

WEEKEND INVESTOR: Trumpeting the sceptical side to short-selling BOOKWATCH JOHN DIZARD:

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By JOHN DIZARD

Short-sellers have a natural appeal to journalists. Members of both occupations require deep scepticism about the motives of the rich and powerful, and both engender a black humour that can be off-putting to the innocent and uninitiated.

Short-selling is the sale of borrowed or never-owned securities with the intention of profiting from a decline in their price. The profit is made when the shares price has declined, and the short-seller is able to repay the loan of the securities or makes good the promise to deliver with securities bought at a lower price.

The profit is limited to the price of the security at the time the short sale is made; the loss can be as high as a security's price can rise.

There are quiet, behind-the-scenes short-sellers - and then there is Manuel Asensio. His brokerage house, Asensio & Company, specialises in executing short sales for clients, some of which are almost certainly investment funds in which he has an interest.

He searches for frauds and simple overvaluations in the securities market, sells them short on behalf of his clients, and then trumpets their shortcomings to the world.

Along with other journalists, I have made use of Asensio's material, though not without checking it first. When I did, it turned out to be quite reliable.

Not everyone has the same feeling about Asensio. He is regularly sued by promoters and others connected with the objects of his research and mockery. He has, however, only paid one fine to the National Association of Securities Dealers, and believes he has been vindicated after he agreed to that settlement.

Now he has written a book, *Sold Short*, to tell the world how he does it.

To use the type of military metaphor popular on Wall Street, Asensio is the sort you would choose to lead an infantry charge against a fortified position. However, as another short-seller says: "I think I'd prefer to wait for the armoured division."

Even though the book has a professional co-author, Jack Barth, the tone is pure Asensio: attack, attack, attack. Promoters are scum. Establishment companies are corrupted by greed. A typical sentence reads: "The bad guys were on the other side of the river, laughing, with their saddlebags full of loot." Asensio was wise to choose short-selling over a career in the diplomatic service.

Sold Short is most useful for the detail it provides on the stock promoter's bag of tricks. You can get more stringent, academic detail on securities valuation from such classics as Graham and Dodd's Securities Analysis, but the standard works are not as revealing on the social, as well as the financial, patterns that fraud takes.

Another short-seller said Asensio's analysis was good, but that the market values of the companies he goes after were too small to have the liquidity a large fund needed.

Asensio's response was an unrelenting lecture on the market caps of his targets along with cutting inferences about the courage and work habits of the unnamed commentator.

Sold Short is a helpful book, though not a literary masterpiece. The reader and the market participant should be fully aware that Asensio is talking up (or down) his position. But he's very straightforward about that.

* Sold Short by Manuel P. Asensio, published by John Wiley and Sons, Dollars 29.25.
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