



BlackBerry's (TSX:BB) Stock Selloff Is Here: Don't Rush to Buy the Dip

Description

BlackBerry's ([TSX:BB](#))([NYSE:BB](#)) stock selloff is here. On June 16, the stock fell 8.8% to \$15.77 after holding the price above \$17 for two weeks. I have been recommending a sell since the stock hit \$18, because that is a price it can't hold for long with its current fundamentals.

The possible reason behind the BlackBerry's selloff

While there is no news on management selling, I have a hunch that the current selloff is not because of hedge funds and Redditors. The trading volumes don't justify a hedge fund buying. This 8.8% dip could possibly be because BlackBerry management [sold](#) some of their shares. Even in January, BlackBerry's CFO and chief marketing officer sold their shares when the stock traded around \$17.

BlackBerry has been struggling to turn the company around. And to keep the management motivated, their compensation is tied to share performance. The industry-level executive compensation is 71% salary and 29% other remuneration (shares and other sources). But for BlackBerry CEO John Chen, 67% of his compensation is from other remuneration.

As per Chen's [contract](#), he can only sell one million of his shares if the 10-day moving average of BlackBerry stock crosses \$16. This week, the stock's 10-day moving average surpassed \$17, and that is when there was some selling. The trading volume was around six to 6.7 million shares, just one million above the average trading volume of 5.57 million. When hedge funds or Redditors trade, the trading volume goes out of control.

Is another Reddit rally on its way?

Now, this is a tough call. In January, hedge fund buying came the very next trading day after BlackBerry management sold their shares. If history repeats itself, the hedge fund buying could come today or tomorrow. I'll give you a crash course on how a short-sell contract works.

Ron borrows BlackBerry stock from Mary for six months and sells them at the market price. He believes that the stock price will fall in the next six months. At that time, he will buy the shares at a dip and return them to Mary to square up his short position. But the stock price rises (Redditor buying).

Ron will wait until the end date of the contract nears, hoping the stock will fall, and then buy the stock.

Hedge funds can take this 8.8% dip as an opportunity and buy BlackBerry stock to square up the position.

Don't rush to buy the dip

I won't suggest buying the dip. This is because the maturing date of the short-sell contract also influences hedge fund buying. The only profitable trade in BlackBerry at the moment will be a sell trade. You can put a \$20-\$21 asking price. If I am right and hedge funds are buying this week, you might get your premium price. But at least you won't sell the dip.

The only reason why you should buy BlackBerry is if you are in it for the long term. And even if you are bullish, wait for the stock to dip to \$11 before buying.

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