



James Chanos: Short-Selling Demonized, But Most Regulated In Finance

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NEW YORK (Dow Jones)--Short-selling has been demonized by people who don't understand financial markets, said James Chanos, the founder of Kynikos Associates, a New York investment company, and a well-known stock short-seller.

Short selling is when a trader positions for a particular asset price to fall, either as protection or an outright bet against an asset. This has spurred criticism that such speculative positioning could bring down a company's stock or increase the borrowing costs for a government, for instance, even if there is nothing materially wrong with them. Many say short selling of stocks exacerbated the financial crisis.

"It's the most regulated aspect of financial markets today," said Chanos in an interview after speaking at a panel discussion on the need for increased financial market regulation hosted by the Roosevelt Institute in New York.

Chanos, who also serves as chairman of the Coalition of Private Investments Companies, addressed an article in The Wall Street Journal Wednesday that the Justice Department has launched an investigation into whether hedge funds might have banded together to drive down the value of the euro.

A previous Journal article said big bets against the euro were emerging at gatherings including an "idea dinner" involving a number of hedge funds.

Chanos expressed that such lines of questioning misunderstood the nature of financial markets.

"If the participants in question had talked instead on going long the dollar because of the U.S. government's relative strength to trading peers in Europe, some might view that as patriotic...most

others as nothing wrong," said Chanos. "But that [trade] is exactly the same trade as going short the euro."

Unlike equities, trading currency requires an investor to bet both for and against an asset--a trader has to use some form of currency to buy another currency.

"But because it is couched as a short, it has aroused interest, suspicion and inquiry," said Chanos.

Chanos added that his firm doesn't position in the currency market, and doesn't know more of the issues raised in the Journal story beyond what was reported.

Beyond currencies, Chanos said credit default swaps were invented to protect against "non-marketable credit exposure," not exposure already in an investor's portfolio. He added that investors can just sell an asset in their portfolio if they don't want exposure to it anymore, rather than go through a complicated hedge.

"It gets to a certain point of demonizing traders and hedge funds for mistakes elsewhere," he said. Chanos noted that if regulators had paid attention to short-sellers' positioning before the financial crisis, they could have avoided the worst of the turmoil.

Meanwhile, repeating recent comments about China, Chanos said he continues to see an asset bubble building in the country's property market. He said the easiest way to trade this position is to short property companies and those that sell products for high rises in China.

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