



## Are These Canadian Stocks Due for a Short Squeeze?

### Description

It's not just **GameStop**, **AMC Entertainment**, or [BlackBerry](#) that Reddit's army of WallStreetBets [short-squeezing investors](#) has been going after. If there's a battered, heavily shorted stock out there, they'll probably be interested in giving it a second look, especially if there's a chance to squeeze out an infamous, big-league short-seller.

Indeed, short-selling comes with its fair share of risks. For many beginners, such risks can be difficult to fathom. When you go long a stock, the worst thing that could happen is losing your entire invested principal. The lowest that a stock can go is zero. When you go short a stock, however, your downside risks are unbounded. And you could be on the hook for well more than you initially invested if a stock you're short skyrockets into the stratosphere without a moment's notice, giving you no time to cover your position.

Take shares of AMC Entertainment, which soared an unprecedented 300% in a single day. If you shorted the name at the wrong time, you lost more than just your shirt. The dangers of short-selling are not just for beginner retail investors, either. Big-league hedge funds with massive short positions are also at risk of crumbling like a paper bag.

### The rise of WallStreetBets

Count me as unsurprised if the folks at Reddit's WallStreetBets continue their collective hunt for the next big short-squeeze opportunity at the international level. And if they're not restricted by platforms of regulators such as the SEC, I believe the risks involved with short-selling any stock have been raised considerably.

Whether or not WallStreetBets spells doom for short-focused hedge funds remains to be seen. With many lawmakers on both sides of the political spectrum, including the likes of Alexandria Ocasio-Cortez and Ted Cruz, strongly opposed to Robinhood's trading freeze on GameStop (Robinhood is slated to allow "limited buys" on Friday), one has to think that regulators will look to get in the way of the little guy. And that won't bode well for the shorts.

It's not just extremely distressed small caps that could be vulnerable to a squeeze either. If there's high short interest, you should think twice about betting against a name, no matter how sound your bearish thesis is.

## The next great short squeeze?

While I wouldn't advise speculating on which small-cap stock could be the next in line to get a big short squeeze at the hands of WallStreetBets, I think it makes sense to have a look at some of Canada's heavily shorted names that could be in for a short squeeze should recent momentum build upon itself in a potential 2021 economic rebound.

Consider **Fairfax Financial Holdings** and **Emera**, two smaller large-cap, Canadian stocks that I think could be in for a squeeze at some point over the next 18 months. I have no idea whether the folks at WallStreetBets will start accumulating either company's shares, but I think the short activity is a tad on the overblown side.

Prem Watsa's Fairfax Financial Holdings is in a massive slump that's been worsened by the COVID-19 crisis. I don't think it's a wise idea to continue to think the man and his firm will continue to underperform with the economic recovery on the horizon. Why? The stock is ridiculously cheap, the underwriting track record has shown modest signs of improvement over the years, and I still believe in Watsa's abilities to generate alpha.

As for Emera, the stock has been depressed for all the wrong reasons. The firm's regulated mix has increased, and I think the quality of earnings is in a spot to improve with time. The stock sports a 4.8% yield and is also dirt cheap. Despite recent pressures, I certainly wouldn't advise betting against the name, especially given the business, unlike AMC or GameStop, is actually wonderful.

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