



## Research Signals: global short squeeze model

**A multifactor model designed to predict short squeeze events – a systematic way of identifying short squeezes before they occur**

Our global Short Squeeze model systematically scores stocks based on their potential for a short squeeze event. Using IHS Markit's short loan transaction data, our model incorporates capital constraint indicators, which identify names where short sellers are more likely to cover their positions, and events that identify catalysts for short squeezes.

Identifying short squeeze events can be a challenge as they are often rare and hard to predict. Based on a hypothesis that squeezes are more likely to occur when short sellers are experiencing capital constraints (actual or potential losses) and an event occurs that could be a catalyst, our model helps to identify names at risk of a squeeze, improves the accuracy of short interest signals and provides deeper insight into the profit and loss of open short positions.

Leveraging IHS Markit Securities Finance Transaction data from both lenders and borrowers (net of double counting), we capture approx. 3 million daily transactions to calculate the capital constraints by determining profit and loss of the current short-sale position, the quantity of shares on loan that are losing money and the average break-even price for all open short positions, based on the price at which the position was opened and the duration of the open position. These capital constraint metrics identify the appropriate conditions for a short squeeze.

The model also incorporates news sentiment events when identifying catalysts for short squeezes that could positively affect the price: such as upcoming earnings announcements, merger rumors, abnormal trading activity, analyst revisions and other positive news indicators.

### KEY STATS

**11**

**short squeeze model  
sub-composite factors**

**9**

**capital constraint indicators**

**9**

**years in-sample  
performance data**

### CUSTOMERS

**Asset managers**

**Banks**

**Hedge funds**

### Granularity

Includes a set of capital constraint indicators constructed from transaction-level data to assist in identifying potential short squeezes including out-of-the-money percent, short position profit concentration, earnings announcement events, positive news events, with out of sample historical coverage dating back to January 2011.

### Actionable insight and risk management

The model may be used as an overlay with other short sentiment strategies to identify positions which are at risk of a squeeze or for long only managers can serve as a combination of signals to help better inform their investment analysis and risk processes.

### Unique

Utilize our proprietary underlying short loan transaction data along with our factor data and news events to measure short squeeze risk.

### Predictive

The model identifies squeezes among the top names as potential squeezes. Since its rollout, it has predicted well in excess of those isolated as least likely to squeeze.

### Global

Coverage across Developed Europe and Developed Pacific universes (95% of cumulative market cap for each member country), and the US Total Cap universe (98% of cumulative market cap, or 3,000+ stocks).

The following set of capital constraint indicators are constructed from transaction-level data to assist with identifying potential short squeezes:

**Out-of-the-money Percent (OTM%)** – the sum of shares for short positions that are experiencing losses based on their PnL divided by the total shorted quantity. Names with a high percent of short sellers out-of-the-money are expected to be at risk of a short squeeze.

**Out-of-the-money Percent - 20-day maximum** – the maximum OTM% over the prior 20 trading days. The 20-day maximum value removes the effect of short-term price movement and identifies the “worst case” scenario for short sellers.

**Short Position Profit Concentration** – the distribution of a stock’s short loan position profit/loss based on a predefined set of bins.

**Earnings announcement events** – short squeezes happen more frequently around earnings announcement dates. We use this as an indicator to increase the probability of a squeeze five weekdays prior to an earnings announcement and three weekdays following the announcement.

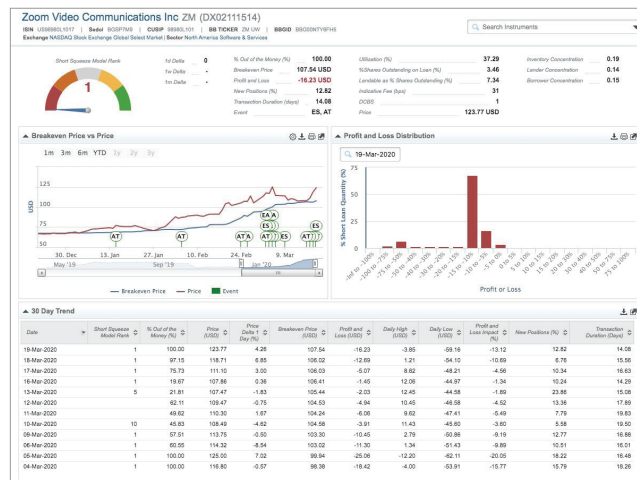
**Positive news events** – Using RavenPack news events we identify potential positive news events that can trigger a short squeeze. Event types include merger and acquisition, earnings, trading and other positive events, as described in the methodology section.

**Abnormal trading volume** – we find cases where abnormal trading volume levels paired with positive price movement are indicative of a positive event known to market participants which can trigger a short squeeze.

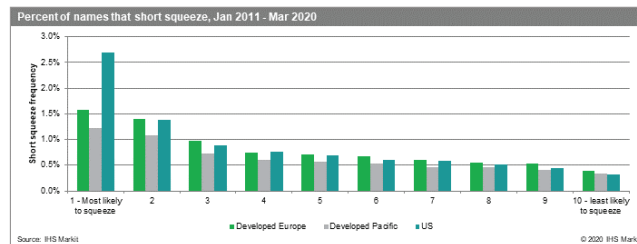
## A final score

Our Short Squeeze model incorporates the capital constraint and event indicators to create a score from 1 to 100 to quantify the risk of a short squeeze event.

IHS Markit Securities Finance Web Portal showing a short squeeze model score and a set of short sentiment metrics for a stock:



Distribution of short squeeze hit rates for the three coverage universes



## More information on IHS Markit products and services

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