3 TSX Stocks That Could Get the Benefit of a “Short-Squeeze”

Description

Judging by how the fourth quarter has gone so far, it would appears that “the bears” may be starting to finally take back control of the markets.

Central banks have not been exactly shy either about taking on more “hawkish” monetary policies in recent months which, along with several trading major trading partners engaging back and forth in tit-for-tat tariff strategies, could threaten to topple global markets into a recession.

It’s therefore hardly surprising that “short-sellers” have begun to initiate more aggressive positions in companies that they are betting will decline in value over the coming weeks and months.

Short-selling has the potential to be a very risky strategy.

That’s because in theory at least, the risk of short-selling a stock is literally “infinite.”

If a company’s shares suddenly start to appreciate in value, short sellers are forced buy back their short stock in order to avoid suffering potentially massive losses.

The result is that the “shorts” end up bidding up the price of their stock, which only serves to fuel its ascension, essentially “squeezing the shorts” into a hole.

The three stocks on this list in particular are particularly vulnerable to the risk of a “short squeeze.”

It’s a scenario that could be potentially disastrous for short sellers, but also offer the potential of big-time short-term profits for would-be *Foolish* investors.

Maxar Technologies Ltd (TSX:MAXR)(NYSE:MAXR) has plunged by more than 40% so far in the fourth quarter and now trades at less than a third of where it began the year.

Granted, that’s undoubtedly made those who have been short the stock a ton of money in all likelihood but the reality today is that MAXR is one of the most heavily shorted stocks on the TSX.

Nearly a fifth, or 17.4% of the company's total stock is currently being held by short-sellers.

That might sound like a risky proposition if you were to go long the stock, but MAXR stock is in an extremely oversold position.

More often than not, there's at least a temporary response to stocks in this position, which could spell disaster for the shorts and prove to be a rewarded trade for the longs.

Sleep Country Canada Holdings Inc (TSX:ZZZ) has been on short-sellers radar for some time now.

Canada's leading mattress supplier is facing increased competition from new entrants into its market, particularly from online mattress retailers that aren't forced to pay for expensive overhead to accommodate large floor room displays.

Similarly to MAXR, ZZZ stock has already lost almost half of its value from its 2017 highs, and the stock is already in that dangerous oversold territory — dangerous at least as far as short sellers may be concerned.

Laurentian Bank of Canada (TSX:LB) is probably my favourite of these three for a couple of reasons.

Not only is the LB stock already in oversold territory like the first two, but the stock is currently paying shareholders a 6.1% dividend and there is a catalyst looming on the horizon that could potentially provide a strong catalyst to send the shares soaring higher.

Not only are those short the stock responsible for reimbursing their lender the dividends that are paid out on the shares, but Laurentian Bank is on the verge of facing the prospect of a labour strike on the part of its unionized employees.

This is the kind of situation where, if news of an impending resolution on a labour deal between the bank and its staff were to suddenly hit the wire, it could be "lights out" for the bears.

Fool on.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:MAXR (Maxar Technologies)
2. TSX:LB (Laurentian Bank of Canada)
3. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Date
2025/09/10
Date Created
2018/12/08
Author
jphillips