

# CREATIVITY IN SHORT-SELLING

JUNE 2023

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# BACKGROUND



## Goal

- Deliver equity-like returns through the cycle, with significantly reduced market risk vs. traditional equity strategies

## Approach

- Classic long/short equity hedge fund; real short exposure
- Flexible, focus on global/ developed market midcaps

## History

- 2016: strategy established at prior firm, 2017: Upslope founded, 2023: SMAs converted via fund launch<sup>(1)</sup>
- Based in Englewood, Colorado

## About Me

- Prior life in investment banking (exchanges, brokers), sell-side equity research (packaging)
- Late bloomer to buy-side (moved in 2015)

Source: Upslope Capital Management, LLC ("Upslope").

1. Please see important disclosures at the end of this presentation. Private offerings available only to Accredited Investors.

# TODAY'S DISCUSSION



Targeted mostly at...VALUExVail audience (i.e. mostly long-only)



Not going to discuss traditional fundamental short frameworks – e.g. eroding moats, earnings misses, etc. (also a core Upslope focus)



“Creative” in the sense of framing and categorizing shorts differently – less academic, more practical

# GET YOUR MIND RIGHT, LONG-ONLY'S

“Did you know that shorts have unlimited potential losses and gains are capped at 100%?”

- Jerry Maguire Kid, probably



“I've seen a lot more companies go to zero than infinity.”

- Jim Chanos



# SHORT-SELLING: WHY BOTHER



There are many terrible stocks!

Blunt tool for managing risk/vol/correlation

Leverage – get even longer

Distracts from tinkering with your longs

# SHORTING INDEXES IS NOT (GOOD) SHORT-SELLING

Vanilla hedges (e.g. SPY short) = insurance

Buying insurance isn't supposed to be profitable in real world

Hedges are mostly about market timing, which is...hard

Fortunately, there are lots of lousy stocks to choose from

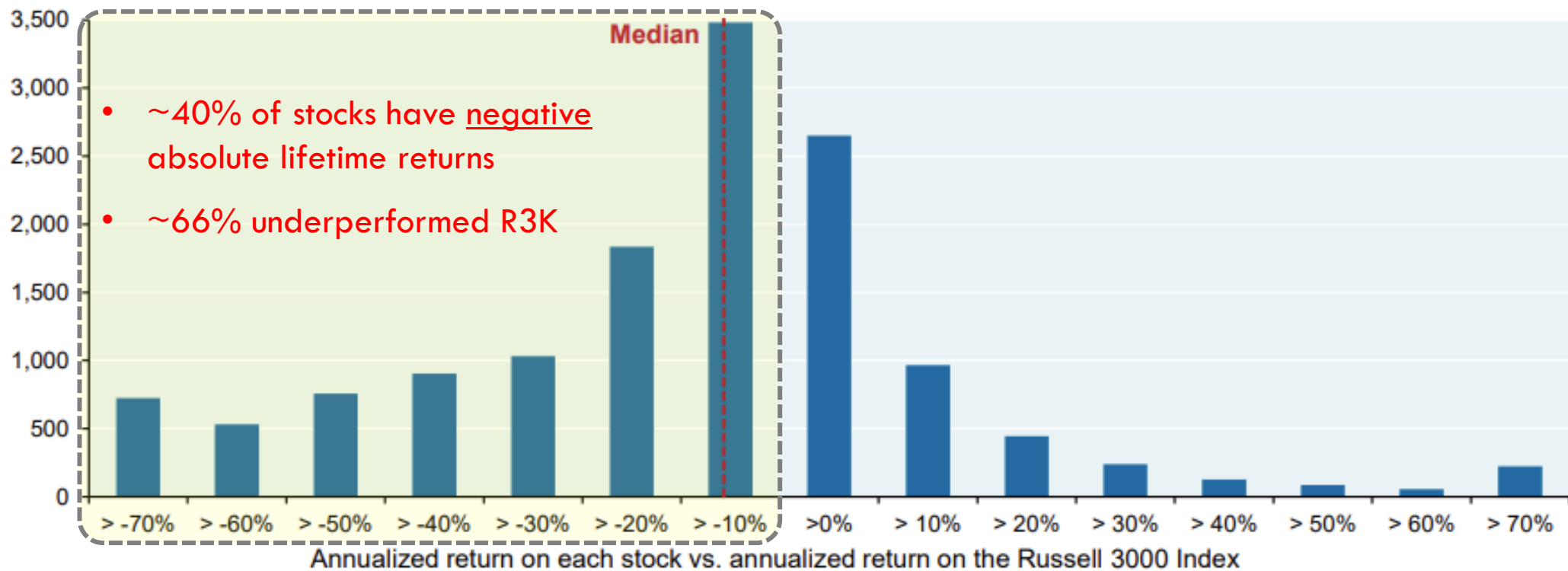


**Successful market-timer, Phil Connors**

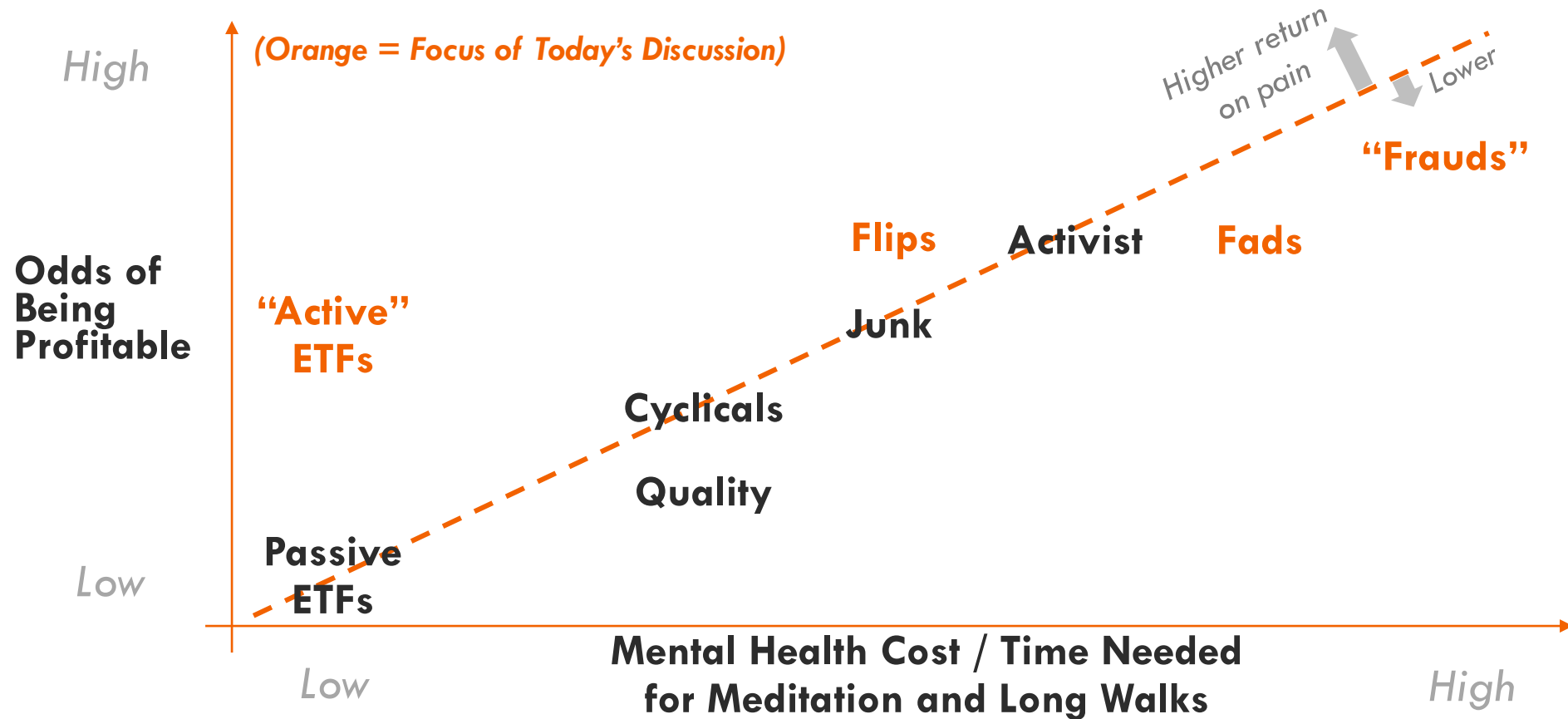
# MOST STOCKS ARE INDEED TERRIBLE

Distribution of excess lifetime returns on individual stocks vs. Russell 3000, 1980-2020

Number of stocks

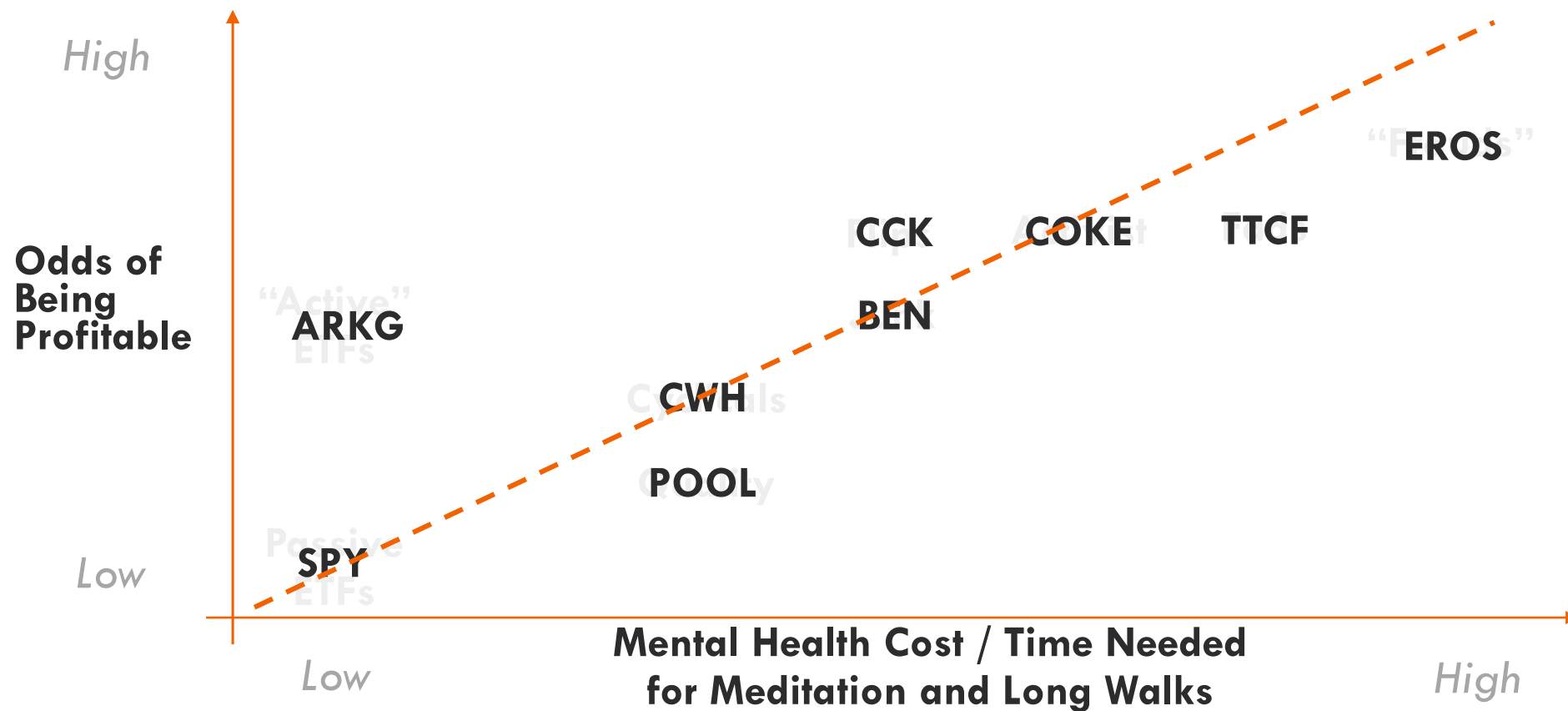


# UPSLOPE VIEW: MAPPING OUT DIFFERENT TYPES OF SHORTS

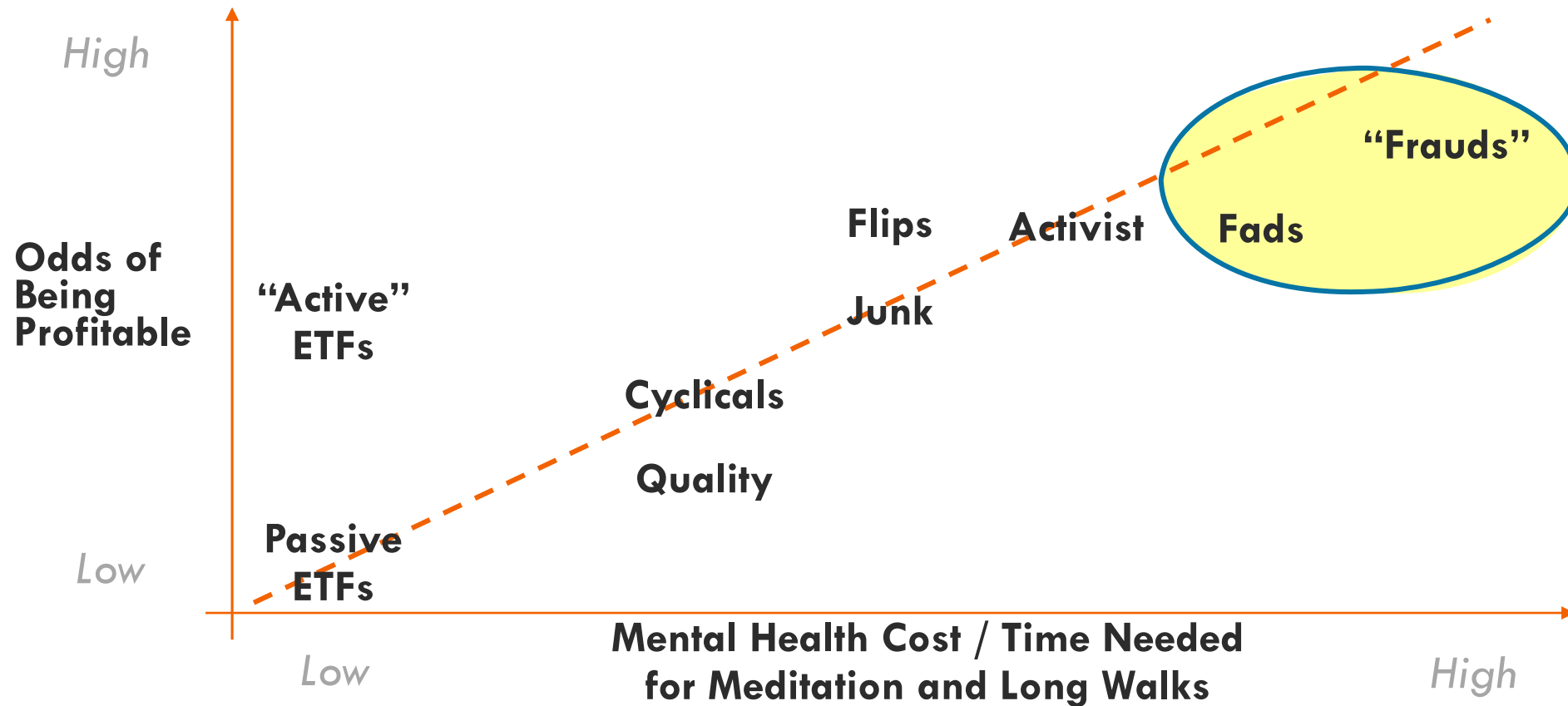




# SOME PAST (MOSTLY) EXAMPLES



# FOCUS ON: FADS & FRAUDS



# FADS & FRAUDS: IDEA SOURCING

## GOAL #1: FISH IN THE RIGHT POND (LEFT TAIL)

### Bad people promoting BS stories

- Twitter traders, “premium” chats, YouTube promoters, PMs that pushed nonsense ~2021, bucket shops

### Activist shorts

- Seeking bad (threatening) responses

### Any company glomming onto the current thing

- e.g. SPACs, IoT, blockchain, crypto, COVID, AI

### Dedicated shorts trying their hand at longs

- “I know scumbags – this one is on our side...”



***Not that hard to find***

# FADS & FRAUDS: ANALYSIS

**“Short-sale candidates are not negative earnings surprise companies...  
We’re primarily looking for companies that are going to go away.”**

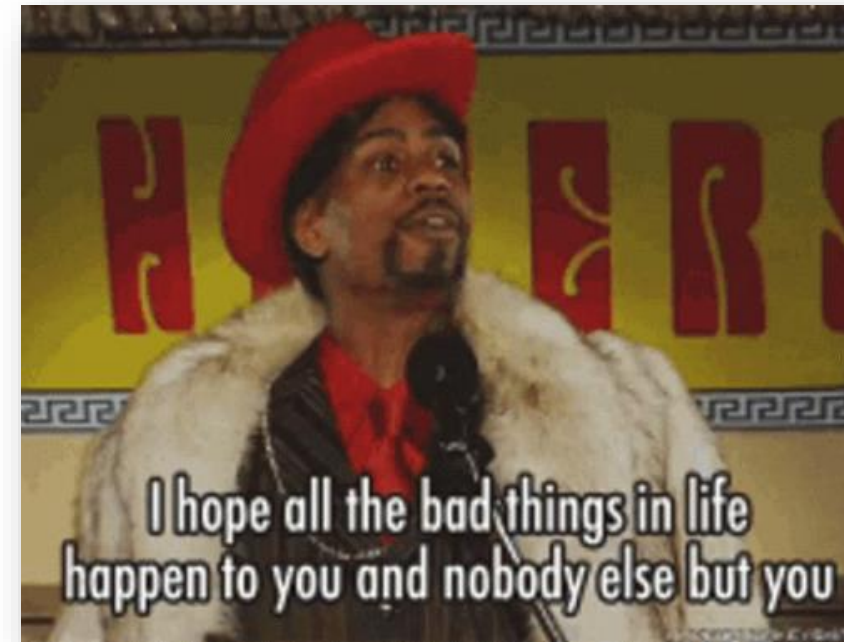
– Kathryn Staley, author of *The Art of Shortselling*<sup>(1)</sup>

## Nitpick to Death

- Quality and quantity of red flags matters
- Flawed biz/financial (limited cash flow) model
- Sleazy management/promoter actions
- Approach will not make you popular or well-liked

## Tricky Timing

- Liquidity events (lock-ups, raises) – align w/mgmt!
- Promotion (PRs) – “the pump is always out there”
- Earnings, etc.



# PILE UP THE RED FLAGS

Little, obvious lies	Constant restatements/ segment reshuffling	Leadership involvement w/past “scams”	Non-stop press releases with one-sided quotes	Fad-riders; name changers	Threatening shorts = dinner bell
Related party nonsense & weirdness	Aggressive & plentiful EPS adjustments	Unusually convoluted financials	Hazy organic growth definition/data	Celebrities/ politicians on BoD	Misc. accounting shadiness (cash never arrives, Mat Weaknesses)
Story & fin. model misaligned, for no obv reason	Shady promoters “like” and push it	CEO aggressively hitting podcast circuit	Mgmt touts insider buying to pump the stock	SPACs!	Just get to 0.5% of \$5T TAM stories

# RED FLAGS EXAMPLE: TATTOOED CHEF (TTCF)

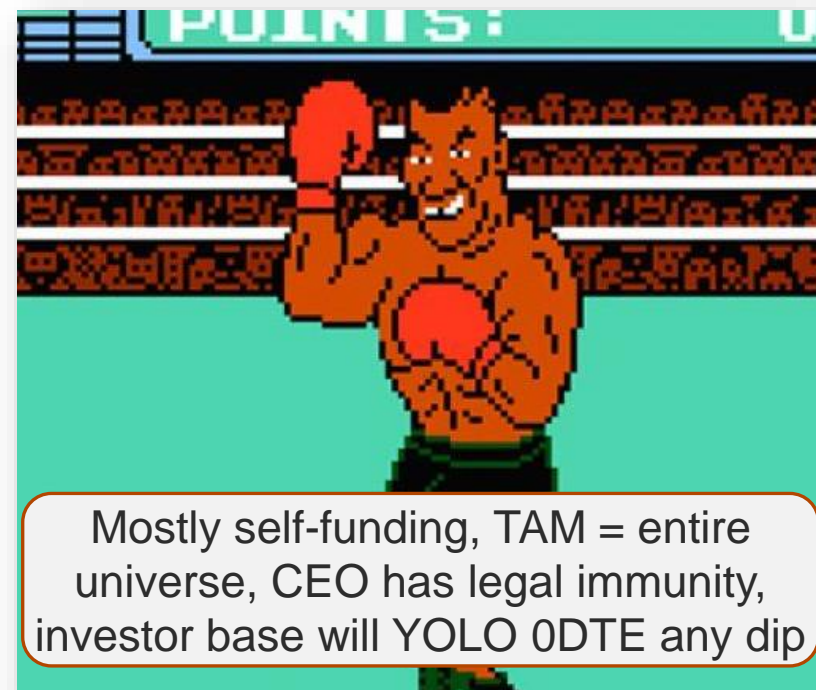
- Plant-based frozen foods SPAC
- Pandemic beneficiary
- Outrageous valuation
- Zero comp. advantages or proprietary... anything
- Peak TEV of \$1.8bn (2021), now \$90mm
- By far the most violent decline happened when YouTube promoter announced he sold**

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# NO NEED TO BE A HERO

**“Why fight Mike Tyson when you can kick grannie in the shins?”**

- Chris Brown of Aristides Capital, on short-selling

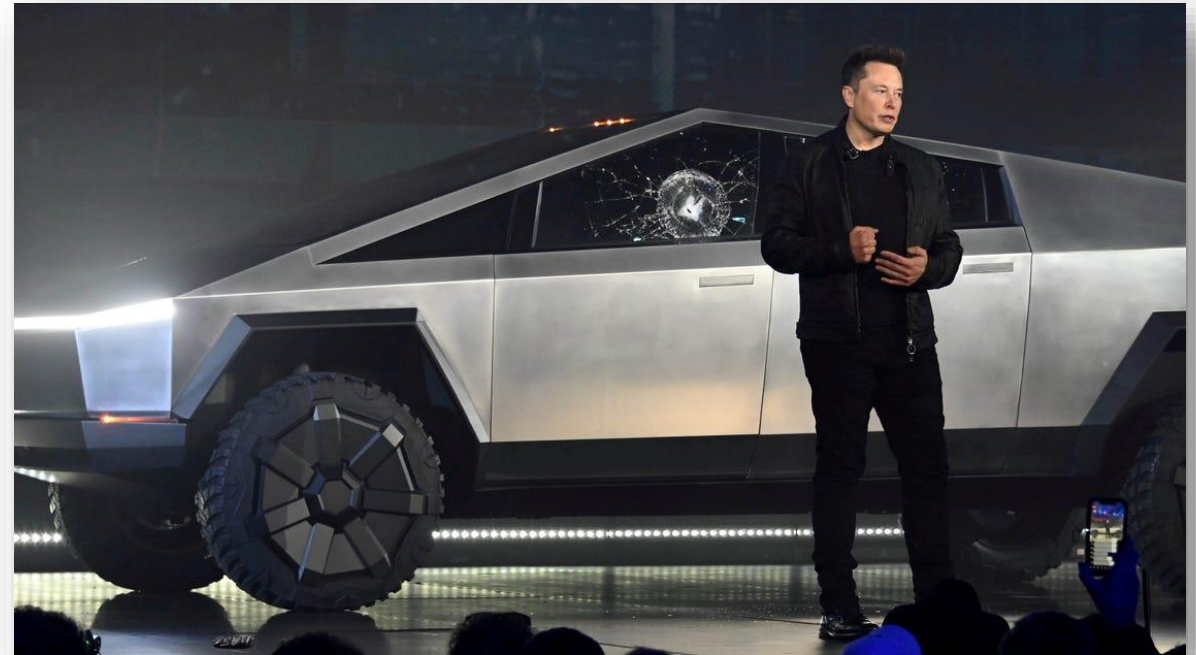


# GRANNIE OR TYSON...

*Arcimoto (electric golf cart-like vehicles) management during actual “earnings” call*



*Car Co. CEO after being exposed for “slightly” exaggerating strength of his glass (no one cared)*





# ARCIMOTO DURING BUBBLE 2.0: NOT A JOKE

## BACKSTORY

- ✓ Complete and utter BS (qualitative) story
- ✓ Near-zero chance of financial viability (\$7mm rev, -\$56mm EBITDA)
- ✓ Heavily promoted to retail
- ✓ CEO cared a lot about shorts

*Lesson learned: size carefully...I did not manage this one well (lost modest amount of \$), but this was about as hard as it gets*

FUV Enterprise Value



# GOLDEN RULE FOR FAD & FRAUD SHORTS

## GOAL #2: SIZE/MANAGE POSITIONS TO SURVIVE

- No outsized positions – you will go insane
- No shame stemming bleeding as needed
- Walk away from the screen
- **“Hang around the hoop” mindset**
  - Patience, wait for break
  - Accept that even a [70] bps position headed to 0 = strong value-add, even if never re-sized
  - Most find these types of shorts too frustrating



# SUMMARY: MAKING FADS & FRAUDS BORING

## FISH IN THE RIGHT POND

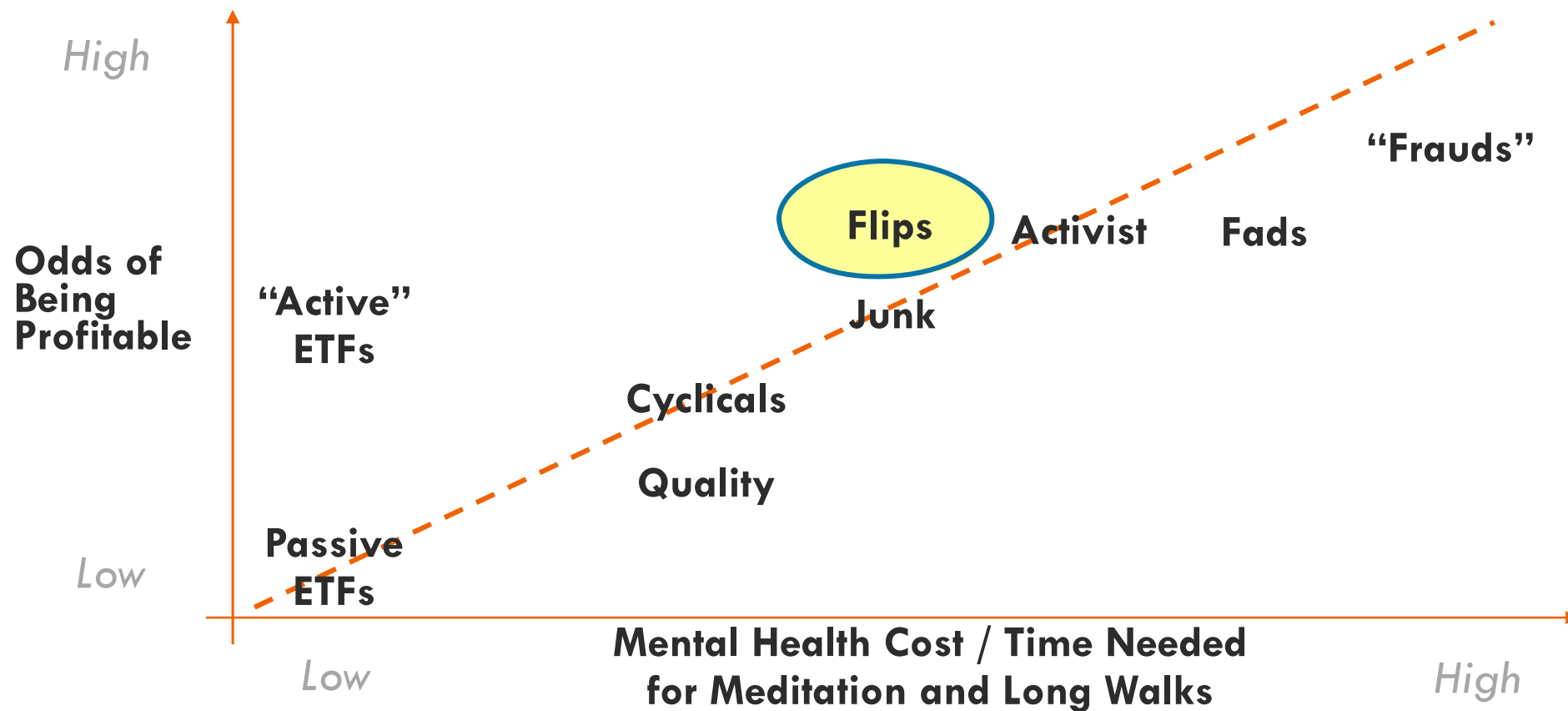
- Never a shortage of lousy stocks
- Pile up the red flags
- Granny vs. Tyson

## SIZE/MANAGE POSITIONS FOR SURVIVAL

- Size smaller than you think
- Lots of tiny positions >> big concentrated shorts
- Keep your sanity (while mitigating squeeze risk) and you can win – most don't want the hassle



# FOCUS ON: FLIPS (LONG TO SHORT)



# FLIP: LONG TO SHORT

**“IF YOU ARE GOING TO EAT SH\*T, DON’T NIBBLE.”**

- Ben Horowitz

**SELL HERE**



**NOT HERE**



# FLIP: LONG TO SHORT

## WHY?

- Know company + what drives stock well
- Immediate catalyst
- Unlikely alone in being angry or frustrated at thesis break

## HOW?

- Key ingredients: clean break to a known thesis + some healthy anger
- Often event-driven
- Requires decisive action

**ABOVE FACTS ENABLE YOU TO SIZE UP WITH CONVICTION;  
THIS IS RARE IN SHORT-SELLING**

# FLIP CASE STUDY: CROWN HOLDINGS

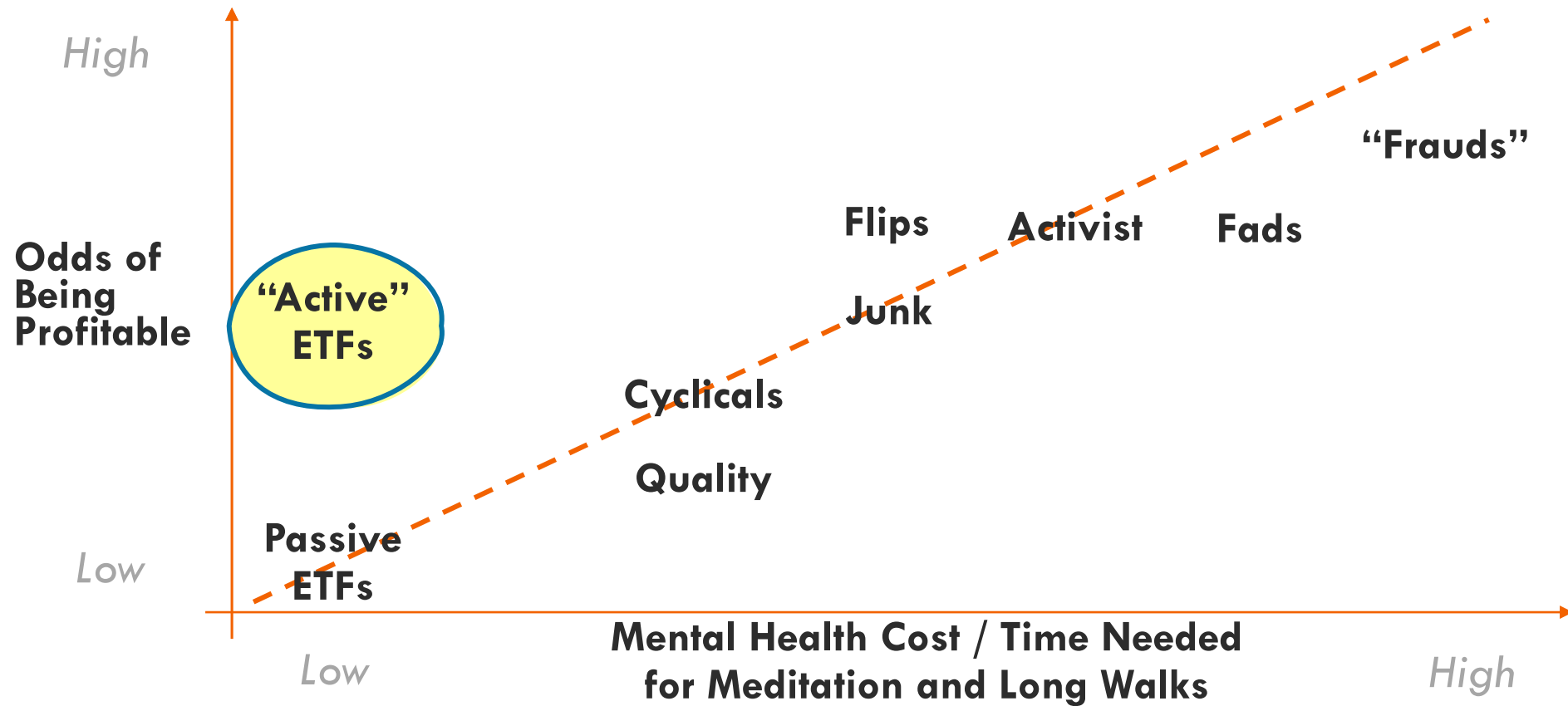
## BACKGROUND

- One of my biggest longs; pitched VALUEx '17
- Clear long thesis: cheap vs. BALL, uber-defensive, capital returns coming
- Dec '17, announced large acquisition of Signode (transit packaging biz) from Carlyle
  - Went from uber-defensive food and bev-can producer to...also a cyclical industrial packager
  - Little industrial logic (“we like the cashflow”)
- Clean thesis break: newly cyclical, levered up (no cap returns), confirmed fears about management  
**= perfect candidate for flip from long to short**



*(Sorry, Vitaliy...)*

# FOCUS ON: ACTIVE ETFs





# ACTIVE ETF SHORTS

## SEEKING: DESIRED BETA AND NEGATIVE ALPHA

- Sometimes easier to spot obvious mistakes
- Doomed strategies (levered VIX) and/or underlying picks
  - Truly active/transparent ETF strategies
  - Levered products
  - Some sponsors specialize in fads (launches = signal?)
- Analysis: review fund/sponsor strategies, track records, and track underlying holdings
  - Simple, but unsatisfying for most fundamental investors
  - (Note: can do similar analysis for promoters...)



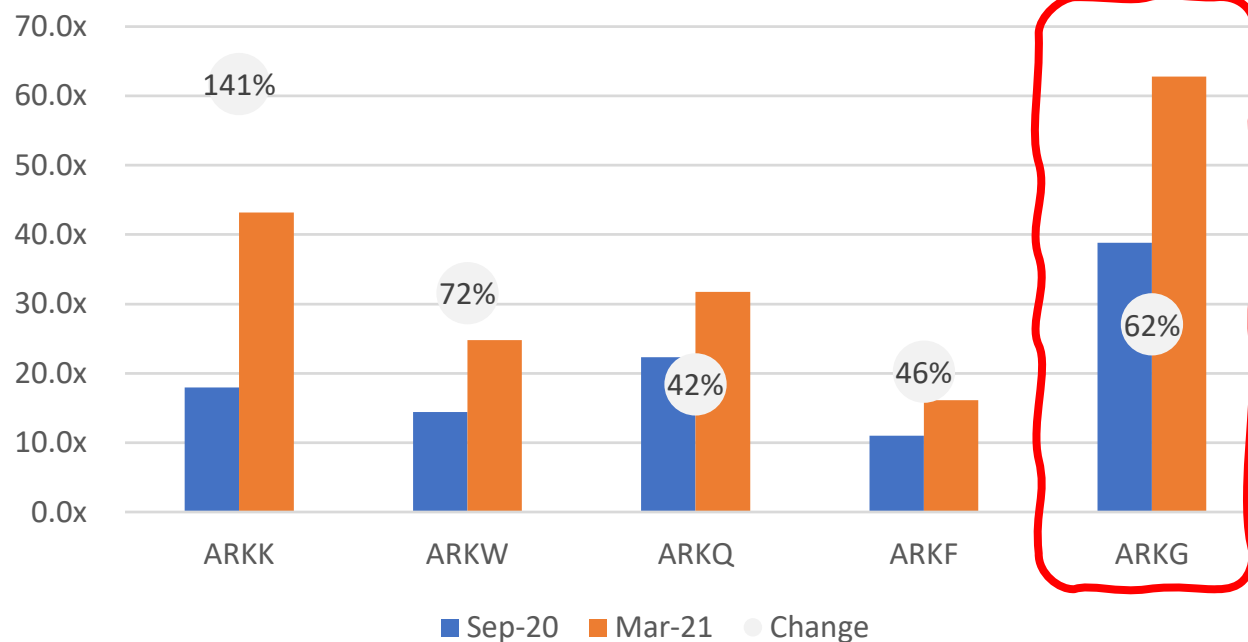
# ACTIVE ETF CASE: ARK GENOMIC REVOLUTION (ARKG)

## SIMPLE THESIS

- Ready-made basket of the most extreme-overvalued, -speculative stocks in the market
- Questionable fundamental support for portfolio decisions
- Dangerously concentrated
  - Owned huge % in terms of volume and shares O/S in many of top holdings
- **Stars aligned for capturing desired market beta, with -alpha kicker**

## MAYBE, POSSIBLY A BUBBLE

Aggregate EV/Sales Metrics by Fund



# CLOSING THOUGHTS ON 'CREATIVE' SHORTS

**Mostly an exercise in discipline – no shortage of garbage stocks**

**Size small: avoid annoyance, the need to cover, and death-by-squeeze**

**Edge is in the balance between stubborn patience + survival**

**Not about what's intellectually/morally satisfying, but what works**

Hardcore meme stocks are too far below “the line,” for me

Shorting ‘quality’ is a tempting but generally miserable experience

Style needs to fit your personality – everyone handles differently

# QUESTIONS?





# APPENDIX

# PORTFOLIO MANAGER



**George K. Livadas**

Managing Member & Portfolio Manager

george@upslopecapital.com

+1-720-465-7033

Englewood, Colorado

Before founding Upslope, George was a portfolio manager and senior analyst at a long/short hedge fund based in Denver, CO. Prior to this, he was a Vice President at BMO Capital Markets in New York, where he held various roles, including positions in equity research and investment banking. During his five years at BMO, George covered a range of industries, including packaging & forest products, financial exchanges, brokers, asset management and specialty finance. Other professional experiences include roles in debt capital markets (Citi) and alternative investments (Accolade Partners, a venture capital and growth equity fund of funds).

George earned an MBA from the University of Chicago Booth School of Business with concentrations in Finance, Accounting, and Economics, and a BA from Georgetown University in Russian Studies and General Management. He is married and has two energetic, young children and a large Bernedoodle. He has been an avid ice hockey player since the age of five, despite growing up in Los Angeles.

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