The principles of short selling

The practice of short selling – where traders bet on share prices falling – has been temporarily banned for shares in certain companies by the U.S. and Britain in an attempt to stem the worst financial crisis in decades

1 Shareholder, typically an investment fund manager, ***lends*** shares to share trader who wants to short sell

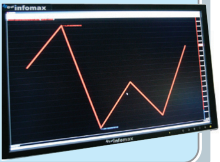
For example, 100 shares are loaned

2 Hoping price of shares will fall, trader ***sells*** borrowed shares on stock market at their current market value

100 shares sold at £10 per share = seller makes £1,000

3 As hoped, share price falls and trader ***buys*** back shares at new lower market value

100 shares bought at £8 each = total spend of £800



4 Share trader ***returns*** shares to original shareholder, along with small borrowing fee

Trader makes profit of £200 without ever owning any shares

Pictures: AP