dividends on the borrowed shares, not receive them.

Ex-Dividend Date

The date by which an investor must own a stock to receive its next dividend. For a short seller, not closing their position by this date makes them liable to pay the dividend.

Margin Call

A demand from a broker to deposit more money or securities into a margin account to cover potential losses.

Short Squeeze

A situation where a lack of supply and an excess demand for a stock forces its price upwards, trapping short-sellers who may then need to cover their positions at a loss.

Unlimited Losses

A potential risk in shorting stocks, as there's no limit to how much a stock price can increase, leading to potentially unlimited financial liability for the short seller.

Margin Interest

The interest that accrues in a margin account for the period a short position is open, and it is deducted from any gains made from the short.

Stockbrokers

Professionals or firms authorized to buy and sell stocks. In the context of shorting, stockbrokers lend shares to investors.

Financial Ineptitude

Signs or indicators that a company is financially unstable or poorly managed, often considered a potential reason to short its stock.

Risk Management

The practice of identifying potential risks in advance and taking steps to mitigate them. Critical for short-selling due to its inherently risky nature.