Facebook shares give up another 10% as options trading begins and investors placed largely negative bets on the company. Kaitlyn Kiernan has details on The News Hub. Photo: Reuters.

**Investors Bet on Facebook Fall**

*First Day of Options Trades Brings Wave of Skeptics; Shares Off 24% Since IPO*

By KAITLYN KIERNAN And JONATHAN CHENG

Facebook shares give up another 10% as options trading begins for the shares, giving investors yet another way to go bearish on the company. Kaitlyn Kiernan has details on The News Hub. Photo: Reuters.

**Facebook** Inc. shares slid an additional 9.6% Tuesday, as options trading began and investors placed largely negative bets on the stock's future.

Tuesday's decline to $28.84 puts shares of the social-networking company down 24% from their initial public offering at $38 a piece. Facebook’s debut has been one of the worst performing of any large company, according to data tracker Dealogic.

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Facebook’s IPO

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The Menlo Park, Calif., company is now valued at $79 billion, compared with $104 billion at the time of its IPO. Chief Executive and co-founder Mark Zuckerberg has seen the value of his stake sliced to about $14.5 billion from $19.1 billion.

Since Facebook
company's history and track the performance of other tech companies since they went public.

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"It's pretty stunning to watch," said Keith Bliss, a New York Stock Exchange floor trader and senior vice president at Cuttone & Co. "I haven't seen a turnaround in sentiment this severe in 15 years, and certainly not for an IPO."

Facebook, in a so-called quiet period following its offering, has declined to comment on the share-price decline.

Facebook's latest stumble came in spite of a broader market rally. The Dow Jones Industrial Average rose 1% and the Nasdaq Composite Index gained 1.2%, as technology stocks led much of the day's advance.

An option is a contract that allows investors to bet on a stock's direction, and as is typical for IPOs, options trading for Facebook began about a week after its stock-market debut.

In order to begin listing options on a company, exchanges must first propose the terms of the options and file for approval with Options Clearing Corp., an industry clearinghouse. While it first approved the listing of options with prices as low as $16, one exchange later applied to change that low to $1. When one exchange enacted the change, the others followed.

The trading in Facebook options Tuesday by investors big and small was intense and largely bearish. Trading set a record for any option making its debut, according to data provider Trade Alert, with nearly 365,000 contracts changing hands. Among company options, only Apple Inc.'s were more active on Tuesday.

The largest option trades bet that Facebook shares would continue to fall. These trades used options known as "puts" to wager on Facebook slipping to $25 a share by mid-July. Puts are contracts that give the buyer the right to sell stock later for a set price. These particular bets maximize their profit if the stock trades at $25.

A $25 price is considerably lower than where analysts are valuing the stock. Many analysts covering the company say the stock is worth more than its current price, with firms that recommend clients buy the stock putting price estimates on Facebook at between $40 and $48 a share. Some firms with "sell" ratings on the stock earlier had advised a $30 price target.

While bearish bets drew the most options activity, some traders were bullish, wagering shares would reach $65 by January 2014.

A declining share price doesn't necessarily hurt a company financially—Facebook still had one of the biggest U.S. IPOs ever, raising $16 billion. But in general, corporate directors and executives pay close attention to a company's shares as a real-time measure of performance. Shares can also be important for recruiting and retaining employees, and can serve as a currency for acquisitions.

So-called momentum stock traders were watching the opening of the options trading in the company with particular attention, said Cuttone & Co.'s Mr. Bliss. When trading took off in the first half-hour, with most wagers bearish, the momentum traders who try to capitalize on shifts in a share price's direction sprung into action, he said.

"The momentum guys...make a decision about which way this stock is..."
Associating Facebook CEO Mark Zuckerberg going, and then they long or short it and it becomes a self-fulfilling prophecy," he said.

Even before Tuesday, traders were able to "short" shares of Facebook, as a way to express a bearish bet, essentially selling borrowed shares in hopes of being able to buy them later at a lower price. Around 2:16 p.m. Tuesday, Facebook shares were down 10%, triggering a so-called circuit breaker that limited short selling for the rest of the session and through the close of trading Wednesday.

However, options give investors an easily accessible and, some argue, less risky way to bet on a stock's gyrations.

By buying a bearish option on Facebook rather than shorting the stock, for instance, investors can reap the gains of declines in Facebook, while capping any potential losses were shares to rebound. In contrast, if an investor were to short Facebook, any sharp rise in the stock could leave a bearish investor with hefty losses.

A significant portion of the activity in Facebook options Tuesday came in small batches of contracts, suggesting interest from small investors, according to Jeff Shaw, head of trading at Timber Hill, the market-making unit of Interactive Brokers. "There is a fairly large individual presence in this activity," he said. Market makers are professionals who take the other side of investors' trades.

One person making bearish bets Tuesday was Janet Tavakoli, who runs a structured-finance consultancy.

She decided to bet against the shares with her own money, she said, and purchased 100 contracts in September $25 puts, dated to after the expiration of the first wave of so-called lockups that restrict sales by early investors.

She is essentially wagering the stock will go below that price by then.

"I thought, given that the puts are available, let me make the point that I think this is full of hot air," she said, pointing to Facebook's mobile strategy and valuation relative to earnings as what she sees as problems for the shares.

Some people were willing to take the other side of those types of trades. Douglas Estadt, founder of Pennwall Capital, with about $10 million under management, said he had sold 65 contracts in June $26 puts and June $25 puts as a means of collecting income while also offering a good entry point to buy the stock.

Selling the contracts, which cover 6,500 shares of Facebook, allowed Mr. Estadt to collect between 20 cents and 35 cents a share. If Facebook's stock stays above the $26 level, Mr. Estadt gets to keep those proceeds. If the stock falls, Mr. Estadt could be obligated to buy Facebook shares at the $26 and $25 level.

"Either way, I'm doing pretty well. Either I collect the premium or own the shares very cheaply," Mr. Estadt said. "I'd be happy to own Facebook at these prices. Facebook is profitable, and I think it will grow."
—David Benoit, Drew FitzGerald and Alexandra Scaggs contributed to this article.

- Inside the Fumbled Facebook Offering
- What Price Should Facebook Stock Really Be?
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