Title: Please DRS - Make Your Vote Count
Author: joecsnyder
Created 2022-04-01 02:09:47 UTC
Permalink: /r/GME/comments/ttfr10/please_drs_make_your_vote_count/
Url: https://www.reddit.com/r/GME/comments/ttfr10/please_drs_make_your_vote_count/

Now is the time to DRS your GME shares to make sure that your vote counts at the Annual Shareholders Meeting. Remember that when a share is loaned out, the voting rights go with the share.

You don't know who was on the other side of that trade and they may not have your or GameStop's best interest at heart.

What Voting Rights Do Shorted Shares Have?

By [THE INVESTOPEDIA TEAM](https://www.investopedia.com/contributors/0/) Updated September 30, 2021Reviewed by [SOMER ANDERSON](https://www.investopedia.com/somer-g-anderson-4799773)

The registered owner of the security, known as the [holder of record](https://www.investopedia.com/terms/h/holderofrecord.asp), is the investor who retains [voting rights](https://www.investopedia.com/terms/v/votingright.asp). This means the holder of record is entitled to vote on any [corporate action](https://www.investopedia.com/articles/03/081303.asp) that is decided upon by shareholders. When it comes to short sales, the problem that arises is determining who is the holder of record on the shares being shorted.

KEY TAKEAWAYS

* The investor that retains voting rights for corporate actions is the registered owner of the security, known as the holder of record.
* In a short sale, the investor that shorts the shares never owns the shares and is, therefore, never the holder of record.
* In a short sale, shares are loaned out from the initial owner in accordance with the margin account agreement and sold in the open market.
* Whoever owns the shares on the record date, whether that be the initial investor or the investor that bought the shares on the open market, is the one who has voting rights.
* A short sale is the sale of securities that an investor does not own so must borrow in a trade when they expect that the value of the security will decrease.

What Is a Short Sale?

When an investor or trader believes that a stock will decrease in value based upon their financial assessment, they seek to profit from this decline by [shorting](https://www.investopedia.com/terms/s/short.asp) a stock. This is the opposite of buying a stock with the expectation that it will increase in value.

To understand the flow of voting rights, it is important to first understand the [short sale](https://www.investopedia.com/terms/s/shortsale.asp) transaction itself. Shares that are available to be shorted come from three sources: the brokerage firm's inventory, another customer's account, or another brokerage firm.

The only shares that can be taken from another customer's account are those from [margin accounts](https://www.investopedia.com/terms/m/marginaccount.asp). When opening margin accounts, investors enter into an agreement with the brokerage firm that their shares can be loaned out, but they still maintain their [position](https://www.investopedia.com/terms/p/position.asp) in the security. The person shorting the shares does not own the stock.

To make the short sale you will enter your short order, whereupon your broker will lend you the shares from their inventory or another customer's inventory and then sell them on the market for you. Eventually, you will need to close your trade by buying back the shares and then returning the shares that you borrowed.

Short sales are extremely risky transactions because the potential for loss is infinite if the security increases in value instead of decreases. Only very experienced investors should make short sales.

Hopefully, the price will have gone down so when you need to buy them back you will buy them back at a lower price. Your profit will be the difference between the higher price when you borrowed them and the lower price when you bought them back. In this entire transaction you never actually owned any stock; the stock you sold you borrowed and the stock that you bought back you had to return. Therefore, you were never the holder of record.

Example of a Short Sale

Say that ABC stock is selling for $200 per share but you believe that it will drop because of some recent negative news. You decide to short sell the stock based on this analysis.

To short sell the stock, you will borrow 100 shares from your broker and then sell those shares at the current market price—in this case, at $200 per share. Once those shares are sold, your broker will deposit $20,000 cash into your account ($200 x 100 shares) with an obligation to return 100 shares of that stock at a later date.

Assume the market price of that stock now falls from $200 to $150. You determine this is as low as the stock will go and close out your short position. To close your position, you purchase 100 shares of the stock at $150 for $15,000. You then return those 100 shares back to your broker. You made a profit of $5,000 ($20,000 - $15,000) on this short sale transaction.

Voting Rights in Short Sales

As discussed, the [short sale transaction](https://www.investopedia.com/terms/s/shortselling.asp) starts with the investor inputting an order to short the shares by calling their broker or entering the trade online. The brokerage firm then finds the shares from one of the aforementioned three sources and sells the shares in the market; the proceeds are transferred to the account of the investor going short. The position is then closed out when the investor repurchases the equivalent amount of shares and they are returned to the brokerage firm.

To understand who is the [holder of record](https://www.investopedia.com/investing/know-your-shareholder-rights/), and thus who retains the voting rights, you just need to follow the shares. Initially, the shares are held by one of the three sources. Whichever source initially held the shares was also the holder of record.

When the shares were used in the short sale transaction, the initial source lost its voting rights as it was no longer the holder of record. Even the margin account customer who holds the shares [long](https://www.investopedia.com/terms/l/long.asp) will lose their voting rights in this situation; this is part of the margin account agreement.

The shares are then sold in the market, and the investor who purchases these shares becomes the holder of record for these shares, thus controlling the voting rights. The investor going short does not get voting rights. When this investor closes their short position, the shares are returned to the brokerage firm, and the voting rights return to the initial owner whose shares were used in the short sale.

Depending on who has the shares during the [record date](https://www.investopedia.com/terms/r/recorddate.asp), that person gets the voting right. So if the loaned-out shares are not returned to the original owner by the record date, they do not get voting rights, only the investor that bought the shares when they were loaned out from an investor's margin account for the short sale does. Again, this is part of the margin account agreement.

The Bottom Line

An investor enters into a short sale when they believe that the value of a security will decrease. They decide to sell the shares, however, they don't have any shares to sell so must borrow them from a broker and return them at some point. Because they never own the shares they are never the holder of record and will not have voting rights.

Voting rights always remain with the owner of the shares. This is either the original investor that bought them or the investor that buys them in the open market when the shares are sold in the open market during a short sale, which is agreed upon when opening a margin account.