Book Review: Sold Short
WASHINGTON, July 10 (UPI) --

"Y'know, there's only so many investment bankers in the world" sneered a Morgan Stanley recruiter to then-interviewee Manuel Asensio in the mid-1970's.

Luckily, Asensio has since been able to make a very successful career out of thwarting the glut of dubious investment bankers that infested 1990's Wall Street. "Sold Short -- Uncovering deception in the markets" by Manuel P. Asensio with Jack Barth (Wiley, $29.95) is an account of his life's work. It is in parts heavy going, but well worth it.

Short sellers such as Asensio typically research companies to find examples of situations where a company's stock has been bid far above its intrinsic value. Such situations may include good companies that have entered the stratosphere through speculative hype, but more typically include stock promotions involving deception of the investing public.

During the late 1990's, both types of situation existed in abundance, but one suspects that one of the reasons for Asensio's survival is that he concentrated on the latter, rather than attempting to "fight the ticker" by shorting say Cisco or JDS Uniphase, two legitimate companies whose stock prices got way ahead of themselves.

Asensio tells his tale by means of "war stories," accounts of his notable successes, and in one case, failure. Typically, he undertakes detailed research on a situation (very often from publicly available Security and Exchange Commission filings), accumulates a short position, then publicizes the negative information he has obtained, both directly to the public and to major outside shareholders in the company, hoping thereby to cause a major downward re-evaluation of the company's stock.

Naturally this infuriates company management, particularly in cases where Asensio has determined that the company's main product lines do not work, or that its managers have a long history of investment fraud. This is where the business gets rough, and is not for the squeamish; Asensio needs both excellent (and generally expensive) lawyers and presumably a certain amount of personal security as well. In addition, such is the nature of Wall Street that Asensio's deals wait for no man; in one case the crucial episodes of the saga took place while he was immobile in hospital.

"Sold Short" is interesting on two levels. On one level, it demonstrates how short sellers work, and why their profession is essential to the proper functioning of a securities market. As I have written previously, the gamy reputation of short sellers, dating from misguided 1930's perceptions of them being responsible for the 1929 Crash and the Great Depression, is entirely unmerited, although there is no question that their activities are difficult, risky, and not always very lucrative.

There are a number of relics of 1930's securities legislation, notably the "uptick rule" (by which you can sell short only after an uptick in the stock price) and the need to "borrow stock" from a holder to sell it short, that bias the market against short sellers and make short positions difficult

to hold for a prolonged period. Asensio briefly discusses these, and makes a plea for their abolition, some, but not quite all of which I agree with. (I don't see how you can allow short selling in a stock on an entirely unlimited basis, otherwise you will create the possibility of short sales in a stock to the extent of many times the issued share capital, a recipe for market collapse.)
On the other level, Sold Short" can be read simply as a saga of human fallibility and greed. It tells, for example of the Morgan Grenfell merchant banker who caused Morgan to lose $500 million or so, then escaped prosecution by appearing in court in a dress and claiming to be mad. It tells of the chicanery surrounding the New Jersey Turnpike E-Z Pass concession, alarming enough to make one wish President Bush had read it before naming ex-Governor Whitman to his Cabinet. It tells of the Venezuelan gold promotion which, unlike most such promotions, represented an entirely genuine mine but a wholly false claim to it.

And, it tells also, of an Internet stock that was grossly over-hyped, sold short by Asensio, and then went on to further heights through being bailed out in very questionable circumstances by President Clinton's Commerce secretary.

But in the end, one returns to the beginning. Short selling is a rough business, and Asensio, who is very good at it, was clearly not the "type" for investment banking. However, markets have two sides, and opposing Asensio are the investment bankers themselves, promoting the over-hyped and very often fraudulent merchandise that Asensio is short-selling.

In other words, the 1970's Morgan Stanley recruiter was right; there is room for only a certain number of legitimate investment bankers. By opening the floodgates, in terms of numbers, background, and remuneration, Wall Street created not extra value but extra hype and fraud.
If you have any financial interest in the stock market at all, "Sold Short" will make your blood run cold. Read it