



Big Short Activity in These 5 Canadian Stocks

Description

When do you sell a stock?

This is the question the stumps so many investors. The standard answer: unload your shares if the fundamentals of the underlying business start to deteriorate. However, usually by the time it becomes readily apparent that a company is in trouble, the stock price has already taken a tumble.

That's why it's worth paying attention to short sellers. These tend to be highly sophisticated investors who are skilled at identifying troubled companies. Numerous academic studies have shown that increased short-selling activity is a bad indication for a stock's prospects.

Fortunately, we can track short selling activity. Twice a month the Toronto Stock Exchange releases its [Top 20 Largest – Consolidated Short Position report](#). Typically, only the largest companies appear on this list – think of stocks like **Royal Bank**, **Suncor**, or **TD Bank** – which attract a lot of attention thanks to their sheer size. Occasionally, however, new names will show up. This can single that something is amiss.

The table below summarizes the big movers in the this week's mid-March report.

Company	As of March 15	As of Feb 28	Change
BCE	24,543,426	15,460,857	58.75%
Thomson Reuters	21,577,955	17,887,483	20.63%
Bankers Petroleum	23,849,948	21,976,070	8.53%

Crew Energy	21,192,487	20,874,265	1.52%
Loblaws	22,531,282	22,373,715	0.70%

Source: TMX Group

Thanks to its 5% yield, **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) is a tough stock to short. Short sellers are responsible for covering any dividend payments making BCE becomes an expensive stock to bet against. It takes a lot of conviction to take this kind of position against a company that pays out a big yield.

So why would short sellers pay such a premium to bet against the stock? BCE's valuation is looking stretched. The company's 5.1% dividend yield is the lowest in over a decade. And a 18 times trailing earnings, the stock is valued as a high-flying growth name.

Short sellers also appear to be targeting Albanian oil producer **Bankers Petroleum** (TSX:BNK) for the same reason. The stock rose to a two year high last month after reporting a 23% increase in oil sales. Given that the company's share price is up almost three fold over the past nine months, clearly the shorts are getting a little nervous about the stock's valuation up here.

Other bets appear to be over concerns about the underlying businesses.

Thomson Reuters' ([TSX:TRI](#))(NYSE:TRI) business has been struggling in recent years as its main customer base, financial institutions, slash costs, pull back on spending, and reduce headcount. Late last year the company cut 3,000 positions, or roughly 9% of its workforce. And Thomson Reuters fourth-quarter operating profit dropped 50% year-over-year, in part because of previously announced charges related to job cuts and other restructuring expenses.

Over the past several reports we have also seen an uptick in the number of bearish bets against **Loblaws** ([TSX:L](#)). The company remains in a relentless price-war with rivals like **Wal-Mart**, **Sobey's**, and **Metro**. Thanks to the constant margin pressure, management expects no profit growth in the upcoming year .

Foolish bottom line

However, before using this list to justify selling any stock, it's important to note that short selling can also used as a method to mitigate risk rather than just an outright trade against a company. It's certainly possible that these bearish bets represent one part of a bigger trade. However, big changes in short-selling activity can be an early warning sign that something is amiss.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)

2. TSX:BCE (BCE Inc.)
3. TSX:L (Loblaw Companies Limited)
4. TSX:TRI (Thomson Reuters)

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