



Bombardier Inc.: There Could Be a Big Short Squeeze in the Near Future

Description

To put it mildly, **Bombardier Inc.** ([TSX:BBD.B](#)) has its fair share of detractors in the investment community. And that was confirmed on October 5 when **TMX Group Limited** released its latest data on short positions for TSX-listed companies.

According to the numbers, investors have stepped up their bearish bets on Bombardier. All in all, 60 million of the company's shares are sold short, an increase of nearly 30% in just two weeks.

It's easy to see why investors lack confidence. Bombardier continues to burn through cash and may run out of liquidity some time next year. Making matters worse, the CSeries hasn't secured any firm orders for over 12 months. And the founding family is determined to retain voting control, even though the company has been mismanaged for years.

But with so many investors betting against the company, this may have actually created a golden opportunity.

Short selling

For those of you unfamiliar with a short sale, it starts with an investor borrowing a company's shares, then selling those shares immediately. The investor then buys back the shares at a later date in order to cover the initial loan. So, if the shares decrease in value, the investor profits, and vice versa.

Short selling can be very profitable if done well, but it comes with one major problem: unlimited downside. Remember, if you buy a stock, the share price can't go below zero. You can only lose what you put in. But there's no upper limit on a stock price.

For that reason, when short sellers suffer losses, they are often forced to reverse their bets. This can increase a stock's demand after its price rises, causing the stock price to increase more, and so the cycle continues. If other investors realize what's going on, then they will jump on board too, which strengthens this cycle even further. This is known as a "[short squeeze](#)" and can cause stock prices to soar in a very short time.

What makes Bombardier a candidate for a short squeeze?

Whenever there are a lot of a company's shares sold short, there is potential for a short squeeze.

Short squeezes also tend to occur for companies that are thinly traded. After all, short sellers have more difficulty covering their positions on stocks that don't trade that often. And Bombardier's shares are more thinly traded than they initially appear; on days when there's no significant news, it's common for less than five million shares to trade hands.

If you need any more proof, look at what happened on October 6. Reports surfaced that Bombardier had discussed selling a majority stake in its CSeries to **Airbus**, but nothing happened. Yet the stock price still jumped 15% in response.

And a CSeries sale, or a sale of Bombardier Transportation, could still happen. If it does, then we could see a big short squeeze, and you'll want to be holding the shares along the way.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/07/21

Date Created

2015/10/12

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