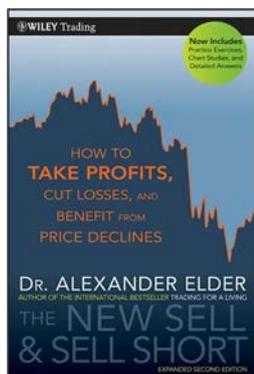


The New Sell and Sell Short



How to Take Profits, Cut Losses and Benefit from Price Declines

By Dr Alexander Elder

2008 marked the publication of Dr Alexander Elder's book *Sell & Sell Short*. Dr Elder has now revised the earlier book. It is now called *The New Sell & Sell Short*. However, he has now emphasised what it is about. The sub-title at the start of this review are now more prominent on the cover of the book: ***How to take profits, cut losses, and benefit from price declines.***

This clearly positions the new edition. ***It is not only about short selling.*** The focus of the new edition is first and foremost on two very important things that a trader must master to be successful, even if they have never shorted a stock in their lives and never intend to:

Taking profits

As every trader soon discovers, there are two important aspects to trading. One is to buy at the right time and at the right price. The other is to sell at the right time in order to harvest as much as possible of the increase in price that has occurred. No long trade (buy low and sell higher) is ever completed until the sale of the position has been effected.

Minimising losses

However, as ever trader soon discovers, there is a dark side to trading. Every trade does not work out as planned or hoped. Any long trade could go wrong. One secret to trading is not to just know how to take profits, which might be called the easy part (though it isn't), it is learning the art of cutting losses quickly in order to protect the lifeblood of the trader: his or her capital.

But wait – there is more to this book than these two parts.

The first part of the original book dealt with buying. This has been largely dropped to one short chapter. This is a welcome decision. Buying is already well covered in Dr Elder's other books such as *Come into my Trading Room* and *Entries & Exits*. However, retained from the original version of the book are invaluable chapters on psychology/risk management and record keeping. Now, many readers might think that record keeping is not important, but they are absolutely wrong. The importance of record keeping, and how it is essential in improving trading or investing skills, is one of the more important things that I have learned from Dr Elder over the years. This chapter, on its own, contains the ingredients to move our trading and investing skills to a higher plane.

The two chapters on selling short are retained in the new edition. Now, I am an investor, rather than a trader. It is well-known to my readers that I do not short the market or individual stocks as part of my investment plan. One reason for that is the difficulty of shorting in Australia unless I use derivatives, which might cause me to be taxed as a trader, or worse, my self-managed super fund might be deemed non-compliant, because I was using it to conduct a trading business. Nevertheless, a trader cannot just sit on the

sidelines as can an investor. Traders need to keep the transaction stream ticking over and failing to take advantage of downward trends is like being sent to the sin bin for half the game. Big traders can use short selling in Australia (naked short selling is out legally, but covered shorts are very legal and very possible). Smaller traders may short use derivatives, including contracts for difference, which are not allowed in the US markets. Derivatives pose higher risks than covered shorts, but may be handled if good risk management and discipline have been learned.

There is also a completely new part to the revised book. This deals with the lessons that Dr Elder has drawn from the 2007-2009 bear market. In addition he has a new chapter headed *Groping for the Bottom*, which will be of great benefit to investors as well as traders who have not yet learned shorting and want first to learn the long side of trading.

The other aspect to the new edition is that the first three parts of the book finish with a series of questions and answers. There is no separate *Study Guide* with the new edition. Instead there are 100 questions and answers in the book itself. Some readers will be tempted to just read the answers, which will be valuable, but I think it will be a mistake. The intention behind these questions is to prompt the reader to move out of reading mode into understanding mode. This requires that we stop and ponder the questions. Ideally we will write down our answers before turning to Dr Elder's answers. His answers do not just say what the right answer was – nothing is really learned by that – but explain the reasoning behind the answers. These answers are a new gold mine for traders.

The new edition is beautifully produced on glossy paper with the charts in colour. It is now a paperback.

Please consider buying the book from Dr Elder on his website www.elder.com.