Short selling

Short selling refers to selling securities that does not belong to the seller; either that or the securities is borrowed by the seller. Let’s say that Bob speculates that a stock that is currently 50 drops to 45, Bob asks his broker to lend him 100 shares of that stock and sells it for 50 (50 x 100 = **5,000** lump sum), now Bob’s SHORT 100 shares of that stock to his broker, and must repay the broker later on in the future. If Bob’s speculation is correct and that stock drops to 45, and he decides to buy back the 100 shares to repay his broker at that price (45 x 100 = **4500** lump sum he bought it for), Bob makes a gross profit of **500** dollars, the 100 shares goes back to his broker. On the contrary, if Bob’s speculation is incorrect, and his shorted stock rose to 65 per share and decides to buy it then, he loses money (65 x 100 = **6500** lump sum he bought it for). Therefore, the 100 shares he has to pay back, he did not profit and in fact, Bob owes his broker 1500 (6500 – 5000 = **1500**) because he bought the shares at 50 and bought it back at 65.

http://www.investopedia.com/terms/s/shortselling.asp