EXHIBIT

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When Will The Ride End? Analyzing GameStop Short Squeeze By Looking At History

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About this article

Ticker	Analyst rating	Price at publication	Last price	Change since publication	S&P 500
GME	Strong Sell	$56.25	$23.98	-57.37%	

Summary

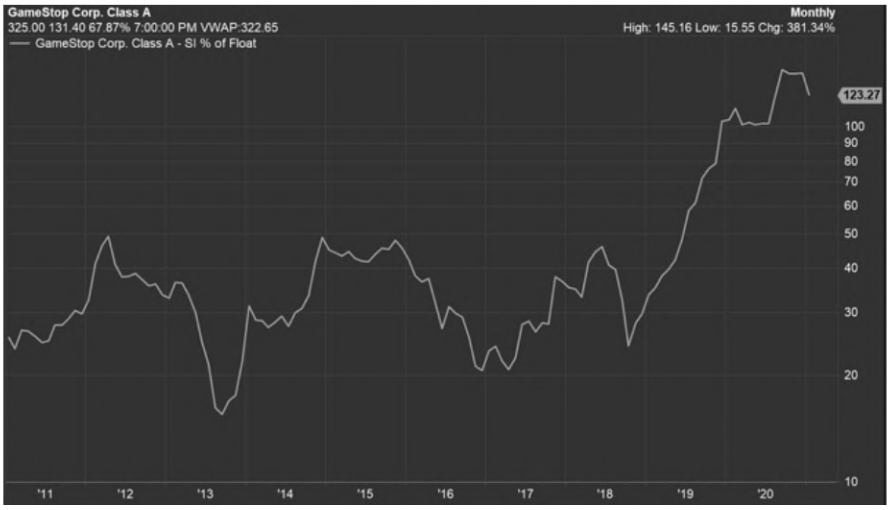
- Parabolic moves feel great, but they don't last forever. At some point, you need to get off the ride and lock in the gains.
- Short squeezes are not based on company fundamentals. Rather they are driven by human behavior and technical factors.
- Short squeezes typically don't last long.
- No short squeeze has even taken a hit like GameStop sustained on January 28th and kept the upward trend intact.
- When a short squeeze eventually exhausts itself, the stock price typically declines by -50% within the next 3-4 days.

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A long time ago in a galaxy far, far away it was generally understood by investors that stocks with high short interest underperform over time. The past two weeks notwithstanding, it has typically been a poor strategy to invest in stocks with high short interest. That prevailing wisdom got flipped on its head recently when the WallStreetBets crowd ignited perhaps the greatest short squeeze in history with GameStop (NYSE:GME). While parabolic moves feel great, they don't last forever and at some point, you need to get off the ride and lock in the gains. This post will look at the previous acute short squeezes that we've witnessed in 20 years of participating in the stock market and what it could mean for GameStop and the rest of the squeeze plays.

Short squeezes are not well understood by market participants or academics because they are rare, hard to quantify, defy conventional wisdom, and are impossible to predict advance. GameStop has had a massive short interest in the stock for the past 10 years and Reddit rock star, Keith Gill (a.k.a. DeepF**Value/RoaringKitty) has been posting about GameStop since September 2019. This squeeze could have happened at any time, but it didn't. It took a confluence of events to occur at exactly the right time to create a perfect storm.

Chart 1: GameStop Short Interest as % of Float



Source: Factset

It should be clear to everyone by now that short squeezes are not based on company fundamentals. Rather they are driven by human behavior and technical factors. Given that human behavior never changes, it is reasonable to assume that these short squeeze episodes share some commonalities. The market participants experience similar emotions at the various parts of the cycle and the technical factors (borrow rates, margin requirements, etc.) follow a similar arc.

With this underlying assumption that short squeezes share common traits, we have analyzed below the previous short squeezes that we have witnessed firsthand. This is certainly not an exhaustive list of all of the squeezes that have occurred. *(If you have any memorable, or traumatic, squeezes not listed, please leave the names and dates in Comments section and we'll add them to the analysis.)*

	USEC Corp (2013)	Volkswagen (2008)	Real Goods Solar (2013)	Hertz (2020)	Valaris (2020)	Average	GameStop (2021)
Short Squeeze Duration	12 days	31 days	6 days	9 days	4 days	12.4 days	10 days
Stock Price Peak vs. Pre-Squeeze	810%	357%	227%	896%	582%	574%	1,642%
1-Day Decline Following Peak	-33%	-45%	-9%	-24%	-38%	-30%	-44%
Days from Peak to Retrace 50%	4 days	4 days	6 days	3 days	2 days	3.8 days	?
Days from Peak to Retrace 100%	98 days	82 days	63 days	69 days	48 days	72 days	?

Note: price source Factset, prices based on closing prices, days = trading days

Takeaway #1: Short squeezes typically don't last long.

The Volkswagen short squeeze took the longest amount of time to climax at 31 trading days. The average short squeeze in this data set lasted approximately 12 days from the onset to the peak. The start date is admittedly subjective, but we use Day 0 as the last trading day before the rapid advance begins. If January 27th turns out to be the high for GameStop, the short squeeze looks "normal" from a duration standpoint at 10 trading days.

Takeaway #2: The price movement we have already witnessed in GameStop is the most dramatic short squeeze we have seen in 20 years.

People often talk about Volkswagen as the king of all short squeezes. While that is true from a market cap perspective, Volkswagen was a much larger company to begin with. From a pure price appreciation standpoint, we have never seen anything like the current GameStop short squeeze. To expect "another shoe to drop" or further ascent from here seems unlikely judging by history.

Takeaway #3: Short squeezes end when a violent reversal day breaks the upward momentum.

The price action of the short squeezes in the data set follows a fairly consistent pattern. The squeeze goes parabolic over a period of days and then experiences a big one day reversal as the buying frenzy exhausts itself. The average one day decline on this "reversal day" is -30% for the data set. As a reminder, GameStop declined -44% on January 28th. Stocks never go straight up or straight down and that holds true in a short squeeze. Even during the melt-up phase of the squeeze, some of the stocks in the data set experienced one day declines along the way. However, these declines were typically small as buyers stepped in to cover on weakness. The largest one-day decline that occurred without breaking the overall uptrend took place in Volkswagen when the stock declined -23% in one day, yet rebounded afterward and continued to make new highs. No short squeeze has even taken a hit like GameStop sustained on January 28th and kept the upward trend intact.

Takeaway #4: When a short squeeze runs out of gas, the reversal is fast and severe.

When a short squeeze eventually exhausts itself, the stock price typically declines by -50% within the next 3-4 days. Within our entire data set, the longest it took a short squeeze to lose -50% of its value was 6 days for Real Goods Solar. Volkswagen dropped -50% in only four trading days after it peaked. The full retracement of a short squeeze takes significantly longer. The boom/bust roundtrip took an average of 72 trading days to play out, which equates to 3-4 calendar months. As mentioned above, stocks do not go straight up or straight down, so the path to normalization will be full of head fakes, dead-cat bounces, and all sorts of other craziness.

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History doesn't repeat itself, but it often rhymes. The stock market is impossible to predict in the short run, but over time fundamentals and valuation matter. A strategy based on chasing deteriorating businesses in hopes of igniting a short squeeze does not seem like a sustainable long-term plan. With or without short-sellers, businesses become obsolete and the creative destruction of the system replaces them with something else. Invest accordingly.

This article was written by



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