



What to Do When Short Sellers Attack

Description

As long-term investors, many of us take the time to do all the homework necessary to increase our chances of achieving a return that meets our goals over the long run. If you're a follower of Warren Buffett, then you'll know the importance of patience and the value of waiting for the opportune time to pull the trigger on a stock that you've been tracking. As the Oracle of Omaha once said, "The stock market is a no called strike game. You don't have to swing at everything — you can wait for your pitch."

Even after you've done your due diligence to ensure a stock is a right fit for your portfolio, things could take an unexpected turn if a short seller begins his attack on a stock you're invested in, especially high-profile short-sellers with impressive track records such as Andrew Left or Marc Cohodes.

When a short attacker releases a short thesis on a stock you own, many investors have no idea what their course of action should be. Should they buy into the short seller's thesis and offload all their shares or just a portion? Or should they stick with their gut if their original thesis is still intact?

It's a stressful situation to be in as an investor, especially if you've grown attached to market darlings such as **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)), which, according to many pundits, still has the best growth days ahead of it. Prior to Andrew Left's short attack on Shopify, the sentiment was overwhelmingly positive, but this changed suddenly, and shares took a double-digit plunge.

While it's natural for any investor to panic in such a scenario, it's usually a better idea to keep your cool before you take any action. Once you're thinking clearly, it's a good idea to understand the short attacker's thesis through their reports or videos.

After going through the short attacker's report, if you're still convinced that your long-term thesis is sound, then hang on to your shares or buy more on the dip.

If there are allegations of fraud or shady business practices that have been going on, or any evidence that your original thesis may have a flaw, then it may be time to dump your shares before things get uglier.

In the case of Shopify, some of the research from Mr. Left was suspect to many investors, including the

use of internet searches to support his thesis. While there are many issues to be worried about from Mr. Left's short report, including overvaluation and questionable marketing tactics, the attack didn't appear to be as convincing or shocking as his short report on **Valeant Pharmaceutical Intl Inc.** (TSX:VRX)(NYSE:VRX), which threw the stock straight into the abyss.

Bottom line

Just because a high-profile short seller is shorting a stock you own doesn't mean you should jump ship immediately. If there are no signs of fraud at the business, and if you still believe in the company and have the confidence to buy more, then you should.

After all, high-profile short sellers aren't right all of the time. Just look at Bill Ackman and his **Herbalife Ltd.** short.

If, however, you're convinced that your original thesis has weakened following a short seller's allegations, then you should probably at least cut down on your exposure because of the increased risk of a chain reaction of negative developments that may follow a short seller's original report.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:BHC (Bausch Health Companies Inc.)
4. TSX:SHOP (Shopify Inc.)

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