



## Alert: Big Short Activity in These 5 Canadian Stocks

### Description

How do you know when to sell a stock?

Of course, the obvious answer is to unload your shares when the fundamentals begin to deteriorate. But in most cases, stock prices start falling long before trouble is apparent.

That's why I always turn to my favourite early warning signal. This handy little tool can alert you of trouble well before any bad news arises. Sometimes, this indicator spots trouble *months* before the negative headlines hit the press.

I'm talking about short sellers. These investors sell shares of companies they don't own betting that stock prices will decline. Generally speaking, they tend to be the most sophisticated players in the market and are highly skilled at identifying troubled businesses.

And I'm not the only one who admires this group. Numerous academic studies have shown that increased short activity in a stock is a good signal to head for the exits (usually in a hurry).

Thankfully, there's now an easy way to track the activity of short sellers. Twice a month, the **TMX Group** releases its Top 20 Largest Consolidated Short Position Report. Big swings in activity can signal that something is amiss. The table below summarizes the largest movers in the latest report.

Company	Jan. 15	Dec. 31	% Change
<b>Pengrowth Energy Corp.</b> (TSX:PGF)	21,524,772	14,774,139	45.69%
<b>Bank of Nova Scotia</b> ( <a href="#">TSX:BNS</a> )( <a href="#">NYSE:BNS</a> )	22,551,944	18,928,062	19.15%
<b>Toronto Dominion Bank</b> ( <a href="#">TSX:TD</a> )( <a href="#">NYSE:TD</a> )	42,852,930	36,102,142	18.70%
<b>Bombardier, Inc.</b> ( <a href="#">TSX:BBD.B</a> )	44,859,965	41,814,535	7.28%
<b>Lundin Mining Corporation</b> (TSE:LUN)	30,286,054	37,258,346	-18.71%

Source: *TMX Group*

What happens when you combine lower energy prices and an overstretched balance sheet? You get

big losses. The doldrums in the oil patch have hammered energy stocks. But drillers that took on a lot of debt during the previous boom have been hit worst of all.

Take Pengrowth Energy, for example. The company has one of the highest debt-to-asset loads in the industry. The one-two combo of big liabilities and falling commodity prices has obliterated the stock.

That said, Pengrowth has taken some proactive steps to shore up its balance sheet. Last week, management deferred expansion at the company's Lindbergh thermal oil sands project, slashed its 2015 capital expenditure budget, and chopped its monthly dividend in half. But what this company really needs is a big rally in oil prices. Short sellers don't see a turnaround any time soon.

Weak oil prices are also having ripple effects through the financial sector. Short sellers have been stepping up their bets against the Bank of Nova Scotia and the Toronto Dominion Bank on worries that falling energy prices could prick the country's bubbly housing market. Needless to say, that would result in big losses for lenders.

But there was some good news in this report. Short-sellers are scaling down their bets against gold producer Lundin Mining. No doubt this is largely due to higher metal prices. However, there's growing optimism that cost-cutting efforts and asset sales may have finally put a bottom underneath the stock.

To be clear, these positions are not always outright bearish bets against a company. Short sales may only represent one leg of a much larger trade. However, investors should take note when they see such large swings in activity.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BBD.B (Bombardier)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:LUN (Lundin Mining Corporation)
6. TSX:TD (The Toronto-Dominion Bank)

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