

How to Earn Quick Profits from a Possible Short Squeeze

Last Friday two stocks on Wall Street's best bearish bets list soared in price – out of nowhere.

Video streaming giant **Warner Brothers Discovery Inc. (WBD)** surged 6% higher and EV maker **Lucid Group (LCID)** jumped 5.6% in a single day.

Both stocks have been favorite short-sale targets of investors. The sudden surge higher in price for WBD and LCID was due to investors rushing to cover their shorts ahead of year-end.

That's a classic short-squeeze, and it can be a very profitable strategy for alert investors to cash in on, if you know where to look.

Recently I detailed two of our *TradeSmith* strategies, [Low Risk Runners](#) and [Kinetic VQ](#), that are tailor-made to take advantage of the seasonal "January Effect" – the tendency for stocks, especially small caps, to enjoy a nice bounce at the beginning of the new year.

In fact, the month of January has posted average stock gains of 3.9% since 1927, which is more than three times greater than the average 1.2% return of any month of the year.

Today I want to tell you about another one of our strategies that's designed to track the short interest on stocks in our database. When certain other factors fall into place, these stocks can become potentially profitable short-squeeze candidates.

It's a strategy that can earn solid profits anytime, but especially at this time of year.

What's a short squeeze?

A short squeeze is an unusual condition that triggers rapidly rising prices in a stock. It occurs when a stock has a significant number of short sellers, meaning lots of investors are betting on its price to fall.

The short squeeze begins when the price jumps higher unexpectedly and the short sellers decide to cut losses and exit their positions.

For those who stick to more traditional buy-and-hold investments, short selling is when a trader borrows shares from a broker and sells them, expecting the share price to fall. If it does, they can buy it at the lower price, return the borrowed shares to the broker, and keep the difference as profit. But if the share price rises instead, the short seller loses money on the trade, plus the margin interest expense paid to borrow shares.

A short squeeze can happen any time to stocks with a high short interest. But it's especially common to see around year-end. Plus, smaller-cap or lower-price stocks are particularly good candidates for a short squeeze this time of year.

Our *TradeSmith* algorithms track the short interest for stocks in our database. Short interest is simply the number of shares sold short divided by the stock's float (number of shares outstanding).

For example, if 100 million XYZ shares are outstanding and 10 million XYZ shares are sold short, the short interest of stock XYZ is 10%.

Short interest can provide insight on investor sentiment for an individual stock. Generally, if short interest is below 10% that signals positive sentiment.

Short interest above 10% indicates higher investor pessimism on the stock. The higher the short interest, the more likely the stock will be subject to a short squeeze, sending the stock higher in a hurry – just like WBD and LCID last week.

So, we filter our database of stocks for short interest greater than 30%, a high level that can often lead to a short squeeze.

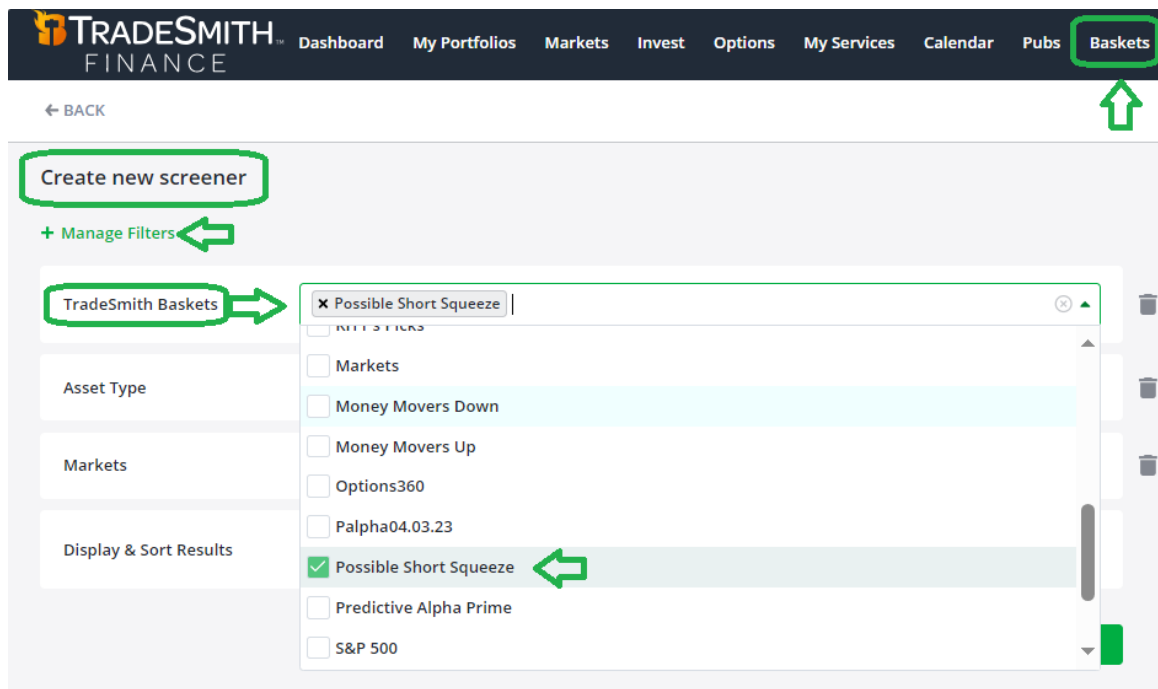
Here's how to use *TradeSmith's* tools to spot a short squeeze. The Screener is available to members with *Ideas by TradeSmith*, *Trade360*, *TradeSmith Essentials*, and *TradeSmith Platinum*.

Find short-squeeze candidates the *TradeSmith* way

Sign in to *TradeSmith Finance*. Then click on the **Invest** menu at the top, then the **Screener** tab.

Next, click on **+ Create new screener** at top left. Note, my Screener may look a little different from yours, since I have Platinum-level access.

Start by clicking on **TradeSmith Baskets** (or click on **+ Manage Filters** and **TradeSmith** to add this filter). In the drop-down menu, scroll down until you find **Possible Short Squeeze**, and check the box.



Note: You can also access the *Possible Short Squeeze* option directly from the main menu. Click on **Baskets** at the far right, then scroll through the *TradeSmith Baskets* list and select. **Possible Short Squeeze**. This basket is available to *Ideas Premium* and higher and *TradeSmith Platinum*.

Keep in mind, you can add any other filters you desire to narrow your search. For instance, you may want to filter for Green Zone stocks or those already in an uptrend.

Simply add those filters to your screen by clicking on the **+ Manage Filters** tab you see at top left.

Create new screener

+ Manage Filters

TradeSmith Baskets ✕ Possible Short Squeeze

Markets + Add

Display & Sort Results  Show top 250 Sort results by Short Interest DESC

Save As New Save Changes Run Screener

And before you click on **Run Screener**, be sure to set **Display & Sort Results** by **Short Interest DESC** (descending) as shown above. This will ensure that stocks with the highest short interest are displayed at the top.

When I ran this screen this week, I got 52 Possible Short Squeeze results. Here are the top 10.

[Saved Screeners](#) (52 results)

☐	Ticker	Rating	Health	VQ%	Avg VQ%	VQ Ratio	Volume	P/E Ratio	Trailing Divi...	Market Cap	Sector	Latest Close
☐	YELLOW Yellow	Neutral	1y+	92.38%	50.81%	81.82%	1,472,636	-0.72	N/A	\$57.3M	Industrials	\$3.04
☐	WRLD World Acceptance	Strong Bullish	6d	43.33%	37.29%	16.20%	35,122	13.00	N/A	\$770.3M	Financials	\$123.75
☐	UPST UPSTART HLDGS	Bearish	1w+	95.00%	94.57%	0.45%	11,922,841	-11.27	N/A	\$3.0B	Financials	\$35.65
☐	ULCC FRONTIR GROU HLD	Neutral	8m+	42.59%	40.39%	5.46%	2,930,962	15.69	N/A	\$1.0B	Industrials	\$4.74
☐	TRUP Trupanion	Bearish	1y+	58.38%	39.15%	49.09%	477,092	-23.36	N/A	\$1.2B	Financials	\$29.35
☐	TIVC TIVIC HLTH SYS	Bullish	3w+	91.82%	76.42%	20.16%	104,575	-3.56	N/A	\$2.8M	Health Care	\$1.94
☐	TBPH Theravance Bioph	Bearish	1m+	37.02%	39.80%	-6.99%	267,166	-11.31	N/A	\$536.8M	Health Care	\$10.78
☐	SPWR Sunpower	Bullish	2y+	59.92%	53.06%	12.93%	5,848,532	16.48	N/A	\$840.0M	Information Techno...	\$4.80
☐	SNES SENESTECH	Bearish	3y+	77.49%	76.11%	1.81%	336,110	0.45	N/A	\$175,501.0M	Health Care	\$0.58
☐	SNCE Science 37	Bullish	1w+	67.28%	56.20%	19.70%	25,094	-3.97	N/A	\$25.9M	Health Care	\$4.34

Mike Burnick's Bottom Line: If you're an investor who likes to aim for quick profits from a possible short squeeze, *TradeSmith* has you covered. Our Possible Short Squeeze basket can be a great place to prospect for these ideas any time of year, but especially around year-end.

Good investing,

A handwritten signature in black ink, appearing to read "Mike Burnick". The signature is fluid and cursive, with the first name "Mike" and last name "Burnick" clearly distinguishable.

Mike Burnick
Senior Analyst, *TradeSmith*