
Big Short Interest: Should You Be Worried?

Chief Investment Officer, Steve Johnson, discusses what can take place when short interest arises in a stock and raises the question of whether this should be a cause for concern.

Watch this video to gain an insight into the upside of knowing both the bear and bull case for a stock.

<https://youtu.be/rwikLBtmL7A>

Transcript:

Hi everyone, and welcome. It's Steve Johnson here, Chief Investment Officer at Forager Funds Management. Today we're going to talk about shorting stocks. Not us shorting stocks, but when others are shorting a stock that you're invested in.

Chloe walked in this morning, swearing her head off. That's not true, she wasn't actually swearing, but she was very unimpressed that the share price of Stitch Fix was up 30% in the aftermarket. This is an online retail stock that she's been researching. They put out some pretty good results yesterday, and the share price jumped 30%. The thing that was really surprising was she said there is a 37% short interest in the stock. Now this means that of the company's total register, 37% of its shares have been sold short by hedge funds, who are betting that the share price is going to go down. Those people are probably going to be losing a lot of money when the stock starts trading tomorrow, and they're probably going to have to buy it to cover their positions.

This brought up a really interesting issue. We've actually had a stock in our international fund, Celsius, which has had a big short interest in it for most of the past year and the share price has gone up sevenfold. The question is, when you see a big short interest in your stock should you be worried that a lot of people want to sell it? Or should you see it as a reason why the share price might react very strongly if they can produce good results? The answer is obviously a bit of both. We're always concerned when a short interest arises in our stock, particularly when one of those big shorting reports comes out.

The good news about that is we always want to know what the bear case is on a stock if we've got a strong bull case, and understand why people on the other side are selling it. Usually with the shorters, they're pretty public about their concerns. You can go and get the report, you can read it, do your own research and work out whether you think they are right or not. We've been willing to overlook their concerns in a few situations. I think the big upside in these stocks is that when they are wrong, it can cause a surge in the share price in a very short period of time as they're all rushing to get out of their positions. You can see the short interest in all of the ASX listed stocks on the ASX website. It's a really good idea if you are researching something on the

long side, go and have a quick look at how big the short interest is. Then you can usually Google a short interest report about the company that you're looking at. It's an interesting way of seeing the bear case.

That's it for today. We're coming up to Christmas over the next few weeks, but we'll keep producing a few videos to keep you up to date with what we're doing. Thanks for tuning in.