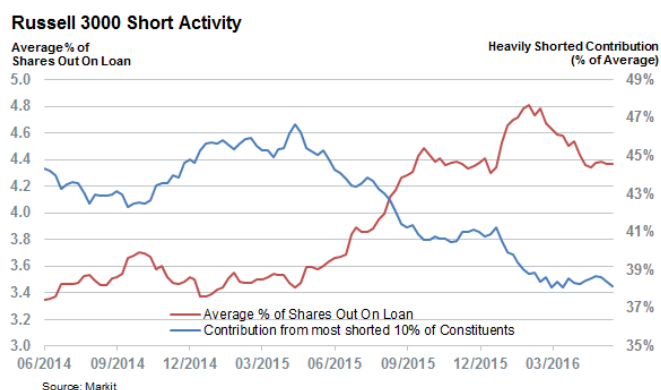


No hedge fund hotels on the short side

Accusations of hedge fund crowding into positions to not hold up on the short side as short positions among the Russell 3000 constituents become more diverse in the last 18 months.

- Short sellers much less concentrated among the constituents of the Russell 3000 than in 2014
- 28% of Russell 3000 constituents now see more than 5% of their shares shorted, up from 21%
- Energy lose most shorted sector crown in recent covering trend

Steven Cohen recently [accused](#) his hedge fund colleagues of herding into a few crowded trades which cuts the industry's returns and magnifies risks when trades fail to work out. While these accusations may hold true on the long side as funds pile into "[hedge fund hotels](#)", short positions do not exhibit the same crowding pattern as short positions among the Russell 3000 index have become more diverse in the fertile bear market seen over the last 24 months.



Two years ago, the 10% most shorted constituents contributed 44% of the index's average short interest. That number has since fallen to 38% as of latest count which indicates that short sellers are spreading their bets away from a minority of heavily shorted constituents into the wider sector.

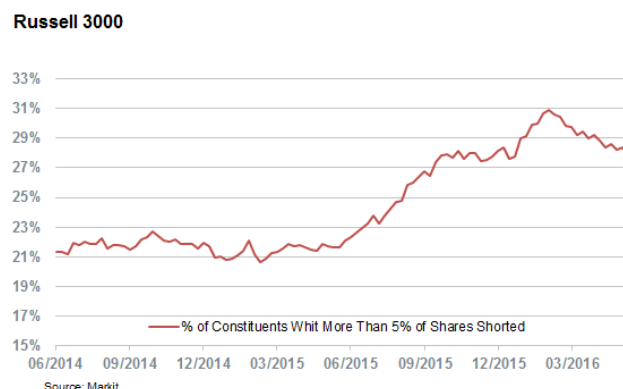
While this trend also coincided with a rise in average short interest, as seen by the fact that the average shorting activity across the index rose by more than a third in the year leading up to February's high water mark for short selling, current dispersal among short

positions has held up despite the fact that short sellers have covered in the last three months.

Previous periods of short covering have seen shorts retreat to their high conviction positions, but the short sellers seem willing to keep their current broad bets.

More firms being shorted

Another way to illustrate that phenomenon is by looking at firms that see meaningful shorting activity as defined by having more than 5% of shares out on loan. Two years ago, 21% of Russell 3000 constituents had short interest above that threshold, which has since climbed by a third to 28% of the sector's constituents now seeing material levels of shorting activity.

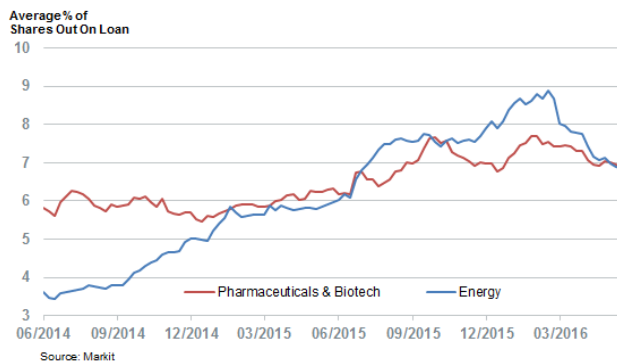


While that proportion is down from the 31% seen in February, the undeniable fact is that short sellers are much more active in the current market, which holds true.

Sector spread

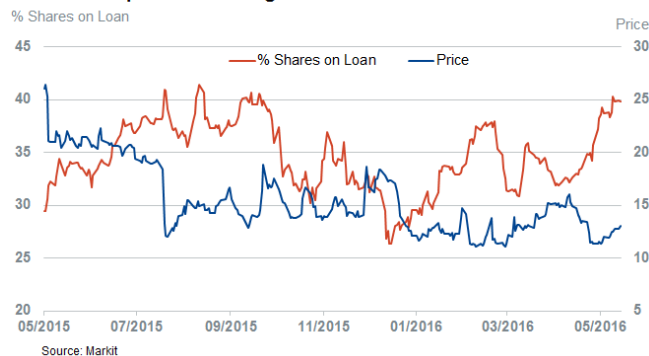
Short sellers have also been rearranging their positions among the index's sectors as energy has recently lost the title of most shorted sector to the pharmaceutical and biotech sector. The sector had held on to that title for more than six months, but the recent rebound in oil prices has seen short sellers start to cover in earnest as energy shares rebound.

Russell 3000 Sector Short Interest



Short seller restlessness is also seen in the number of shares which claim the most shorted title. Four firms have had this honour so far this year with Lumber Liquidator recently ascending to the title from Outerwall.

Lumber Liquidators Holdings Inc



This marks a slight increase from last year when three firms traded the most shorted title between themselves in the opening six months.

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