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How to Short a Bull Market—and Live

Despite frequent squeezes, savvy players are profiting from overvalued stocks

With the stock market up 13% so far this year, short-selling ought to be one of the riskiest investment strategies around. And guess what? It is. Shorts complain that rampant bullishness is pushing up dubious stocks more than ever. They beef that some institutions make a point of buying heavily shorted stocks to force shorts to buy back the shares, driving prices up further. Such "short squeezes" are becoming a fact of life for short-sellers.

But bull market and squeezes notwithstanding, short-selling can be worth the risk. One need only check out stocks named by short-sellers when *BUSINESS WEEK* last examined the practice (BW—Dec. 29). Nine of their 14 picks have declined, and among them were some of the biggest losers of recent months—including BioTime Inc., down 55% this year, Multimedia Games, which has crumbled 73%, and Computer Learning Centers, down 44%. Shorts are among the savviest researchers on Wall Street and were shorting Computer Learning long before its accounting practices were publicly questioned. (The company has denied wrongdoing.)



Short-selling requires an eye for what can go wrong—the opposite of the upbeat mentality that prevails on Wall Street. Morton Cohen, who runs Cleveland's Clarion Partners money-management group, looks out for overvalued stocks, stocks that are victims of broad, secular trends, scams, or poorly managed companies. These run the gamut of large, highly liquid stocks and small caps, the reputable and the sleazy. Among the stocks that he feels are losing value because of secular reasons are two venerable Wall Street names: instant-photo pioneer Polaroid Corp. and Singer Co., the sewing machine giant. Both, he feels, have long since seen their best days—with Polaroid under competition from digital cameras and Singer, in his view, overly dependent on sales to underdeveloped countries.

High-flying small-cap companies frequently find their way onto short-sellers' hit lists. One outspoken small-stock skeptic is Manuel Asensio, who runs the Asensio & Co. money-man-

agement firm. Today his top picks include Texas-based Zonagen Inc., whose stock has gained a significant following on Wall Street because of its Vasomax anti-impotence drug, which the company feels may compete with Pfizer's Viagra. Asensio shorted the stock last year, and it declined but then recovered. He remains short, despite its recent Viagra-fueled runup—the stock is up some 88% over the past year. Asensio stresses concerns about the drug's safety and effectiveness held by critics, including shareholders who have sued the company claiming securities-law violations. The company vigorously denies the charges.

SHORTING THE NET. Another short-seller, who specializes in microcap stocks, has lately been watching—and shorting—another stock that is a favorite of cold callers, Gilman & Ciocia. The company runs tax-preparation centers, and it has been a massive gainer, climbing 709% over the past year and doubling this year alone. Barely a year ago, the stock was trading at little more than a buck—and this short is wagering that sanity will soon prevail.

Short-sellers are keeping an eye peeled for companies like Gilman and Zonagen that they believe are dramat-

ically overvalued. Short candidates are in just about any industry—though biotech and energy companies are traditional short-seller favorites. In recent years, Internet stocks have grown popular among shorts. As the *Overpriced Stock Service* newsletter argued in one recent issue, "Short More Internet." Cohen is shorting Source Media Inc., which has gained a considerable investor following for its various advertising and cable-TV products. Another fast-growing stock to gain short-seller attention is SLH Corp., whose shares have soared some 159% over the past year, though they have fallen back in 1998. The company's main business is its proprietary "Syntroleum process," which converts natural gas into liquid fuel products. Shorts maintain that the company's \$230 million market cap is far too high.

Other high-flying stocks that are beginning to attract increased interest from short-sellers include Radica Games Ltd., which makes electronic devices for playing poker and other games. Another such stock is Turbodyne Technologies Inc. a former Vancouver Stock Exchange issue that has more than doubled in price so far this year. Turbodyne makes pollution-control machinery. One publicly held consulting company, which is trying to get a foothold on the Internet, is New York-based THINK New Ideas, a former penny stock that has climbed fivefold over the past year. One experienced short-seller thinks that the market will soon have a new idea about this stock—that it is going to tumble.

BURN VICTIMS. Overheated performance, however, is by no means the only indication of a stock that is worth selling short. Indeed, many shorts were burned last year when they shorted Quigley Corp. after a dramatic runup, only to see its shares continue to climb. Sometimes shorts bet on stock-price losers, running counter to the tendency of some investors to load up on stocks that are taking a beating, in the view that they are "cheap."

Such stocks are not always bargains. Cohen, for example, is shorting the free-falling shares of SONUS Pharmaceuticals, which makes ultrasound contrast agents and drug-delivery systems. The company's shares are down 60% so far this year, and Cohen is wagering that the stock's fall is far from over. The Street, he notes, loves the stock. Too much. "It's not too hard to find shorts in this market," says Cohen. The trick is to get other investors to agree.

By Gary Weiss in New York

SHORT TARGETS

COMPANY	STOCK PRICE*	ONE-YEAR TOTAL RETURN
GILMAN & CIOCIA Tax-preparation chain	17 1/4	709%
SINGER Sewing machines	8 1/2	-55
SLH Energy and real estate	23 1/2	159
SONUS PHARMACEUTICALS Biotech-device manufacturer	13	-51
THINK NEW IDEAS Consulting company	18 1/2	402
ZONAGEN Pharmaceutical company	36 1/2	88