

**Kumar, Amit – Short Selling**

Columbia Business School, 2015, [*Equity Investing*] Grade ★★☆☆

Columbia Business School is the academic home of value investing so it's only fitting that it is their publishing company that provides Amit Kumar's expose of short selling. Fundamental shorting of stocks is a discipline related to value investing since it is based on detecting a discrepancy between price and value through research of business fundamentals. But where value investing focuses on the situations where the value is deemed to be higher than the price, short selling zooms in on the opposite situations.

The author Amit Kumar who is a portfolio manager at Columbia Threadneedle Investments and a business professor at Rutgers Business School, has also written a book that is clearly influenced by the value investing discipline. The text has three sections. In the first Kumar lays out a framework to identify short selling opportunities, then he presents a number of interviews with investors and in the finishing third section he covers the risks and mechanics of shorting.

In short the presented categories of structural short opportunities are in companies 1) with business model issues, 2) that are unsustainably leveraged, 3) in structural decline making them value traps, 4) that are broken growth stories and 5) with accounting issues. The chapters in part 1 loosely follow this setup and the author develops his thoughts, provides some detail and present a large number of case studies – all more or less successful for the short seller.

If there is an overriding theme to the author's short cases I would say that the core of a case is centered on businesses model problems. High leverage, high valuations, accounting warning flags etc. are secondary factors. There has to be a fundamental shift to the worse in business fortunes acting as a catalyst. And it is definitely a

no-no to short open-ended growth stocks on the fact alone that they are overvalued.

The interview section is clearly interesting but considering the theme of the book, not very well aligned. First there is a section on the value icons Ben Graham, Warren Buffett and Charlie Munger and although Graham at least did some shorting (is there something he didn't do?) this is hardly where his legacy lies. Then follows an interview with famed value investor Jean-Marie Eveillard who doesn't short stocks at all and the activist investor Bill Ackman that only occasionally (but very publicly) take short positions. Finally, in the last interview with Mark Roberts, analyst at *Off Wall Street*, there is a contribution from a dedicated short seller. Names like Ackman and Eveillard clearly sell books but it really would have been more appropriate to seek other interviewees.

The finishing section with one chapter on when to cover short positions and one on the mechanics of short selling would probably fit equally well as a part of the first section. At least the basic knowledge of how to actually short a stock should have been presented in the very beginning, for the benefit of those less familiar with the process.

Most investment books explore the angle of finding winning (long-only) stocks as the road to success, but a portfolio that avoids losers will almost certainly also outperform. *Short Selling* will as such not only instruct those who are interested in short positions, but also help long-only investors avoid disaster positions. Success is often about sidestepping the stupid actions. However, although perfectly fine, in my opinion this is not the definite primer on short selling.

All investors benefit from learning about stocks that risk failure. This book provides some clues.

Mats Larsson, May 1, 2017