The Outsiders

Short-sellers, never a popular breed on Wall Street, have flourished during the bear market.

By Edward Robinson

Manuel Asensio, a self-described "hostile, adversarial short-seller," went on trial for defamation in Philadelphia last year—and so did short-selling itself. Hemispherx Biopharma Inc., a Philadelphia-based biopharmaceutical company, had accused Asensio of damaging its reputation in a 1998 research report. Asensio, president of New York investment firm Asensio & Co., had claimed the company was defrauding investors and that its top drug was "medically useless."

Under cross-examination on Feb. 14, 2002, Asensio called his adversaries "corrupt," and when Judge Albert Sheppard admonished him to stop, the short-seller lashed out at him, too. "Let's have a fair trial," Asensio told Sheppard in front of the jury.

"That's what I'm trying to do," the judge replied.

"No, your honor, you're not doing that," Asensio shot back. "You're totally biased, and it's obvious."

After four weeks, the jury delivered an 11-to-1 verdict that found Asensio was not liable for defamation. Judge Sheppard says he'll never forget the stormy trial. "Sometimes they come in and it's not just a case," the judge says. "It's a cause."

For Asensio's cause—making money from plunging stock valuations—these have been the best of times. As most equity investors struggled to stem losses last year, short-selling stock funds produced a 32 percent return net of management fees, according to Van Hedge Fund Advisors International Inc., a Nashville, Tennessee–based research firm that compiles an index of 11 such funds. With a 64 percent total return from Jan. 1, 2000, to Dec. 31, 2002, the index beat the Standard & Poor's 500 Index's minus 40 percent return by 104 percentage points. "Short-selling used to be like Japanese cars: un-American," says Harry Strunk, president of Aspen Grove Capital Management LLC, a Palm

Beach, Florida-based consultant to short-sellers. "Now the bear market has kicked short-selling into higher gear."

Shorting a stock is usually a straightforward transaction: An investor borrows shares from a broker, sells them and later buys new shares in the marketplace to repay the broker. If the share price slid in the interim, the short-seller pockets the difference as profit; if the stock rose, the investor can suffer steep losses to cover the position. The practice has drawn scrutiny from regulators and often infuriates both the companies involved and investors who bet on rising stocks—called "longs" by the shorts. "Your activities are mean, shameful and loathsome," Alberto Vilar, president of New York-based Amerindo Investment Advisors Inc., wrote to Asensio in 1998 after the short-seller criticized Amerindo for investing in Avant Corp., a software maker Asensio was shorting at the time. "They are motivated by appalling avarice and greed, and they will not be permitted to go unanswered."

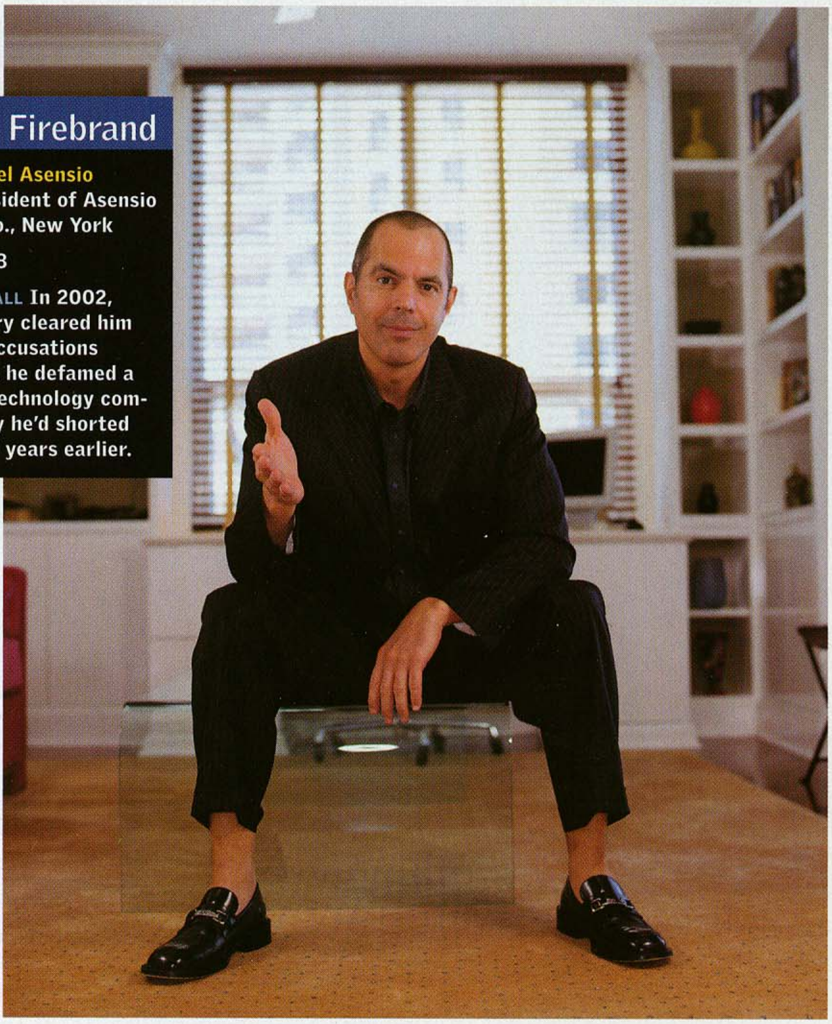
Says Asensio, "We promote a contrarian view—and we're proud of it."

A short-seller needs a thick skin, says James Chanos, president of Kynikos Associates Ltd., a New York-based firm with more than $1 billion in assets that specializes in short-selling. "Every day, you are barraged with negative reinforcement. CEOs, investor relations and PR people are constantly saying you are wrong," says Chanos, who named his firm after the Greek word for *cynic*. "You will never be the most popular guy at the party if you say the emperor has no clothes."

Short-sellers have been one of the most-maligned tribes in the financial world for four centuries, says Edward Chancellor, author of *Devil Take the Hindmost: A History of Financial Speculation* (Farrar, Straus & Giroux, 1999). The practice got its start in 1609, when Isaac Le Maire, a Flemish merchant, led other short-sellers in a bid to drive down the price of the Dutch East India Company's shares, says Chancellor. Complaining that the bears were harming innocent stockholders, including "widows and orphans," in 1610 the company persuaded the Dutch government to outlaw short-selling. Two hundred years later, Napoleon also banned the practice. During Wall Street's crash of 1929, short-seller Ben Smith hired bodyguards because of threats from angry investors. The government of Malaysia currently bans short-selling, punishing offenders with fines of up to 1 million ringgits ($263,000) and with prison sentences of up to 10 years.

In their defense, short-sellers say they attempt to keep the stock market honest by sniffing out companies with rotten accounting, shoddy business plans and debt-heavy balance sheets—or all of the above. "We are a check on the false optimism of the markets," says David Tice, president of David W. Tice & Associates Inc., a Dallas-based research and asset management firm that engages in short-selling. "We are not cheering for the economy to go down and for people to get hurt. We believe in symmetry: What goes up must come down."

Like their counterparts on the long side, short-sellers have an array of investing styles. Chanos, 45, plows through foot-high stacks of newsletters, examines analysis by his own research staff and reads 10-K filings to find companies to short. Comcast Corp.'s and Cox Communications Corp.'s financial reports were recently on his desk. Chanos also mixes easily with the financial world's elite. Every summer, he attends a lobster luncheon in Southampton, New York, cohosted by Jack Nash, cofounder of Odyssey Partners LP, and Byron Wien, director of investment strategy at Morgan Stanley.



The Firebrand

Manuel Asensio
President of Asensio & Co., New York

AGE 48

HOT CALL In 2002, a jury cleared him of accusations that he defamed a biotechnology company he'd shorted four years earlier.

JEFFERY SALTER

There he presents his short-selling ideas to financier Carl Icahn, billionaire George Soros, real estate investor Mortimer Zuckerman and other heavyweights. In November 2000, Chanos predicted that the stock of Enron Corp.—the now bankrupt, Houston-based energy trader—would fall due to questionable accounting and off-balance-sheet liability. "Everybody listens to Chanos," says Wien.

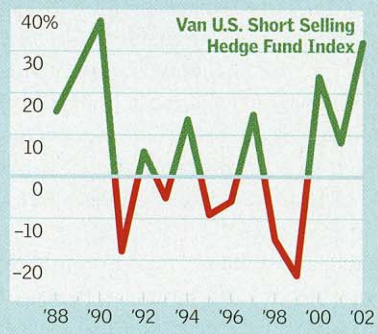
Tice, 48, studies historical boom-and-bust cycles and macroeconomic patterns to help guide his investment choices. Last year, he shorted credit card issuers American Express Co. and Capital One Financial Corp. in his Prudent Bear mutual fund because, he says, he believes consumer debt is rising to unsustainable levels, according to the fund's annual report. Tice, a native of Iowa City, Iowa, says the U.S. could be entering an 18-year "super–bear market," a mirror response to the most-recent bull market, which lasted from 1982 to 1999. "There will be rallies, but it's going to be an ugly 20 years," he says. The Prudent Bear Fund notched a 63 percent return last year by short-selling and going long on the stocks of precious-metal mining companies like Newmont Mining Corp.

Steve Leuthold, chairman of Leuthold Weeden Capital Management LLC, an equity research and asset management firm in Minneapolis, puts his faith in mathematics to find stocks ripe for short-selling. He uses a quantitative system called AdvantHedge, which scores companies based on such measures as earnings disappointments and insider selling. Leuthold, 64, who grows heirloom potatoes at his summer home in Maine, taps out his monthly newsletters *Equity Strategies* and *Perception for the Professional* on a Smith Corona Galaxie Twelve typewriter instead of a computer. "I just bought a cell phone," he says with a shrug. Since its inception on June 19, 2000, Leuthold's Grizzly Short Fund has outperformed the S&P 500 by 43 percentage points.

Asensio, 48, who holds a bachelor of science degree from the Wharton School of the University of Pennsylvania and an MBA from Harvard University, prefers a more aggressive approach. Now calling himself an "investor advocate," he hunts for companies he believes are defrauding investors, and he publishes reports about them on his Web site, even as he's shorting their stocks. While Asensio discloses in his reports that he's a short-seller, he doesn't report specific short positions.

The practice of shorting doesn't violate antifraud securities laws so long as an investor doesn't make knowingly false statements to drive down a stock, says Steven Thel, a securities law professor at Fordham University in New York. Likewise, such reports are not defamatory so long as the opinions are based on accurate facts, says Sandra Baron, executive director of the Libel Defense Resource Center Inc. in New York. "We can put out a negative opinion whenever we want," says Asensio, a native of Havana, Cuba, who on his periodic visits to the island nation, likes to take photographs of murals featuring Che Guevara and other revolutionary icons.

BEAR RUN
Short-sellers have reaped three straight years of gains for the first time since 1990.



Source: Van Hedge Fund Advisors International

Asensio's fervor hasn't stopped companies like Hemispherx from suing him. In 2002, he faced more than $1 billion in legal liability. Asensio is such a lightning rod that a band of critics runs a Web site called AsensioExposed.com that's devoted to tracking his legal scrums. "Dissing the courts" is the headline on one of the site's pages.

In Washington, D.C., a battle is developing that could affect short-sellers of all stripes. This past spring, Washington law firm Patton Boggs LLP began lobbying the U.S. Securities and Exchange Commission and members of Congress to consider introducing new rules or legislation that would regulate short-sellers, says Lanny Davis, one of the firm's partners and special counsel to President Bill Clinton from 1996 to '98. Davis is representing four companies, including Allied Capital Corp., a Washington-based private equity firm. "This is not about criticism of short-selling or hedge funds; it's about confronting a calculated campaign of false information for personal

The Perma Bear

David Tice
President of David W. Tice & Associates Inc., Dallas

AGE **48**

HOT CALL **In December 1999, he predicted that the U.S. stock market bubble would pop, ushering in a bear market; now he says it could last 18 years.**

NANCY NEWBERRY

profit," says Davis. "The only answer is to turn on the lights and confront the short-sellers."

Davis's clients, who've dubbed themselves the Full Disclosure Coalition, want the government to require that short-sellers report their positions to the SEC; long investors must do so when their equity stakes exceed 5 percent. Today, stock exchanges disclose the total short interest in equities and not individual positions. Davis says more transparency would help companies identify short-sellers who may be manipulating their stock.

On April 10, SEC Chairman William Donaldson told the U.S. Senate Banking Committee that the commission was reviewing short-selling as part of its larger investigation into whether hedge funds require regulation. SEC spokesman John Heine declined to say whether that review would address a new disclosure rule for short-sellers. The SEC's counterpart in the United Kingdom, the Financial Services Authority, is also evaluating a similar rule, says FSA spokesman David Eacott.

Short-sellers are girding to fight the lobbying campaign. "You tell Lanny Davis that I will meet him anytime and anywhere to debate this issue," says Chanos. He argues that securities laws already restrict their trading. The so-called uptick rule—a regulation introduced in 1938 to protect companies from short-sellers' ganging up on them—bars investors from shorting a stock while its price is dropping. Investors can short a stock only after it moves upward. Chanos also says that unlike long investors, short-sellers lack standing as shareholders who can sue companies for securities fraud, because they don't hold equity or debt. "I would be happy to endorse disclosure if shorts could bring suit against corporations for malfeasance," he says.

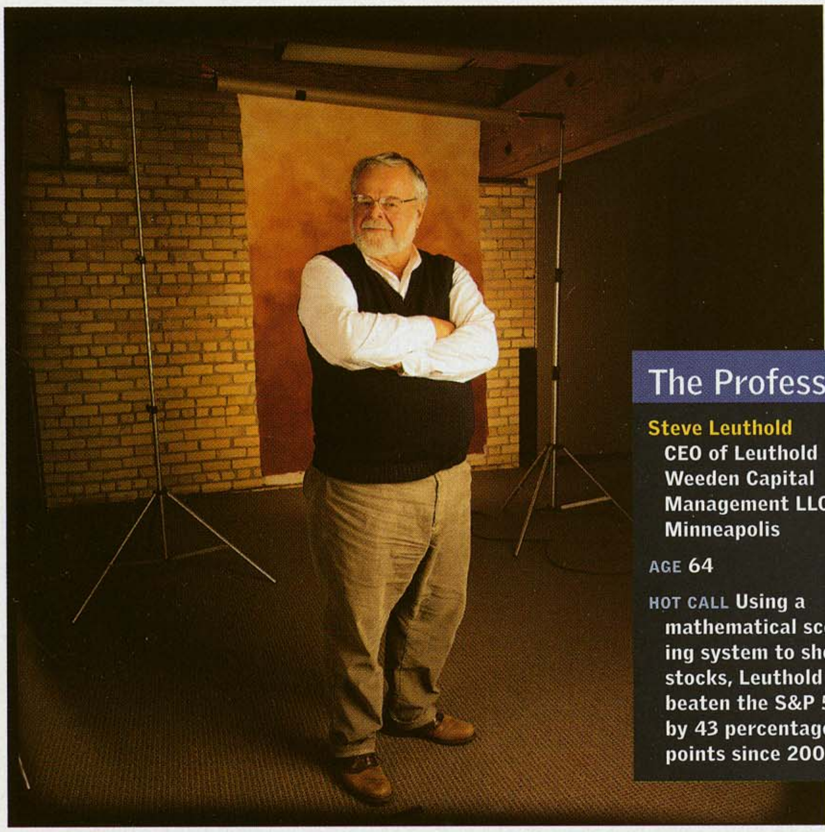
Meanwhile, John O'Quinn—a Houston plaintiffs lawyer who's won billions in settlements and verdicts against companies that make cigarettes, breast implants and other products—has filed 10 securities fraud lawsuits in federal courts against investment firms, claiming their short-selling pushed companies to the edge of bankruptcy. Among O'Quinn's clients are Internet Law Library Inc., a Houston-based research firm, and Sedona Corp., a software maker in King of Prussia, Pennsylvania. James Christian, a Houston lawyer who works with O'Quinn, says they plan to file more than a hundred such suits. "These guys kill companies," says Christian.

Michael Rosenblum, a Los Angeles attorney representing several defendants in these cases, counters: "These claims are frivolous. Most of these companies have never turned a profit, and they blame shorting as a way of deflecting their own failures."

Companies that publicly attack short-sellers usually do more damage to themselves, says Owen Lamont, an associate professor of finance at the University of Chicago who authored a study last year called Going Down Fighting: Short-Sellers vs. Firms. Lamont concluded that the stocks of companies that fight short-sellers lose 2 percent more a month than other companies the following year largely because the bears unearth problems that eventually pound the stock. "Companies who complain the loudest are usually guilty," says Lamont. "If you are innocent, the best strategy is not to complain."

That's just what executives at OmniVision Technologies Inc.—a Sunnyvale, California-based manufacturer of semiconductors for digital cameras—have done. Short interest in its stock soared to 11.6 million shares in April—half of its outstanding shares—from 3.8 million shares in December, according to Bloomberg data. Short-sellers are betting that investors have overestimated consumer demand for the technology and that the stock is overvalued; last year it rose 51 percent to $13.57, from $8.98. "It doesn't make any sense to criticize the shorts, because once you start playing their game, you become a slave to it and they win," says Steve Rowley, OmniVision's worldwide marketing manager. For shorts, OmniVision, which earned $4.6 million on $30.5 million in sales in its fiscal quarter ended on Jan. 31, has become a white-knuckle ride: Its stock was up 111 percent this year as of May 9.

Whatever their risk, some companies have waged public



The Professor

Steve Leuthold
CEO of Leuthold Weeden Capital Management LLC, Minneapolis

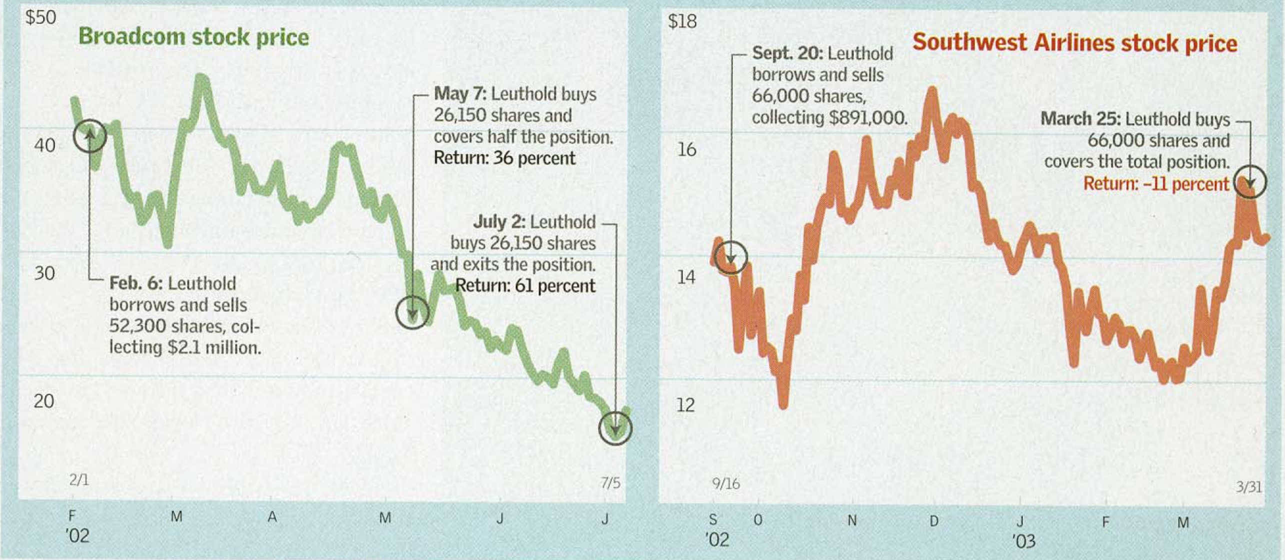
AGE 64

HOT CALL Using a mathematical scoring system to short stocks, Leuthold has beaten the S&P 500 by 43 percentage points since 2000.

LAYNE KENNEDY

A WINNER—AND A LOSER

Leuthold Weeden Capital Management uses a mathematical scoring system to flag companies ripe for short-selling. It borrows shares, sells them and later buys new shares to repay the loan. If the share price falls, Leuthold collects a profit; if it rises, Leuthold suffers a loss.



Sources: Bloomberg, Leuthold Weeden Capital Management

campaigns against short-sellers in the past 12 months. Allied Capital, the Washington private equity firm; MBIA Inc., a bond insurer; and Federal Agricultural Mortgage Corp., a rural-housing underwriter known as Farmer Mac, all have disputed short-sellers' reports in press releases and conference calls with investors.

MBIA entered the fray last July after New York hedge fund Gotham Partners Management Co. issued a 62-page research report claiming that MBIA was not properly accounting for losses in its portfolio of collateralized debt obligations. "Gotham believes that the company's AAA credit rating is undeserved," stated a press release accompanying the report.

MBIA CEO Joseph Brown fired back by calling Gotham's report a "negative advocacy piece" designed to drive down the company's stock. "Many of the points raised in the Gotham report are patently wrong," Brown said in a statement on Dec. 9. New York Attorney General Eliot Spitzer is investigating Gotham in connection with MBIA and Farmer Mac, says Brad Maione, a spokesman in the attorney general's office. "We stand behind our research reports and continue to believe in the opinions we reached," says Andrew Brimmer, a Gotham spokesman.

Antishort sentiment hasn't made Chanos shy about sharing his opinions of companies and industries. Roy Furman, vice chairman of New York investment bank Jefferies Group Inc., recalls a presentation Chanos made in August 2000 at Byron Wien's annual Southampton luncheon. Chanos said the telecommunications industry, buckling under overcapacity in fiber optics and unsustainable growth rates, was about to bust. "The prediction was so dire and horrendous, you almost couldn't react to it," says Furman. "It was a dark vision, but he was right."

Chanos—whose angular face, dark suits and starched dress shirts make him look more like a hard-nosed prosecutor than a money manager—savors his role as an advocate for short-selling. On Feb. 6, 2002, he was invited to testify to the U.S. House Committee on Energy and Commerce as part of its investigation of Enron's collapse. It was a rare—and fleeting—opportunity to come in from the cold and explain the role short-sellers claim to play in uncovering corporate wrongdoing. "After Enron and other corporate accounting scandals became front-page news, there was a sense that shorts were doing the important work in the market," says Chanos, who has an Enron stock certificate hanging above a credenza in his midtown Manhattan office. "Now, we're wearing the black hats again. I guess things are back to normal." Chanos shorted Enron from November 2000—when its stock averaged $79.14 per share—through December 2001, when it traded at 60 cents.

Chanos's offices are adorned with replicas of ancient Greek pottery and abstract expressionist paintings. Books bearing titles like *When Stocks Crash Nicely* and *Debt & Delusion* line the shelves in his conference room, and one entire wall is a whiteboard on which he diagrams financial transactions such as Enron's web of off-balance-sheet partnerships. He's fond of dining next door at Michael's, the West 55th Street power lunch mecca for media executives like Barry Diller, CEO of USA Interactive, and celebrities like actor Michael Caine.

Chanos became a short-seller in 1982, when he was an analyst at Gilford Securities Inc., a Chicago investment firm. He put a sell rating on Cincinnati-based insurer Baldwin-United Corp. and recommended shorting the stock. For the next three months, Baldwin-United executives and Wall Street analysts who rated the company a buy assailed him as wrong—and reckless. When Baldwin-United's stock more than

Houston plaintiffs attorneys **John O'Quinn** and **James Christian**, here with client **Hunter Carr**, center, have filed 10 fraud suits against short-sellers.

doubled in value that autumn, Chanos says, his fledgling career was on the line.

Chanos says he was confident in his call because he'd obtained records from Arkansas insurance regulators that expressed concern about Baldwin-United's solvency. Within months, Baldwin-United's financial structure collapsed, the stock plunged and in September 1983, the company declared bankruptcy. Investors began calling Chanos to ask what other stocks he didn't like, and he's been a short-seller ever since.

Total meltdowns like Enron and Baldwin-United are the exception, Chanos says. Usually, he shorts a company because its financial status or market position isn't clear. For example, he's now shorting cable television operators like Cablevision Systems Corp., Comcast and Cox. The reason: He thinks Rupert Murdoch's News Corp. will succeed in buying DirecTV Holdings LLC, the satellite television provider owned by General Motors Corp.'s Hughes Electronics unit. Chanos says News Corp. will probably add to its satellite offering a digital recording feature pioneered by TiVo Inc. The feature will enable viewers to skip commercials and watch shows at their leisure. That move, he says, should force cable companies to spend millions to replace set-top boxes with new ones featuring digital recording so they can compete. And that's only one of many capital expenditures that will dog cable industry stocks, he says.

Like all investors, Chanos sometimes succumbs to unforeseen market forces. In 1995, he began shorting America Online Inc. because, he says, he believed it was improperly accounting for its revenue and cash flow. As the Internet boom took off, AOL's stock soared more than fivefold from 1995 to the end of '97. Chanos couldn't hang in any longer and started covering his positions. "We lost a ton of money on AOL," he says. The SEC is investigating accounting methods at the Internet service provider, now a division of AOL Time Warner Inc. The company's stock has fallen 62 percent since Jan. 1, 2000, closing at $13.02 on May 9.

In Minneapolis, a thousand miles from Chanos's offices, Leuthold says he's figured out how to sidestep such big losses on shorted stocks: expel emotion and bias from the stock-picking process and adhere to strict quantitative discipline. Leuthold counts among his most prized possessions a folder stuffed with hand-drawn charts of stock indexes. On a recent day in his office, he carefully unfolds a chart made of sheets of graph paper taped together that shows the historic bull market in Nasdaq Stock Market shares from 1991 to the present. He's marked its trajectory every day with a ballpoint pen. Clad in a fleece vest and sporting a white beard, Leuthold looks more like a sea captain charting old voyages than a professional investor pointing out historic rises and drops on his Nasdaq graph. "We can transmit data faster than ever electronically, but human nature hasn't changed," says Leuthold. "The markets are still driven by fear and greed."

Leuthold unveiled his short-stock scoring system, dubbed AdvantHedge, 11 years ago. Along with Chuck Zender, Grizzly's comanager, and Michael Schurmann, the fund's senior analyst, Leuthold sorts through 1,100 companies to find 50 to short. The system is based on 14 criteria, including a stock's strength relative to the S&P 500, its 12-month trailing price-earnings ratio, bankruptcy risk, short interest and the likelihood of future earnings disappointments. Every company has to have a market capitalization of at least $1 billion and an average daily trading volume of at least $6 million. The Grizzly annual reports warn investors that they'll lose money in bull markets. Rather than boast about his recent gains, Leuthold points out that in 1997, he lost just 4 percent, while the S&P 500 was up 31 percent. "That was victory," he says.

In 2002, the system flagged Broadcom Corp.—an Irvine, California-based maker of semiconductors for broadband

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applications—because it scored poorly on the earnings disappointment analysis, which measures inventory buildup, rising receivables and other variables. Leuthold shorted 52,300 shares on Feb. 6, 2002, at an average price of $40.37. On May 7, with Broadcom trading at $24.72, Leuthold covered half the position for a 36 percent gain; on July 2, he covered the rest at $15.35 per share for a 61 percent return.

The system does make mistakes. Last autumn, Leuthold's team marked Southwest Airlines Co. for shorting—due mainly to the woes of the global airline industry. Leuthold, who says he has great respect for the carrier, obeyed the rules and did not veto the choice. In this case, his gut was right. Leuthold shorted 66,000 shares of Southwest stock at an average price of $13.50 on Sept. 20, 2002, and covered on March 25, 2003, at $15.05 for a loss of 11.4 percent.

If a shorted stock posts a 30 percent profit, Leuthold and Zender will take half of their money off the table. If a stock posts a 25 percent loss, the bet is automatically scaled back. Leuthold says those rules separate him from so-called terminal shorts, who ride fraudulent companies into the ground. "We catch some of those once in a while, but we are trying to find the right time to short a Colgate or a GM or an IBM," he says. "And we're quantitative—we're not making judgments about the companies."

Manuel Asensio makes such judgments all the time. On a recent day in his office on the east side of Manhattan, Asensio leans back in his chair, hands clasped behind his head, and listens on his telephone headset to a fellow bear pitching a pharmaceutical company ripe for shorting. "Yeah, I hear you on the cash flow issue, but I don't think that's good enough," says Asensio. "Get back to me."

Asensio wears his hair closely cropped and hasn't shaken the Brooklyn accent out of his baritone voice. He moved to Brooklyn's Borough Park neighborhood from Latin America when he was six. The front door of his office bears no sign, and vintage World War II–era propaganda posters hang on the walls inside. "Enemy ears are listening" reads one depicting caricatures of Hitler and Mussolini with oversize ears.

Asensio has run afoul of regulators. In November 2000, the National Association of Securities Dealers fined Asensio's firm $75,000 for violating its fair advertising rules. According to the NASD, Asensio and his firm posted seven research reports on his Web site that failed to disclose the risks of short-selling and included misleading stock-performance graphs. Under the settlement, Asensio and his firm did not admit or deny wrongdoing. "We paid them the same way you would pay a hit man who comes to your door," says Asensio.

Asensio's battle with Hemispherx has been particularly bitter. Asensio says he examined the company because it was taken public as an over-the-counter stock by Stratton Oakmont Inc., a Lake Success, New York–based brokerage that was expelled from the securities industry in December 1996 for defrauding investors and that liquidated under court order. At the time of Hemispherx's initial public offering in November 1995, Stratton Oakmont was operating under an SEC order to cease making "baseless price predictions" for over-the-counter securities it was recommending, according to SEC records. Asensio also shorted other companies Stratton Oakmont took public.

On Sept. 9, 1998, Hemispherx's stock hit a 52-week high of $12.50. On Sept. 22, Asensio posted a report on his Web site that said Hemispherx's $321 million market capitalization was based primarily on Ampligen, a drug the company said it planned to sell for treating chronic fatigue syndrome. Asensio said that for 18 years, Hemispherx had pitched Ampligen as a treatment for HIV infection, hepatitis and venereal warts, among other diseases and maladies. The U.S. Food and Drug Administration had not approved Ampligen for commercial use, according to an FDA letter to the company.

Asensio says he was convinced that Hemispherx and its CEO and chief scientist, physician William Carter, were hyping Ampligen in a stock scam. "Hemispherx is promoting futile projects simply in order to enable insiders to sell their otherwise worthless stock to the public," Asensio said in a press release accompanying his report. The stock fell 37 percent in the four days afterward. From Aug. 28 to Sept. 21, Asensio shorted 102,500 Hemispherx shares, according to court records. Assuming he bought the shares at their average trading price in that period—$9.86—Asensio would've reaped a return of 49 percent if he covered on Sept. 25. He doesn't disclose his positions.

'We paid them the same way you would pay a hit man who comes to your door,' says Manuel Asensio.

Carter says Asensio defamed his company. "Here was an individual without any scientific background or training making hysterical statements about Hemispherx and Ampligen," says Carter. "It was a massive set of falsifications."

Hemispherx sued the short-seller in federal court in Philadelphia for $80 million in damages, accusing him of fraud, defamation and violating the Racketeer Influenced and Corrupt Organizations Act. In March 2000, the court dismissed the fraud and RICO counts, and the defamation case was moved to state court. That July, the FDA ordered Hemispherx to cease promoting Ampligen in press releases and on its Web site as "safe and effective" because such promotion was in violation of federal laws barring promotion of unapproved drugs, according to an FDA "warning letter." The FDA had issued Hemispherx one such prior warning in October 1998. As Asensio headed toward trial, he says, he felt the momentum was on his side.

Then, in November 2001, Judge Sheppard ruled that Asensio could use neither the FDA action nor the Stratton Oakmont connection because the information was not relevant to Asensio's defense and would prejudice the jury against Hemispherx. Asensio was outraged. "Manuel's feeling was that, 'If you are going to call me to trial for my research and for what I said, let me tell you what I based my opinions on,'" says Fredric Goldfein, Asensio's trial lawyer.

During his testimony, Asensio repeatedly tried to interject references to the barred evidence, according to trial transcripts. Hemispherx's trial lawyer David Franceski implored the judge to punish the short-seller: "We need to sanction this man for what he's done. He's disregarded this court. He's a total rule breaker."

Intent on avoiding a mistrial, Sheppard did not penalize Asensio, according to trial transcripts. Still, five months after the jury vindicated Asensio, Sheppard ruled that the short-seller's testimony had been unfair to Hemispherx, and he threw out the verdict and ordered a new trial. Asensio is appealing the ruling. The FDA still has not approved Ampligen, which is now being tested as a possible treatment for West Nile virus. The company's stock closed at $2.28 on May 9, down 71 percent from the day before Asensio issued his report. "It was as dramatic as life gets," says Asensio of the trial.

With the S&P 500 up 6 percent as of May 9, short-sellers may be approaching the conclusion of their three-year run. Tice's fund had a return of minus 10 percent for the year as of May 9, and Leuthold's fund was down 8 percent, according to Bloomberg data.

Neither man says he's worried. Whenever the market appears ready to rally, Tice likes to quote short-sellers' patron saint, Bernard Baruch, the New York financier who made a fortune in the early 20th century by shorting stocks like Brooklyn Rapid Transit Corp. "Bears only make money if the bulls push up stocks to where they are overpriced and unsound," said Baruch. If the next bull market is anything like the last one, Tice and his fellow shorts should find plenty of promising opportunities.

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BLOOMBERG TOOLS

Finding the Most-Shorted Stocks in the U.S.

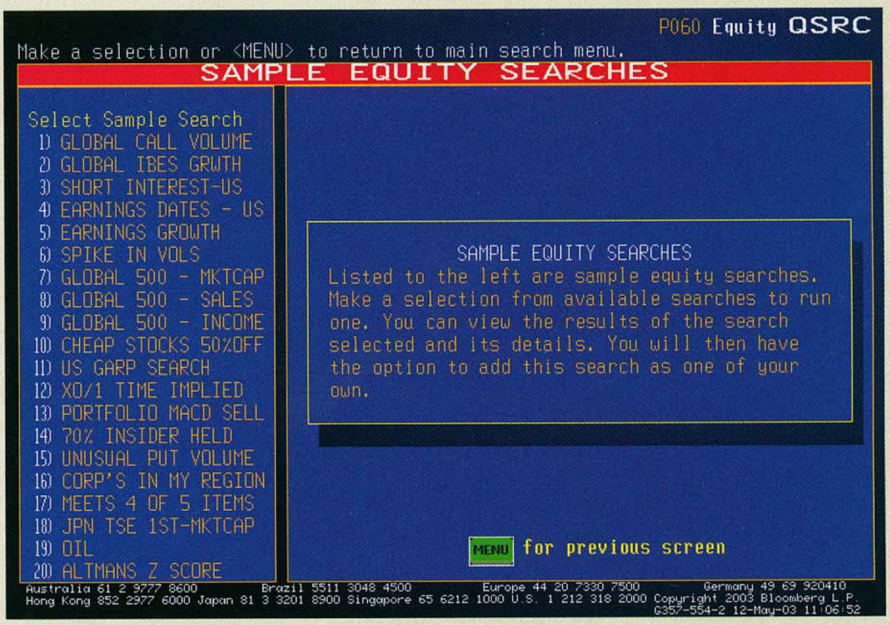
Determining which stocks are being sold short can produce valuable information for investors and traders. In a short sale, a trader borrows shares and sells them, with the hope of repurchasing them at lower prices and earning a profit.

Short-selling activity can be useful for checking your fundamental analysis. If you see there's a lot of short-selling in a company, you might want to do some additional research to determine whether the short-sellers have identified negative factors you haven't considered. Short interest—the number of shares that have been sold short but not yet returned—can also be an indication of future demand for shares.

By comparing short interest with average trading volume to calculate a company's short interest ratio, you can figure how many days it would take for traders to repurchase all of the borrowed shares. A higher ratio can indicate it'll be tougher for short-sellers to cover their positions. If unexpectedly good news comes out, share prices could surge, causing short-sellers to race to repurchase shares before they rise further.

You can use the Equity Search function to rank U.S.-traded companies with a market capitalization of at least $500 million according to their latest short interest ratio. Type QSRC <Go> 30 <Go> for sample searches, as shown below. Click on the sample called Short Interest–US to see the results. Click on the Options button to save the search so you can make your own modifications.

CHRISTOPHER GRAJA



For short interest information on a stock, type its ticker symbol and then <Equity> SI.