The STANLEY-LAMAN Group, Ltd.

Short Squeezes - News of the Day

Recently, several well-known stocks have had swift upward (parabolic) value increases with reports that much of the upward momentum was driven by “Short Squeezes”.

This has caused short investors in these stocks to experience losses despite many of these companies having poor long-term operational fundamentals, while long investors (stockholders) have of course, profited.

These activities have captured the attention of investors who now consider buying into heavily shorted companies in the hope of finding the next squeeze.

First, a short squeeze is a valuation increase that causes investors positioned to profit when a stock’s value declines to close out their short positions by buying the stock. This increased buying causes the stock to rise more rapidly.

Given that short sellers are typically hedge funds that often utilize leverage, very little sympathy is being extended to them for the significant losses they are incurring by being squeezed.

Our view is that the recent increased short squeeze activity has been driven by the following:

a. High frequency traders and large hedge funds pushing these trends to profit off of the increased trading activity (e.g. “toll collectors”), leaving individual investors to be the last buyer (“bag holder”)

b. A new generation of investors enamored with “stories” as opposed to profitability and financial health, having access to free digital trading platforms

Examples:

GameStop (Ticker: GME) has been a heavily shorted stock as investors have questioned the viability of selling games from mall-based stores in an era when games can be downloaded on the internet from home.

However, several weeks ago the company reported strong e-commerce sales growth. Since then, the stock has risen from below $40 to $310 and is now above its 2007 all-time high.

It has been speculated that the investor blogs, such as WallStreetBets and Reddit, with their large followings of young cult investor, have strongly influenced this meteoric rise.

Blackberry (Ticker: BB), is a company that has generally been viewed as the company that "had it all" early in the smart phone space but promptly lost out to Apple.

In December, a partnership with Amazon Web Services was announced which began the stock's rise, reaching the $20 level for the first time since 2011.

Issues with buying into heavily shorted companies include:

A. Eventually, the squeeze ends as short investors cover their positions by buying shares, after which a company is left with its fundamentals for investors to contemplate which can often lead to a sharp decline (examples: Rite Aid, First Solar, Tilray, Long Blockchain)

B. As the market cap goes up and options, which many speculative investors use, become more expensive, an increasing amount of capital is required to bet on the stock; this results in increasing the risk of loss

C. Cult investors who have yet to experience big investment losses, are prone to selling at the worst time thereby exacerbating declines

D. Popular Short/Cult Stocks Include: Plug Power Inc; Beyond Meat; Tesla; AMC Networks; Bed Bath & Beyond

In conclusion, this strategy is extremely risky, requiring exceptional timing and luck, and can lead to a permanent loss of capital.

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Bios

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