



My Short-Squeeze Gains: Is BlackBerry (TSX:BB) a Hold at \$18?

Description

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) stock has surged 76.5% in the last two weeks and is holding the \$18 price. This bump comes as Redditors cash out money from the crypto and put it in meme stocks like BlackBerry.

Last week, I [told you](#) to cash out your money at any price you get above \$15, because BlackBerry stock is unlikely to go above \$20. And even if it does touch the \$20 height, it will correct immediately. And that is what's been happening throughout the week. Now, the question is, should you hold the stock at \$18 or sell before it corrects?

The short-squeeze gain

The BlackBerry stock price rally that you saw in the last few days is a game of a short squeeze and has nothing to do with fundamentals. The stock's trading volume suddenly surged to as much as 37 million as compared to the average of 5.3 million, even when there was no news. Most of this buying happened on May 28 and June 1 and 2. It is no coincidence that subreddit r/WallStreetBets had a surge in the discussion around BlackBerry and the rocket emoji. And it is also no coincidence that crypto exchanges saw a cash outflow.

Redditors intend to force hedge funds to square up their short positions. It is an inflated bubble that has nothing inside. Such a bubble can't hold on for a long time. It will burst. Hence, it is better you book your profits before the bubble bursts.

If you'd bought the stock in May when it was trading around \$10-\$11, and you sold the stock at \$15-\$18, you made an approximate 50% gain. That is a huge gain in a short period. It is time you book profit.

How can BlackBerry management gain from short squeeze?

Even BlackBerry's management is making money from the short squeeze. BlackBerry executives have equity-based incentives. In January, CFO Steve Rai sold all his directly owned shares, and chief marketing officer Mark Wilson sold 60% of his shares when the stock traded around \$17.

BlackBerry CEO John Chen's [contract](#) gives him equity incentive in the following format. He gets five million restricted share units (RSUs) in equal tranches over five years starting from November 3, 2019. This means he has two million RSUs as of today. He can only sell these RSUs in blocks of one million if BlackBerry shares cross \$16. For every dollar the share price rises, Chen can sell one million RSUs until it reaches \$20. Now, this price should be the 10-day moving average. At present, this average has reached \$16. You could see some insider selling in the coming days.

Is BlackBerry stock a hold at \$18?

No one can time the market, but you can be prepared. BlackBerry stock has already dipped 19% in the last five days, as people are booking profits. If you keep waiting for an unreasonable price like \$25, you won't be able to sell your stock, unless you are a professional trader.

I agree BlackBerry is a highly liquid stock, but the price momentum also depends on which direction the trading volumes are skewed. If it's a seller's market, you can ask for a premium price to sell the stock. But if the tables turn, you won't be able to get even an \$18 price, as everyone who'd bought the rally would rush to square up their position.

I believe BlackBerry stock may not cross the \$20 mark, because Chen has no advantage if the share price goes above \$20. The next gain for him will come when the stock price reaches \$30. He will get a \$90 million award for achieving this milestone. But a 10-day moving average of \$30 is a difficult feat to achieve, even in a short squeeze.

So, take profits on the stock now, because if Chen sells, your sell trade won't get executed. BlackBerry cannot sustain the \$18 price, as its fundamentals are not strong enough at present. But the company has long-term growth potential with the 5G, electric vehicle, and Internet of Things opportunities.

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