

**Elder, Dr. Alexander – Sell & Sell Short**

John Wiley & Sons, Inc., 2008, [*Equity Investing*] Grade ★★★★★

This book isn't really for me or any other more fundamental and long-term investor – but it is excellent. Short sellers come in many forms and just as there are short term contrarian traders on the long-only side there are those on the short side. Dr. Alexander Trader is one such swing trader with an investment time horizon that is probably between a few days up to a month. The strategy is to trade the short fluctuations around a trend. To profit from these price wiggles it is only natural to try to exploit movements both as prices go up and as they go down.

Apart from being an active trader the author is since long a teacher of other traders and has written a large number of books on trading and trading psychology. The last angle is important since *Sell & Sell Short* clearly excels when it comes to the description of the psychology of being invested in the financial markets. Interestingly, the experienced mental joys and pains of putting on short-term trading positions and holding a longer-term fundamentally based portfolio are remarkably similar.

Despite being a book on selling and short selling, those two subjects are complemented by one section on buying. They probably cover one third each of the books volume. In many cases this kind of branching out from the main subjects detracts from the worth of a book. This time it adds to the worth since the reader gets a feel for all the necessary angles of succeeding in markets, be it knowing ones edge, keeping records to learn from mistakes or handling money management, i.e. portfolio risk.

Paradoxically, Elder describes his trading strategy as a value strategy. He buys when the price is lower than the value and the price is looking as it is about to turn up. He sells when the price reaches the value zone, or he might ride it a little further into overvalued territory if the momentum of the share price is really strong. He sells short when the stock

is in expensive territory and has started to decline and then covers his position when the stock is back down in the value zone. The thing is, what the author calls “value” is the zone between two rolling averages, i.e. the underlying medium term trend of the share price, rather than the intrinsic worth of the company.

While buying is fun and offers opportunities, selling is an unsmiling business. This is why books on selling are important but rare. If a stock goes in the wrong direction doubts start to swirl in the back of the trader's mind. If it goes in the right direction he is torn between taking profits but then risk not taking part in potential further profits.

Selling situations can according to Elder be split into three categories: a) selling with a profit at a pre-determined profit target, b) selling with a loss using a protective stop and c) selling between the profit target and the stop level since conditions have changed and you no longer want to hold the position – “when in doubt, get out”. Covering short positions very much follows the same logic only with the price trend turned on its head.

A long teaching career, trying to explain something to others, makes wonders when it comes to how illuminating and clear this text is in explaining Elder's very hands-on method to trading. I also appreciate the author's wide knowledge of other investment styles as he can readily discuss similarities, differences, advantages and disadvantages of what he is doing himself compared to quants, fundamental investors, momentum traders, short sellers, long-onlies and so on. The key message is that to succeed any investor must do what suits his own disposition.

This book is highly recommended for the swing trader looking to profit from all types of short-term price movements – but also for those interested in understanding equity markets and investment psychology at large.

Mats Larsson, May 05, 2017