

# What Super Traders Don't Want You To Know

Azeez Mustapha

SAMPLE

## CHAPTER 16

### James Chanos: A Short Seller with Record Success

*"The most important function that fundamental short sellers bring to the market is that they are real time financial detectives." – James Chanos*



Born in 1975, James Chanos is an American professional speculator and funds manager who is a great bear in the market. He was born to a Greek family and he attended Yale. He worked as an analyst at Blyth Eastman Webber, Gilford Securities, and later, Deutsche Bank Capital Corp (where he was also vice president).

In 1985, James founded Kynikos Associates (registered in New York), which focuses on short selling. Since then he has amassed great wealth by making popular short trades. This is the mirror of what the Oracle/Sage/Wizard of Omaha, Warren Buffett, does, which is based on fundamentals and long-term bullish outlook. James Chanos uses fundamentals and long-term bearish outlook. He has successfully shorted some popular stocks like Baldwin-United and

Enron Corporation, which have made him famous. He doesn't just sell short, he sometimes blows the whistle on some companies whose stocks, based on his analyses, would soon assume long-term southward journeys. He blew another whistle on China in 2010, that the country should be shorted. He had plausible reasons for saying this, but time will tell how true the forecast is.

How rich is James? A recent report reveals that he is worth about \$1.5 billion. His net worth testifies to the validity of his forecasts and trading strategies.

### **Lessons:**

These are some of the things that can be learned from James:

1. There are many profitable short sellers like James Chanos and Tim Knight. These are astute speculators who take advantage of bear markets while some buy-and-hold investors suffer. When a trading instrument moves south, that signifies that the bears are still willing to continue selling the seemingly undervalued market. Some of the profitable sell trades are also taken from bear markets that are already established; from the markets some people think are too cheap. Permabulls invariably suffer in weak markets – a stupid experience in such markets. In these weak markets, the permabulls pay dearly for prices that drop like stones. Why must you suffer in a bear market? You mustn't suffer at all when you have strategies that work in bull and bear markets. Of course, James also buys some stocks. He is sometimes bullish on stocks, with commendable success.
2. Like James, you will do yourself a favour by undertaking intensive research into stocks you are interested in. By doing this, you'll get an insight into the probable reality that may affect your predetermined direction. Once your positions are open, you may want to hold them for as long as the markets are in your favour, like James who holds his positions for the long term. The big profits are to be made in the long-term.
3. Sometimes, you may be correct in the long-term, but incorrect in the short-term. As a position trader or an investor, there are trade management techniques that can save you from being stopped out abruptly...

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Published by ADVFN Books



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