



## The Best Stock to Short Sell in 2018

### Description

After an incredible 2017, which saw broader markets increase and the marijuana sector and Bitcoin fly higher, investors — long investors and short sellers — now have to figure out where to position themselves for the coming year.

In previous articles, I've covered what I thought was the best stock to own for the year (on the long side), which was none other than **Laurentian Bank of Canada** ([TSX:LB](#)). In this article, we'll look instead at [the best stock to short sell](#). As has traditionally been the case, shares in **Air Canada** ([TSX:AC](#))([TSX:AC.B](#)) remain in the top five names, as [the company](#) is vulnerable to numerous risks, which include either a recession and/or higher oil prices.

Although it will be a surprise to many investors, the top name on the list is currently none other than Canada's leading marijuana grower **Canopy Growth Corp.** ([TSX:WEED](#)). At a current price in excess of \$32, Canopy may now be the best opportunity on the market for short sellers to make a healthy profit. In spite of being the biggest player in the marijuana space (as a function of market capitalization and production capacity), the company has now been priced to perfection with many short sellers being forced to cover their positions over the past few weeks.

As the market allows for a number of participants to take positions in an effort to make the market more efficient, both buyers and sellers are currently allowed to place their bets in the hopes that the supply/demand dynamics be more evenly weighed over the long term.

From time to time, however, what can sometimes happen is the price of certain shares can increase in value quite substantially over a short period of time, as investors who have shorted stock are forced to cover their positions, which pushes the price even higher. In many instances, this will create what is known as a short squeeze, which forces even more short sellers to cover. The result can be a very high stock price for no good reason.

Over the past few weeks, shares of Canopy have rallied by close to 10% on more than one occasion in spite of fundamentals, which have gone unchanged. As marijuana becomes legal, the company may just face its day of reckoning, as the situation in this industry is no different that the argument

presented by Andrew Left of Citron Research regarding **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)). In spite of the company producing a quality product that customers want, the valuation that investors are paying is simply outrageous.

Canopy has yet to show a sustainable profit alongside positive cash flow from operations. Essentially, investors are buying shares in the hopes that the huge demand from consumers will be enough to substantiate the valuation currently being paid.

Similar to Air Canada, higher oil prices will be detrimental to the industry, as consumers will be left with less disposable income, which would allow them to enjoy the vices of life.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:AC (Air Canada)
3. TSX:LB (Laurentian Bank of Canada)
4. TSX:SHOP (Shopify Inc.)
5. TSX:WEED (Canopy Growth)

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