



Warning: Are Traders Expecting a Market Crash?

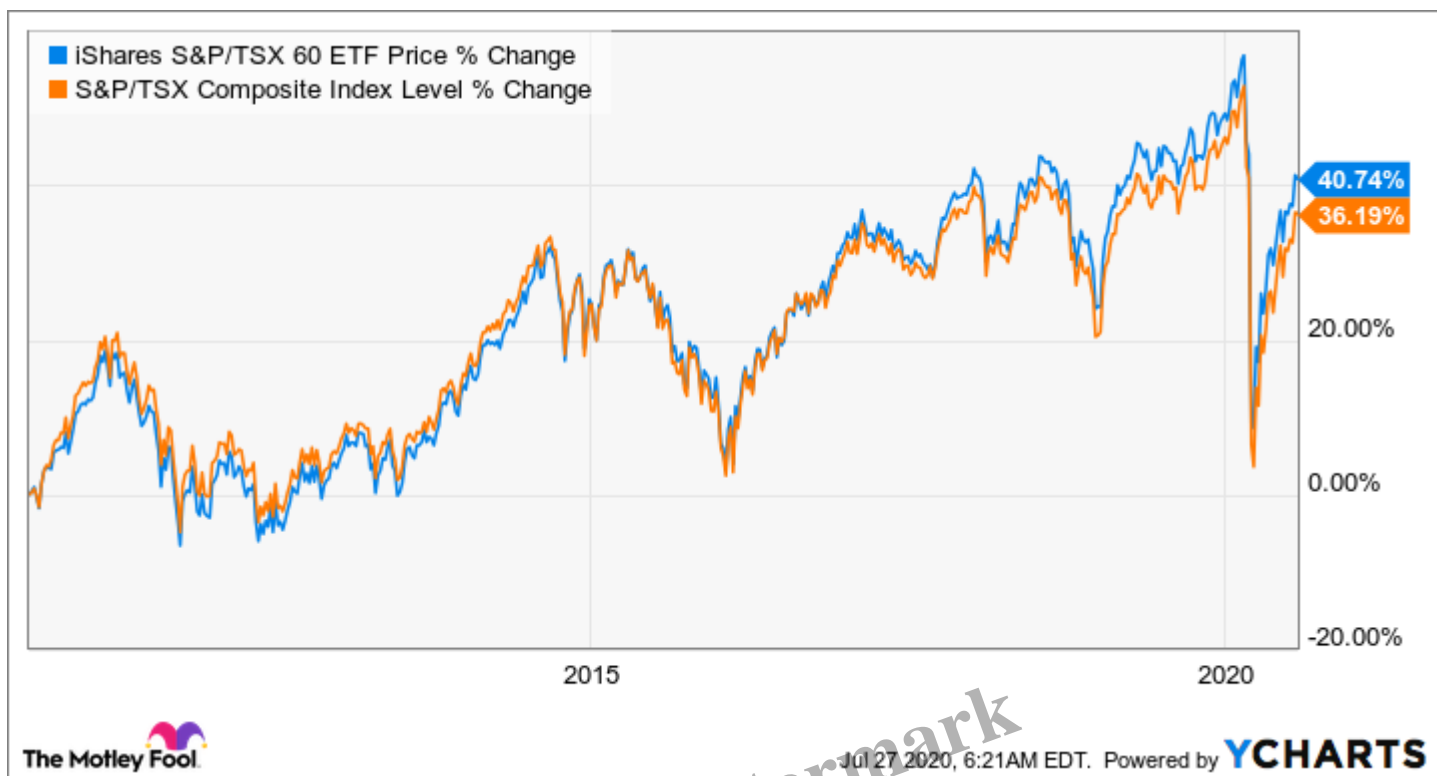
Description

Is the market heading for another crash? If the recent short sale report by the Investment Industry Regulatory Organization of Canada (IIROC) is any indication, it might be just around the corner.

The IIROC produces a bi-monthly report that lists the shares short and the net change in number of shares short for all Canadian exchanges. Rising short sales is a sign of growing bearish sentiment. As the **S&P/TSX Index** marches toward breakeven, it appears that traders believe the market is getting a little pricey.

S&P/TSX 60

The iShares S&P/TSX 60 ETF ([TSX:XIU](#)) is one of the best indicators of market performance.



XIU data by [YCharts](#)

Given the strong correlation, tracking the short activity against XIU is a good way to gauge market sentiment. Unfortunately, all signs point to continued uncertainty.

In the last IIROC short report, the number of shares short the XIU jumped to 119.5 million. This represented a change of 7.2 million, and represents the highest short position of 2020. This is a clear sign that traders are betting that the market is due to reverse its upwards trend.

This is not surprising. The **S&P/TSX Index** is well off March lows and has posted three consecutive months of gains. Unfortunately, the economy is due for broad declines and the expectation is that economic activity won't return to pre-pandemic levels until 2022.

Given this, one can argue there is a disconnect between market strength and economic indicators.

Largest increases

The gold industry has been [white hot](#). The precious metal is marching toward new highs and gold stocks are finally getting their moment to shine. Are they rising too much, too soon? Traders are starting to either bet, or hedge, against an industry downturn.

Among those seeing the largest increase in short positions are **Wallbridge Mining** ([TSX:WM](#)) and **Kirkland Lake Gold** (TSX:KL)(NYSE:KL). Short positions in these two gold stocks have increased by 56.9% and 42.4%, respectively over the previous short sale report.

Both of these are on the opposite end of the risk spectrum. Wallbridge is a junior exploration company which has yet to begin construction on its flagship [Fenelon project](#). Over the past year, the company's stock has more than doubled (148%).

In 2020 however, it has been a different story. At one point, the stock price was up by more than 40%, but as of writing is sitting on gains of only 7.69%. On the bright side, despite the increase in short sale interest, the number of shares short represent only 0.55% of the float. At this point, there's nothing to be really concerned about.

For its part, Kirkland Lake is among the largest gold stocks on the Index. After struggling for most of 2020, the company is finally starting to rebound. Now up 10.33% in 2020, bearish bets are increasing.

There is however, no reason for concern. Once again, the percentage of shares short against the float is less than a percent (0.63%).

Are short sales a reason for concern?

In terms of Wallbridge and Kirkland Lake, which have seen large increases in short positions, there is nothing to worry about. The percentage of shares short account for a very small portion of shares, and will have little impact on price movement. Similarly, the strength of gold is likely to remain as the markets deal with continued uncertainty. This should prop up gold stocks for the foreseeable future.

In terms of the broader market, investors will want to pay attention. Since the release of the IORC short report on July 20th, the markets dropped by 115% basis points. As quarterly results roll in, investors will begin to digest the impacts of the COVID-19 mitigation efforts.

Will investors be hit with a dose of reality after three consecutive months of bullish sentiment? If short sales are any indication, traders are betting on it.

CATEGORY

1. Coronavirus
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:WM (Wallbridge Mining Company Limited)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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