Twitter Thread by Preferred Shares

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@PrefShares

So far...

@jay_21_ (1) Shorts must always be very small. Max 1.5-2.0% for large cap structural decliners. 20-40bps for frauds and promotes.

@jay_21_ (2) No hero shorts.

@jay_21_ (3) Wait for things to crack before putting a position on in any type of size (which for a short, is still very small). $700 to $0 and $200 to $0 are both 100% returns.

@jay_21_ (4) Must be willing to cover aggressively if going against you. After cracking, need to be willing to add on the way down (particularly for promotes or frauds).

@jay_21_ (5) Don't short great companies and don't short hyper growth companies. Maybe there can be some exceptions if your long book is heavily exposed to these factors (quality / growth).

@jay_21_ (6) Having to keep a fixed % of the portfolio short (potentially in order to justify fees in L/S fund) is dangerous. Leads to getting into crowded shorts or having to short indexes. Shorting seems to be best when done opportunistically.

@jay_21_ (7) Avoid high short interest names / keep them very very small / buy way OTM calls as a hedge.

@jay_21_ (8) Be very careful with equity stubs. Treat them as you would high short interest / hyper growth companies.

@jay_21_ (9) If you find yourself thinking about a short first thing in the morning / watching the ticks during the day - you are likely too big.

@jay_21_ (10) MOST IMPORTANT. At the end of the day, the only point of selling short is to enable you to safely get a little more long. Key word is safely. Short book is float. You should think of it as insurance underwriting. Portfolio management and avoiding large losses is priority #1.