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Short Selling Stories

With unprecedented short squeezes happening lately, the trade is getting the equivalent media attention. Right up front, this veteran investor is very much for shorting. With rules including execution only on an uptick trade and with the stock available at what used to be called the loan post. Selling short into a rising market provides additional liquidity, with the eventual short covering providing bids sometime later.

However, in extraordinary conditions, a sharp rise can force hasty short covering which can drive a stock straight up. Until it is over.

A remarkable short squeeze was engineered by the so-called Tin Cartel in 1985. This was a government and producer "arranged" pricing scheme that became ambitious. In forcing the shorts to cover high the price spiked up and then failed. The reversal caused some liquidity problems at the London Metal Exchange. With the shorts forced to cover, there were fewer bids on the way down.

We noted that this attempt by the "cartel" had failed because it had destroyed the shorts. We used the failure to suggest that the OPEC "cartel" could be next. And it was as crude oil plunged from 31 in November 1985 to 9.95 in April.

At the time, Sheik Yamani was the colorful mover and shaker in OPEC. A journalist observed that the attention dedicated to him was intense. Equivalent to that commanded by a cross-eyed javelin thrower at the summer games.

In that one year, deliberate short squeezes collapsed prices for two important industrial commodities.

One of the points in Thursday's article was that on a successful squeeze, if the establishment is on the wrong side of the event, rules will be avoided or altered such that the establishment does not lose. This was seen on Thursday as the Robinhood team would not allow buy orders but allowed sells.

Decades ago, this was also the case with a mining stock called Ardo. It was a successful promotion, and the inside group had enough money and confidence to buy the warrants out of the market. Probably more than were issued. Come the buy-in date, the trader for the Vancouver Stock Exchange did not enforce the rules.

The warrants expired worthless. Swamp Critters that ran the exchange avoided huge losses and made a score.

At about the same time, this writer was in a smaller deal and in similar circumstances tried the same thing. The Exchange would not force the buy. We missed a big score, but it did not kill the promotion.

In 1692, John Houghton started publishing the first stock market letter in London. One edition described stock options as "puts" and "refusals". And reviewed the mystery of “buying more than all”. Which anticipated the “Ardo B” warrant squeeze by almost 300 years.

This article covers some major short stories:
https://junto.investments/short-squeezes-and-market-corners/
And then there is the story about a short squeeze funding the start-up of a mine that should not have gone into production.

“Charlie” was an incredible salesman at a Vancouver brokerage firm who in the 1970s was shorting a gold exploration stock. They were undeclared shorts, and the position was getting uncomfortable, so he was eased out of the firm. Thinking quickly, he set himself up as a fund manager and kept shorting the stock. Charlie had amazing sales abilities and high-net-worth accounts. And no matter how much they lost on former deals would always fall for the next one.

And Carolin Mines became an incredible short story. That when the company connected with a New York broker the big squeeze was on, driving the stock into the $20s. Providing enough interest and convictions to fund the “mine” into production.

As usual it took some years of construction until start up, and by then that was at the peak for the 1980 precious metals mania. Even with outstanding prices it wasn’t profitable and the “mine” shut down.

Over time, the call was correct, but shorting was far too aggressive and, ironically, funded start-up of an uneconomic mineral deposit. It is still shut down.

In the mid-1800s, Daniel Drew became one of the great stock operators in history. One legend was that as a young drover he made sure the cows were thirsty on getting to New York City. And then let them fill up just before selling them. Artificially increasing the weight was called “watering” the stock.

An even better line attributed to Daniel was about shorting: “He that sells what isn’t his’n, must buy it back or go to pris’n”.

Ampersand

Most oil companies suffered during the late 1980s hard times in the Oil Patch. As did state revenues. Indeed, the governor of Texas observed that during the boom, people were talking about making the building “crane” the official state bird. In reflecting upon the bust, the governor quipped that perhaps it should be the “turkey”.

Naturally, with government tax revenues declining, there were judicial hearings. And, as reported by the Wall Street Journal, one story was about an aggressive banker from Oklahoma. Those inexperienced in booming financial markets just can’t understand how the money vanishes in the bust.

Which is what the judge was asking of the young banker. Who responded:

“Well, your honor, we spent it on wine, women and song. The rest we just pissed away”.