TRANSCRIPT: EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT SHORTING STOCKS W/ MANUEL ASENSIO, AUTHOR OF “SOLD SHORT: UNCOVERING DECEPTION IN THE MARKETS”

Announcer: It’s time for *Marc Lichtenfeld’s Oxford Club Radio*, the hardest-hitting half-hour about you and your money. And now here’s Marc Lichtenfeld.

Marc Lichtenfeld: Welcome. We have a fantastic show today with a guest I am so excited about. His name is Manuel Asensio. He’s the author of *Sold Short: Uncovering Deception in the Markets.* That book is 15 years old, but I just discovered it. Manuel is a pioneer in what’s known as “activist short selling.” He specializes in shorting specific stocks and getting information on why he’s short out to the public. There are fund managers or traders out there who specialize in going short, but they keep their reasons to themselves. Then there are people like Manuel. You might remember Andrew Left from Citron Research, who exposed Valeant. He’s another activist short seller; he sees a fraud or real problem with a company, shorts it and then lets the public know. These guys are certainly talking their book. No doubt about it. But they’re exposing fraudulent companies. They make a profit while they’re doing it, but they let the public know. So we’re going to talk with Manuel about his latest target. You’ll want to stick around.

I’m also going to get into the topic of shorts if you’re unfamiliar with how it works and what you need to know about shorting a stock. And we’ll discuss last week’s survey. I asked you guys to participate because the stock market’s at record highs while the bond market has record-low yields. So which one is correct in telling us where the economy is going? Because markets are usually forward-looking indicators. Usually, if the stock market’s higher, bond yields are higher, too. But they’re really going their separate ways right now. So we’re going to find out which market you think is the real reflection of the economy.

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Alright. Now that we got all that housekeeping out of the way, let’s talk about shorts and short selling. It’s something a lot of people don’t know much about. Short sellers have this reputation of being – I don’t want to say evil, but maybe anti-American in that they’re rooting for stocks to go down. Typically, that’s not the case. They just see a stock as either fraudulent, overvalued or having problems that the market doesn’t see. It’s the same as if you bought a beat-up stock because you believe it’s a turnaround story or you think the market doesn’t appreciate the company’s potential. Though a short is just the opposite mentality: believing that the market is overvaluing a stock or not recognizing problems, or that a fraud hasn’t been uncovered. Or it could simply be for technical reasons: You’re looking at a chart that features, say, a head and shoulders pattern – which is bearish – so you short the stock.

Now what does it mean to short a stock? It’s a very interesting concept. Normally, you buy a stock, it goes into your account and you hope it goes up. Whether it does or doesn’t, when you’re ready to sell it, you sell the stock and collect the money. With shorting, you sell a stock before you buy it. So when you buy a stock, you want to buy low and sell high. When you’re shorting a stock, you want to sell high and buy low. To do that, you first have to be cleared by your broker. It’s generally not too difficult, but when you sell a stock, your broker has to first go into the marketplace and borrow stock for you to sell since you can’t sell something you don’t own. You then get the money in your account and, at some point in the future, you have to cover that short or buy the stock. Now, you hope the stock will be lower and you can buy it lower. The money comes out of your account regardless.

So let’s say you shorted 100 shares of a $20 stock for a cost of $2,000. You get the $2,000. You buy it back six months later for $10 per share. You pay $1,000, and the other $1,000 is yours to keep. It’s really that simple. There are some charges involved: some fees, borrowing costs and things like that. So you want to talk to your broker. It’s generally not prohibitively expensive. Also, not every stock can be shorted. For example, penny stocks are difficult to borrow. The same goes for stocks that are already heavily shorted, but that’s all stuff your broker handles. They’ll just come back to you and say, “There’s no borrow on the stock. You can’t short it.” But in most cases, especially large-cap stocks, it’s not that difficult.

Now, there is a concept that’s known as a short squeeze, which is when there are a lot of shorts in the stock. When a stock goes up, the people who are short will often cover their positions because they don’t want to lose any more money. If you’re short a stock and it goes up, you’re losing money. So they’ll buy the stock to cover. Now, when they do buy, that adds more demand for shares that are already going up. So that makes the stock go up even more, which squeezes the existing shorts even more. The stock can really run up if it’s heavily shorted, particularly if it doesn’t typically trade a lot of volume. When a short squeeze happens, you can see really explosive moves on a stock. So it’s something you want to be careful of if you’re shorting a stock with a lot of shorts on it already. You can find that by finding the short interest. On Yahoo! Finance, go to “Key Statistics” on the stock you’re interested in, and it’ll tell you the percentage of the float that’s short. Generally speaking, anything above 10% is a decent number. It means there’s a lot of shorts in there. And anything over 20% means it’s really got a lot of short activity.

Moving on to our guest. I am so excited to have him here. I recently read his *Sold Short: Uncovering Deceptions in the Markets*. When I was a quarter of the way through, I decided I have to get this guy on my show. He’s a pioneer of activist short selling: Manuel Asensio from Asensio.com. Manuel, thank you so much for joining us. First of all, great job on the book. I know it was written in 2001, but it really is such an excellent book. I encourage everybody to read it who’s interested in short selling and especially discovering fraud in companies. It’s really a terrific book. So I’m excited that you’re here because you have a new target right now. Listeners, if you go to Asensio.com, you can see everything he’s written so far about a company called Eros International. It distributes Indian films and content around the world. Manuel, you’re alleging that there’s some real fraudulent activity there. Can you briefly explain what you discovered?

Manuel Asensio: Well, actually, the company was exposed by at least two anonymous hosters on Seeking Alpha last year. The stock went from $38 down below $6 before recovering to about $16, which is when we stepped into the market with our own information. One of the original “leakers” was Alpha Exposure, and the other one was a brokerage firm called Glasser. This year, we had another anonymous poster that came in after us – also on Seeking Alpha – called Spotlight Research.

Our material is available on Seeking Alpha as well as on our site. What we focused on was how this happened. How was it created, and how come it’s back up to $16 and not below $1 or halted by the SEC after such a long time and so much meaningful data and reasonable analysis was published publicly? Admittedly, it was published anonymously, but it pointed to things that should be obvious to analysts and the SEC and others that are charged with governing our markets. That’s what drove us into the market. What drove me intellectually was trying to understand how this could happen, because I’ve been involved in transactions. 52 of them, to be exact. I’m a pioneer of this type of work and was drawn to it. What we discovered was that the company had an extremely unique and irregular relationship with a brand called Grant Thornton International. So the first thing I did was call Grant Thornton and ask, “Look, are you aware this is going on? What’s your position?” When it told me it wasn’t responsible for the behavior and conduct of Grant Thornton India, that really raised a red flag.

Marc Lichtenfeld: Just to be clear, Grant Thornton is the auditor, correct?

Manuel Asensio: Well Grant Thornton is the brand name that has been franchised all over the world out of the U.K. by some U.S. Grant Thornton partners who now apparently either live in the U.K. or have offices in both countries. But the U.K. location is the umbrella operation for Grant Thornton, and it’s sold franchises all over the world. Unlike McDonald’s, it appears it really has no interest in how its hamburgers taste.

Marc Lichtenfeld: So what is the SEC’s role in this and the other frauds you’ve discovered? When something like this is made public, does the SEC usually act on it or does it have to be pushed? Can you tell us a little about your experience over the past 20 years, as well as what’s happening right now with Eros?

Manuel Asensio: Well, the SEC has ultimate authority here. It controls the Public Company Accounting Oversight Board (PCAOB). So in reality, the conduct of Grant Thornton worldwide is actually under the SEC’s supervision because it’s rather controversial that a commission – which is actually an agency of the federal government – can reproduce itself. There’s been some litigation brought before the Supreme Court about this particular arrangement, but I’m not an expert on that. I can tell you that, in my impression, all the individuals that are in the directorship positions and governance positions of the PCAOB are controlled by the SEC.

So clearly, the enforcement division of the SEC has the authority to halt trading on Eros and has the authority to sue it or pressure it to put out disclosures that explain the accusations against it, along with the problems of Grant Thornton and all the other auditoring problems and the audit committee problems that we’ve written about. It’s a fact that the New York Stock Exchange has a regulation that you have to have three independent directors on an audit committee. Apparently, it applies here. We’ve asked the business and not gotten a response, but there are only two directors. They’re 80-year-old men. You broadcast in South Florida. I’m sure there’s a lot of very active and engaged 80-year olds, but I don’t believe these two are up to the task. One of them has been exposed by Spotlight for being involved in some of the company’s related party transactions.

I don’t want to talk too long, Marc, but let me just give you the facts. When you talk about human conduct, I think it’s always difficult to find facts, but the numbers here speak for themselves. Eros claimed it had sales of $6.3 million in the United Arab Emirates in its fiscal year 2012, which ends March 31. Those sales rose to $104 million in 2015. Now, the company’s sales in India have declined from $113.6 to $109.5. Therefore, the sales in the UAE have almost reached the same level as those in India. In India, of course, they sell tickets and the most important and valuable rights to broadcast films to syndicate them on cable channels all over the world for the first year or the first few years. So what’s left to sell in the UAE and to whom it’s selling is the question that the company is stonewalling on. In fact, Marc, it’s told the SEC things that make the SEC satisfied with those responses. I think the SEC should tell us investors what it said.

Marc Lichtenfeld: Well, we only have about a minute left. So let me just ask you what – if anything – has been the response from the company?

Manuel Sensios: There's been no response to us, and we've been very active. Grant Thornton India has retained a very influential counsel that's highly regarded and trustworthy. I'm disappointed that this counsel hasn't advised the auditor to engage in a dialogue with us, which is its duty. The company, its public relations officer on the outside and investor relations personnel inside haven't spoken to us. Also, it's hired a lawyer, who we've written a letter to. The lawyer has been retained to try to understand if there's any manipulation or misinformation in the market. We've asked questions of him to make sure that what we understand is correct, but he hasn't responded to us either.

Marc Lichtenfeld: Gotcha. Unfortunately, we're up against the clock, but we're going to be following this story closely and we'd love to have you back on again.

Manuel Asensio: Well, it's been wonderful, Marc. I look forward to speaking to you again, and thank you very much. God bless your listeners in beautiful South Florida.

Marc Lichtenfeld: Thank you very much. That's Manuel Asensio. If you want to get the full story on Eros International, go to www.asensio.com (http://www.asensio.com). You can read all the documents that he and his team have put together. It's really, really interesting stuff.

Now I want to get into our survey. Last week, we talked about which was more indicative of the economy right now and the future: the stock market at record highs or the bond market at record-low yields. So we ran a poll, and it was a pretty close vote. Fifty-five percent said the stock market is the better forecaster, and 45% said the bond market was. There were some interesting comments, too. I'm going to go through a few of them here.

Lance says, "Funds are moving into stocks because folks on fixed incomes, retirees, etc. are unable to find yield anywhere else. They're taking on risk they should not be taking. It probably will not end well." That's certainly part of why the stock market is higher: because people can't find yields anywhere else, and they're going into the stock market. It's one of the reasons dividend stocks have been hot and yields have come down: because people are piling into these stocks.

Eric says, "Marc, while I understand we live in a world economy, the stock market is indicating the strength of the American economy while the bond market – specifically T-bills – are a reflection of uncertainty around the world." That might be a very valid point.

And let's see. Here are three anonymous ones:

"Bonds behaving badly may be an indicator that all is not well with the economy."

"The handwriting's on the wall. The people just can't believe that it could happen."

I think a lot of people believe that the bond market is the more accurate indicator. People who are pessimistic or bearish always think the bulls just aren't seeing clearly or don't believe it can happen. Just exactly as the person said.

"No clear indication from either market right now. Stock and bond prices are both going up as global customers chase safety and income at the same time."

That's also very valid. Even though bonds – specifically government bonds – aren't paying well, they're considered safe. They're the safest investments in the world, and you've got people piling into them. Even overseas, where you have negative interest rates, those bonds are considered safe. If you go into German bonds, they're considered very safe and people are getting negative rates on that. You're paying a few basis points for the right to make sure you get your money back minus those few basis points in a year or two or five – whatever the case may be. People definitely want safety. These are very uncertain times right now.

Another guys says, "Treasurys are only a small part of the bond market, but it seems like they're the only thing people other than Steve McDonald talk about." Steve McDonald, if you don't know, is The Oxford Club's bond expert.

We've got another person who says, "I wouldn't touch a Treasury with someone else's private parts: an optimal tool since someone is going to get screwed. But I have a significant amount in bonds as suggested in Steve's letter." In other words, he wouldn't touch Treasurys at these low levels of interest, but he does like the corporate bonds that Steve McDonald recommends.

Let's see what else we have… "The economy is really not that great, as indicated by lower earnings." Yeah, the earnings aren't great, but they're not bad either right now.

Another says, "The stock market is artificially inflated by the fact that all 401(k)s, IRAs and set money have no other place to go." I don't agree with that since usually you don't that kind of money in too many other places. You put them in stocks, stock funds, bonds and bond funds. That's just generally where it goes. There's not a lot of people putting that money into other things. You could put some of it into CDs when rates are higher, but most people don't do that.

Here's one last one: "I think it's bonds because free money from the central banks have to be paid for eventually, and I believe bond returns are starting to show that. Now, I can't say stocks are done because the free money keeps supporting them as people search for yield. It just seems like something has to correct here sooner or later, and I think that's what bonds and metals are showing."

Well, thank you to all of you who voted and gave us your comments. I think we're going to start doing these polls a little more often. We'll come up with some interesting topics and get your thoughts on those as well. Like I said earlier, if you do want to get in touch with me in another way, go to www.OxfordClubRadio.com (http://www.OxfordClubRadio.com) and click on "Contact" to send your feedback.

My thanks to Manuel Asensio, Alex Moschina, Curtis Daniels and all of you for listening. We'll be back the same time next week. Until then, I hope your longs go up and your shorts go down. I'm Marc Lichtenfeld.