Title: In case you weren't sure how high the share price can go during a squeeze, Investopedia is going to use the word "infinity" a few times to make it clear
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TRADING › TRADING SKILLS

DAY TRADING INTRODUCTION

Short Selling

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Pros and Cons of Short Selling

Selling short can be costly if the seller guesses wrong about the price movement. A trader who has bought stock can only lose 100% of their outlay if the stock moves to zero.

However, a trader who has shorted stock can lose much more than 100% of their original investment. The risk comes because there is no ceiling for a stock's price, it can rise "to infinity and beyond"—to coin a phrase from another comic character, Buzz Lightyear. Also, while the stocks were held, the trader had to fund the margin account. Even if all goes well, traders have to figure in the cost of the margin interest when calculating their profits.

In short selling, a position is opened by borrowing shares of a stock or other asset that the investor believes will decrease in value. The investor then sells these borrowed shares to buyers willing to pay the market price. Before the borrowed shares must be returned, the trader is betting that the price will continue to decline and they can purchase them at a lower cost. The risk of loss on a short sale is theoretically unlimited since the price of any asset can climb to infinity.

KEY TAKEAWAYS

- Short selling occurs when an investor borrows 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. This can be contrasted with long investors who want the price to go up.
- Short selling has a high risk/reward ratio: It can offer big profits, but losses can mount quickly and infinitely due to margin calls.