



1 Canadian Stock to Buy Before Redditors Prey on it

Description

What does it take to become the target of Redditors' short squeeze? Redditors have forced many investors to ask this question. Looking at the short-squeeze bubbles of **BlackBerry**, **AMC**, and **Clover Health Investments**, traders are now looking for the next short-squeeze target. Why?

Investors that held Clover before the Redditors entered have doubled their money by selling in the short-squeeze rally. AMC stockholders have quadrupled their returns, and BlackBerry stockholders made 50% gains. Fortune comes to those who buy early and sell in the mania. The big question is, which stock is next?

What does it take to become a short-squeeze target?

To play the game of the short squeeze, you have to pick one side. Many hedge funds use options to enhance their returns. Buying a stock and holding it can give you returns in the long term. But if you want to make some quick money in the short term, you use derivatives — mind you, it is a risky option.

Hedge funds are genius fundamentalists who have read through every document and know the business world well. If you are driving down a slope, you can shift to neutral gear and let the gravity take the car down. All you need to do is keep control of the wheel and be vigilant to press the brake.

Hedge funds identify beaten-down stocks and short them. This means they borrow from the broker stocks that are descending and sell them in the market. They hope to buy these stocks at the bottom of the slope and return them to the broker. The slope's difference is their profit.

But what if the stock price rises? The hedge fund has no option but to buy the stock at a higher price and close its short position. Hence, Redditors look for stocks where the short interest is high and the days to cover this short interest are few. That is where the pressure you need for a squeeze builds. Short interest is where the short position is not closed (the hedge fund has not yet returned the borrowed shares).

One stock that could become the target of a short squeeze

Now that you understand the short squeeze, you need a stock that has high volume and high short interest. I believe one stock that fits most of the criteria is **Bombardier** ([TSX:BBD.B](#)). The stock is in a long-term downturn, as its management struggles to recover from the losses of the 2013 product failure. The company has sold almost all its business except for the business jet to pay off its debt. Recently, it did [repay](#) some of its debt from the proceeds it received from the sale of its train business to Alstom.

But a 286% growth in its stock price since November 2020 seems too fast. Although I agree the [recovery rally](#) has its benefits, the increase in short interest in Bombardier in 2021 has caught my attention. The \$1.16 price of Bombardier stock is attractive to Redditors, as they can easily buy 100 shares for \$116. The only problem is, the number of days to cover the short interest is 30, which is too long to initiate the short-squeeze pressure.

This is just my hunch that Bombardier could be a Redditor target. But even Clover Health became a Redditor target because of speculation that it could be a short-squeeze target. Clover stock saw a 99% jump, even when it had a 26% short interest ratio. And Clover stock was trading around \$8 before the squeeze.

Should you buy Bombardier stock at current levels?

Squeeze or no squeeze, Bombardier stock is a good buy for speculative trades. But don't invest more than 2% of your portfolio in it.

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