



Will Ontario Regulators Be Playing Defence for These Stocks in 2018?

Description

In a recent interview, Maureen Jensen, chair of the Ontario Securities Commission (OSC), laid out how the OSC would respond to emerging market phenomena moving forward. Jensen said the OSC would intensify scrutiny for companies accused of wrongdoing. More interestingly, Jensen also took on the wave of so-called short-and-distort campaigns that impacted the Canadian market in 2017.

Perhaps the most noteworthy short campaign in 2017 came courtesy of former hedge fund manager Marc Cohodes. Cohodes has drawn attention to issues at **Home Capital Group Inc.** ([TSX:HCG](#)) and the broader Canadian housing market for several years. He was vindicated this year. In March, Home Capital president and CEO Martin Reid was fired, and several officers and directors were issued enforcement notices from the OSC.

Home Capital has since rebounded after a sizable bail out courtesy of **Berkshire Hathaway Inc.** The stock has climbed 23% over a three-month span, and the company returned to profitability in the third quarter — reporting net income of \$30 million.

In November, I'd [covered](#) the brief reaction that Cohodes had to the third-quarter results. He was critical of Home Capital's failure to originate even with its strong liquidity position. With Canadian housing facing the challenge of new OSFI mortgage rules to kick off 2018, it is likely that real estate will continue to attract the attention of short sellers.

Laurentian Bank of Canada ([TSX:LB](#)) did [little](#) to alleviate concerns with mortgage underwriting in Canada. The company released an impressive fourth quarter, apart from an announcement that an internal audit revealed \$89 million in mortgages with "client misrepresentations." Shares of Laurentian have declined 4.3% month over month as of close on December 28.

The momentum at **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) appeared unstoppable before short seller Andrew Left released a scathing report in his investment research newsletter Citron Research. The newsletter accused Shopify of promoting "get-rich-quick" schemes, and Left stated that it was up to 50% overvalued.

Shopify stock rose 160% to hit an all-time high of \$151.88 in late September before Left released his

newsletter in early October. Over a three-month span, Shopify stock has fallen 11.2% as of close on December 28. Shopify CEO Tobias Lütke dismissed Andrew Left as a “troll” before the company released its third-quarter results on October 31.

Shopify posted revenue growth of 72% and an 86% jump in gross profit. The company also boasted that it saw \$1 billion in sales through its retailers on Black Friday and Cyber Monday. Even so, latent concerns remain over transparency at Shopify.

“Short selling has always been part of the market,” Jensen said in a recent interview with the *Financial Post*. “But now people are using short selling to actually move the market ... there are very large short sellers who actually have the business model of reviewing companies and seeing where there may be weaknesses, and then using shorting and social media, together, to impact the price of the stock.”

It remains to be seen whether Ontario regulators will seek to impose punitive measures on what they deem to be “distortion,” and what qualifiers they will use in doing so. The OSC will likely seek to enforce new rules in the near future as these campaigns become more frequent.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:HCG (Home Capital Group)
3. TSX:LB (Laurentian Bank of Canada)
4. TSX:SHOP (Shopify Inc.)

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