

Short sellers' red October

Markets turned against short sellers last month as US equities rallied, lifting a number of high-in-demand names and reversing a five month trend of sought after short positions posting declines.

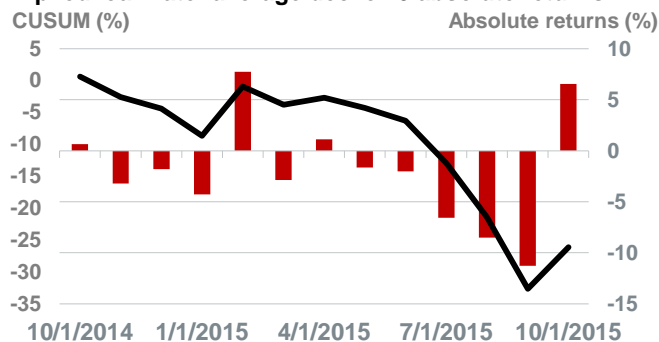
- Oprah's investment in Weight Watchers results in worst short of October
- However, shorts overall remain undeterred and continue to hold majority of positions
- Shorts double down and increase stakes in some of the worst performing names

US equities rally

It was a tough month of trading for resilient short sellers holding onto high conviction names as US equity markets rallied. The month saw the SPDR S&P 500 ETF increase 8.5% and the iShares Russell 2000 ETF rise by 5.6%.

Markit's Research Signal's Implied Loan Rate** equity factor ranks US stocks according to the benchmark fee to borrow. High conviction names, those that have a high cost to borrow (which is driven by supply and demand), saw the worst performance recorded in October since February.

Implied loan rate: average decile 10 absolute returns



Source: Markit — Absolute returns (%) — CUSUM (%)

After five months of consecutive declines (positive trades for shorts), the top 10% of expensive names posted a positive 6.5% return for the month. Despite the negative monthly performance, shorting the top 10% has delivered returns of 26% on a cumulative basis over the last 12 months.

Oprah yet to squeeze out short sellers

Weight Watchers shares spiked on October 18th on news that **Oprah** had taken a 10% stake in the business and a board seat.

Weight Watchers International Inc



Source: Markit

Earlier in the year, short sellers covered positions from a high of 21% of shares outstanding on loan, taking profits. In the last few weeks of October, shares jumped over 150% in two days, easily propelling the stock to the most unprofitable short position of October.

Short sellers have yet to cover positions with short interest initially increasing to 15.4% as shares rose. The benchmark fee to borrow also spiked 50%, indicating increased demand as the fee neared 30%. The share price has subsequently subsided by 15.7%, but the cost to borrow remains above 20%.

The second worst short position of October was Penn West Petroleum, whose shares jumped by 126%. Short sellers, however, remain undeterred, with shares outstanding

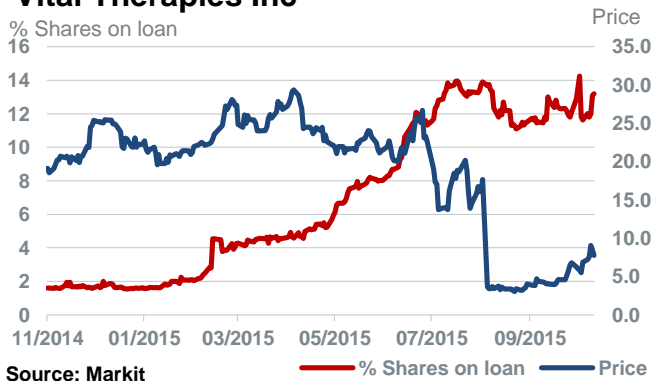
on loan rising more than a fifth to 10.7%. Continued lower oil prices have forced the US oil and gas producer to evaluate **selling prized assets** as debt pressures mount.

Penn West Petroleum Ltd



Vital Therapies shares rose by 90% in October but saw short sellers add 13% to positions, pushing shares outstanding on loan to 13.2%.

Vital Therapies Inc



The cost to borrow stock has **remained** above 60% as demand to short the stock continues to remain high after the company **revealed** in August that its liver therapy treatment study had failed.

** Defined as the value and time weighted average fee for the rate charged by the custodian to the borrower of a security. Markit ranks this factor in ascending order.

*To receive more information on **Securities Finance, Research Signals, Exchange Traded Products, Dividend Forecasting** or our Short Squeeze model please **contact us**

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