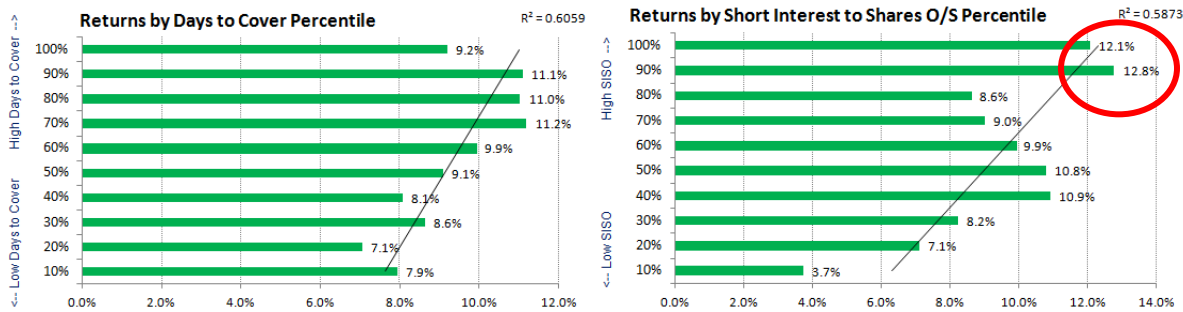


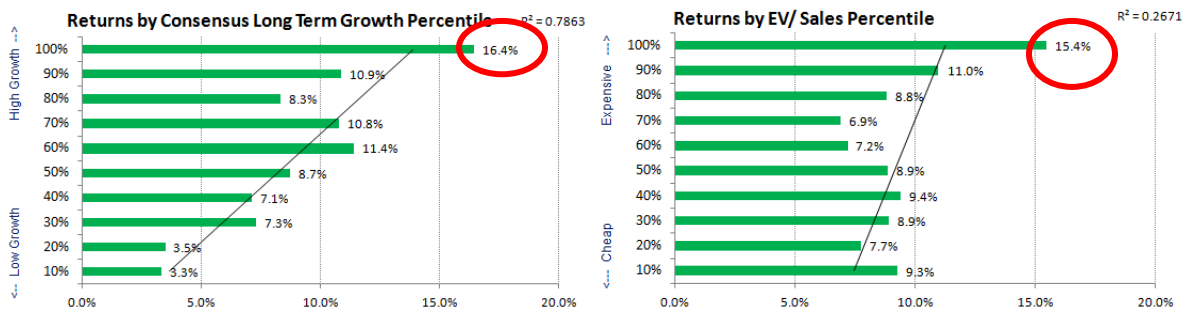
15 October 2013

What ails the Shorts? Short Investing Q3.

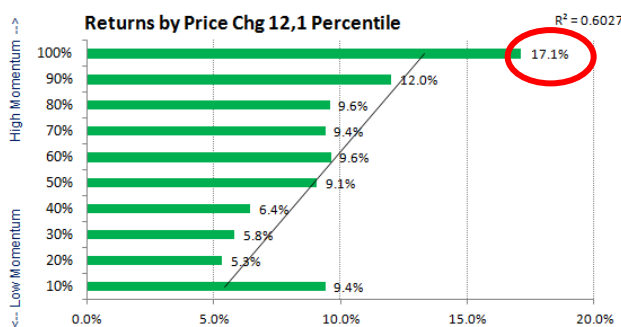
The shorts are clearly getting hurt. High days to cover stocks are outperforming - meaning losing money on an absolute and relative basis for short investors. Ranking all stocks by SISO, the highest 10% of SISO stocks gained 12.1%, the next 10% highest gained 12.8%. The lowest 10% of SISO stocks gained 3.7%. (All charts are for Q3 2013.)



The main characteristic that seems to matter right now is high forecast growth. These are the "blue sky" stocks. The highest 3-5 year growth forecast companies' stocks gained 16.4% in the quarter. (See chart below, left.) These are often the same as the companies with the highest sales multiples, which gained 15.4% in the quarter. (Below, right.)



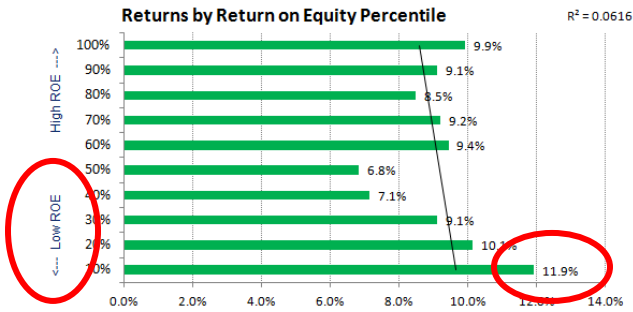
Market "darlings" continued to outperform. **Momentum just carried through.** The highest MO stocks gained 17.1% in the quarter.



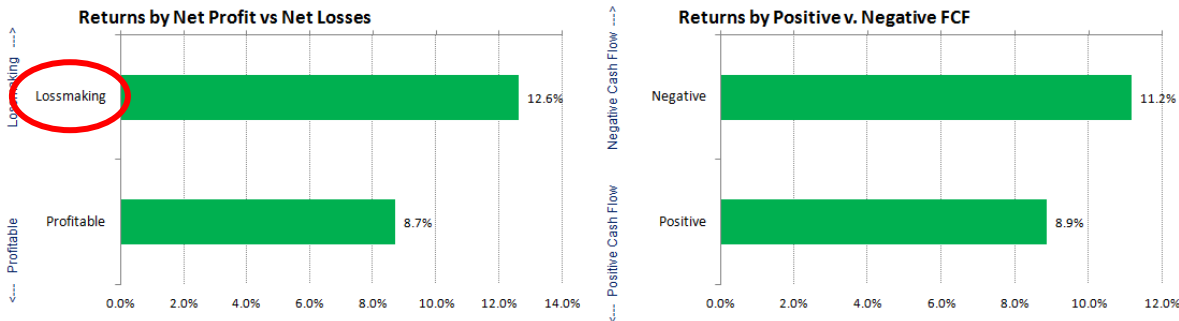
By Eric Fernandez, CFA., Two Rivers Analytics. Analyst direct dial 845-918-1996;

Absolute Returns for Uncertain Markets™

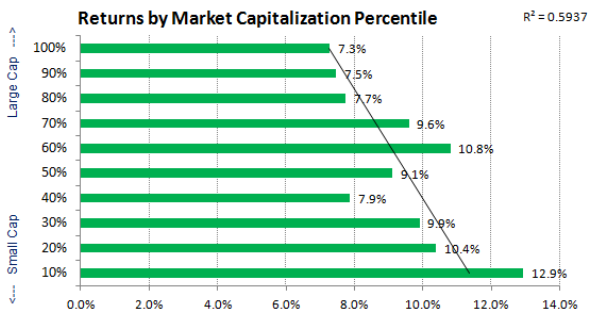
Lower quality (here low ROE) companies led. The weakest ROE's came with the strongest gains:



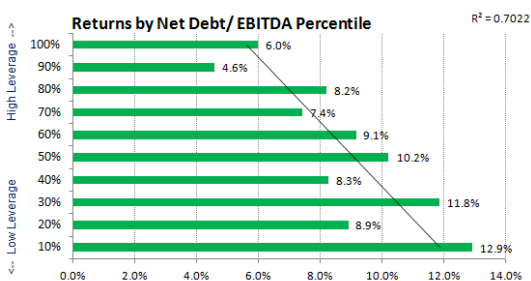
More indicators that low quality outperformed high quality: Loss-making companies outperformed:



A small cap bias in the market signals "risk-on", which works against short sellers.



One metric argues in the opposite direction. Poor balance sheets were good for stock performance for the first half, but reversed in Q3 when it worked as it should: high leverage underperformed in Q3.



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