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Short Sellers Hang Tight Despite Rising Shares Prices

The January rally has seen short sellers increase their bets in stocks which underperformed in the final month of last year, despite the fact that these shares have rallied in January.

The recent rally has seen many shares which underperformed in 2011 recover sharply in what some market commentators have attributed not to rallying fundamentals and economic rebound, but to changes in the short base. Leading the way is Sears, whose massive 44% return year to date has been coined as “Classic Short Squeeze” by Credit Suisse analyst Gary Balter. Looking at securities lending flow, we see little to support these claims, with the best performing names actually seeing an increase in short interest on average as opposed to a disorganized rush to close out short positions in the face rising share prices.

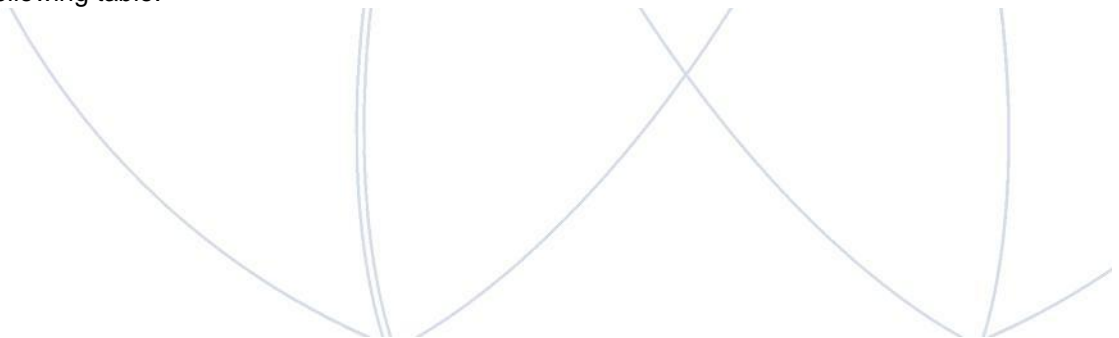
We start by grouping the 2349 shares in the US with a market cap greater than 400 million USD by their monthly performance in the last month of last year as highlighted in the following table. We see that the shares which performed worse in December had the highest short interest with 6% of shares shorted on average at the end of the year. Short sellers also took some profits off the table in December with the worst performing stocks seeing the biggest fall in short interest.

| US Share Price Performance | | | | | | |
|----------------------------|------------------|------------------------------------|--------------------|--------------------------------|-------------------|---------------------|
| December Performance | Number of Shares | Average Short Interest In December | Change In December | Current Average Short Interest | Change In January | January Performance |
| <-10% | 165 | 6.01 | -0.35 | 6.30 | 0.29 | 11.7% |
| -10%<>10% | 2011 | 4.08 | -0.21 | 3.96 | -0.11 | 6.3% |
| >10% | 173 | 5.24 | -0.21 | 5.09 | -0.15 | 6.3% |
| All Shares | 2349 | 4.29 | -0.21 | 4.20 | -0.09 | 6.7% |

Looking at share price performance since the start of the year, we see that the shares which performed the worst in December have seen their share price rebound with these shares increasing by 11.7%, nearly twice the market average.

On the short interest side, we see that short sellers have decreased their holdings overall with the average short interest across our universe falling .01% of outstanding shares to 4.2% of shares outstanding. Most notably, we see that the shares which underperformed at the end of last year have actually seen their short interest increase .3% of shares outstanding on average to 6.3% of shares. This leaves little evidence to attribute the recent rise in share price to short sellers being squeezed out of their short positions. On the contrary, short sellers have been increasing their bets in shares which underperformed in the last month of 2011, making it the only one of our portfolios to see such an increase.

We then dig deeper to the 20 shares which have seen the best performance since the start of the year as shown in the following table.



| Top 20 Performing US Equities (Year to Date) | | | | | | |
|--|--------|-------------|----------------------|---------------------|------------------------|---------------------|
| Company | Ticker | Share Price | December Performance | January Performance | Current Short Interest | Change Year to Date |
| Inhibitex, Inc. | INHX | 24.6 | -27.7% | 124.8% | 1.61 | 0.68 |
| Idenix Pharmaceuticals Inc. | IDIX | 14.9 | -2.0% | 100.0% | 3.64 | -1.67 |
| Dendreon Corp. | DNDN | 14.0 | -13.2% | 83.8% | 19.75 | 1.95 |
| Georgia Gulf Corp. | GGC | 35.0 | 3.1% | 79.4% | 2.49 | -0.19 |
| IPG Photonics Corporation | IPGP | 53.6 | -16.5% | 58.2% | 5.74 | 3.12 |
| InvenSense, Inc. | INVN | 15.7 | -13.4% | 58.0% | 2.44 | 1.45 |
| Flagstar Bancorp Inc. | FBC | 0.8 | -9.8% | 56.6% | 0.67 | -0.20 |
| Venoco, Inc. | VQ | 10.5 | -24.3% | 55.7% | 0.24 | -0.02 |
| Sears Holdings Corporation | SHLD | 45.8 | -44.7% | 44.1% | 11.26 | 0.27 |
| Regeneron Pharmaceuticals, Inc. | REGN | 79.4 | -7.9% | 43.3% | 9.44 | -3.22 |
| Terex Corp. | TEX | 19.3 | -17.1% | 42.9% | 12.27 | -1.77 |
| Westlake Chemical Corp. | WLK | 57.3 | -2.5% | 42.3% | 4.67 | 1.58 |
| Achillion Pharmaceuticals, Inc. | ACHN | 10.8 | 10.4% | 41.1% | 6.30 | 0.22 |
| Hyperdynamics Corporation | HDY | 3.4 | -34.5% | 38.4% | 14.34 | -0.29 |
| Cirrus Logic Inc. | CRUS | 21.9 | -3.3% | 38.0% | 8.63 | -1.09 |
| KB Home | KBH | 9.2 | -11.3% | 37.5% | 34.47 | 2.27 |
| Synageva BioPharma Corp. | GEVA | 36.5 | 47.9% | 37.1% | 2.20 | 0.15 |
| HFF Inc. | HF | 14.1 | -8.0% | 36.6% | 1.44 | 0.09 |
| MAKO Surgical Corp. | MAKO | 34.3 | -16.1% | 36.2% | 21.55 | 2.67 |
| Mesabi Trust | MSB | 34.2 | -2.4% | 36.2% | 1.48 | 0.33 |

Of the top 20 which have seen their share price rally by at least 36% year to date, we find 10 of shares which saw a 10% price decline in December (in bold). Looking into these shares, we see average short interest currently standing at 12.4% of shares outstanding, a number which increased by 1.04 since the start of the year.

Standouts from the list include Dendreon which has seen its share price rally 84%, whilst short sellers have increased their positions by around 10% to 19.7% of shares. Also highlighted in the screen is Sears, whose 12% short interest has actually increased slightly in January in the face of a substantial rally. Our screen did highlight some short covering in Terex whose short interest has fallen in recent months from highs of 18% of shares to 12.3% currently.

Conclusion

The recent rally has been focused on shares which underperformed at the close of last year. These shares have higher than average short interest and our data does not seem to point to any rush of short sellers closing out their positions.

