



Is Shorting Stocks a Wise Move in 2018?

Description

The attraction of shorting stocks is fairly obvious. It provides investors with the opportunity to profit from falling prices, which may help to offset losses from long positions held within the same portfolio.

The [recent volatility](#) in the stock market may have convinced many investors that shorting companies could be a shrewd move this year. However, could their time be better spent identifying stocks which could rise, rather than those that may fall?

A difficult market

At the present time, it is exceptionally difficult to predict in which direction the stock market will move in the short run. There are clear dangers ahead for the global economy that could weigh on investment performance.

For example, inflation may move higher over the coming months. The US is in the process of reducing taxes and increasing spending, which has historically caused an uplift in inflation. Higher price rises in the US could easily be exported across the globe and lead to a reversal of the global deflationary period which has been in play for a decade.

In response to higher levels of inflation, interest rate rises are likely to become commonplace this year. The US has already started to tighten its monetary policy, and further developments in this area seem likely. Other things being equal, a higher interest rate will hold back the progress of the stock market and could cause other assets to become more appealing on a relative basis. As such, some investors may argue that the overall trend this year may prove to be a downward one.

Long-term prospects

The difficulty in shorting stocks, though, is that the general trend of markets is upwards. Certainly, there have been extended periods of time where the market has experienced major corrections which have sent its value spiralling downwards. However, such occurrences are relatively few and far between, with the overall trend usually being an upward one.

Therefore, if an investor decides to short stocks this year and the market fails to fall, holding a short position over an extended time period may not be a logical move. It could lead to losses in the long run, since stock markets have always risen to produce higher highs.

Specific opportunities

Of course, there are likely to be opportunities to profit from individual stocks that fall in value this year. For example, investors may be able to identify companies that are less capable of adapting to a changing monetary policy outlook. Notably, companies with high debt levels may struggle to adapt to higher interest rates. Similarly, consumer goods companies may see their sales come under pressure if higher inflation reduces consumer disposable incomes in real terms.

As such, there may be opportunities to short stocks in 2018. But in terms of shorting the stock market, high levels of volatility and the potential for a return to the growth levels experienced in 2017 could mean investors may be better off focusing on buying, rather than selling.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date

2025/08/27

Date Created

2018/04/13

Author

peterstephens

default watermark