



## Big Short Activity in These 5 Canadian Stocks: What Should Investors Do?

### Description

An old Chinese proverb says flies usually hover over rotten eggs. The same could apply to investing. More times than not, the next stock market dud attracts the attention of short sellers long before the fundamentals of the business start to deteriorate.

Short sellers tend to be highly sophisticated hedge funds and institutions who are skills at processing information. They sell shares they don't own hoping to profit when the stock falls and a number of studies have shown that following short activity of these investors is a profitable strategy.

How can you follow these smart money investors? Fortunately, the **TMX Group** publishes its [Top 20 Largest Consolidated Short Position Report](#) twice a month. It reads like a window into the minds of these traders. The table below summarizes the biggest changes in the latest report.

Company (Ticker)	As of April 30	As of April 15	Net Change
<b>Bombardier</b> ( <a href="#">TSX: BBD.B</a> )	68,260,780	53,910,287	14,350,493
<b>Kinross Gold</b> ( <a href="#">TSX: K</a> )(NYSE: KCG)	40,404,398	27,141,880	13,262,518
<b>Talisman Energy</b> (TSX: TLM)(NYSE: TLM)	26,383,942	16,114,131	10,269,811
<b>Penn West Petroleum</b> (TSX: PWT)(NYSE: PWE)	29,131,026	19,841,806	9,289,220
<b>Potash Corp.</b> (TSX: POT)(NYSE: POT)	27,124,099	18,314,209	8,809,052

Source: *TMX Group*

Bombardier has stumbled after several costly delay to its CSeries. Shares took a tumble last week after the company reported that it had burned through more cash in the first quarter than expected as it continues to spend heavily in its new CSeries aircraft and other aerospace programs. Management has tried to reassure investors that it sees no need to seek government aid or additional funding for its operations but investors don't seem to be convinced.

Kinross Gold appeared on the list though it was joined by several other gold miners in the Top 20 including **Lundin Mining**, **New Gold**, **Detour Gold**, and **Yamana Gold**. The entire industry has been under pressure thanks to sagging metal prices and now many companies are struggling just to keep the lights on. Without a sudden surge in gold prices, the bankruptcies could start to mount.

There are plenty of other resource names on this list as well. Talisman's past leaders tried to turn the firm into a global empire. That strategy failed and now Talisman is trying to pare down its unwieldy asset portfolio.

Management would like to sell off its declining North Sea business, but contractual obligations with its operating partners have made this more difficult than anticipated. Other options such as splitting the company are also off the table. Short sellers are now betting that this turnaround could take longer than expected.

Finally, Penn West Petroleum has been struggling to reinvent itself amid weak commodity prices and an abundance of assets on the market. Like Talisman, the company is trying to pare down the scope of its operators in order to become a more efficient producer and grow profits.

However, while shrinkage is guaranteed, the growth isn't. Investors are worried that scaling down operations could impair production more than management is letting on.

To be clear, increased short activity doesn't always represent an outright bearish bet on a specific name. Before jumping into the list, it's important to realize these positions could only be one leg of a bigger trade. However, dramatic swings in the short activity is still a red flag.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSX:K (Kinross Gold Corporation)

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