



## Short sellers keep gun makers in their sights

Friday, October 13<sup>th</sup>, 2017

### **Demand to short US gun manufacturers has increased in the wake of recent tragic events**

- Average shorting activity in gun stocks jumps by a tenth since early July
- Sturm Ruger has over a quarter of its shares shorted
- Sector laggard Outdoor Brands Corp sees a sharp rise in shorting activity

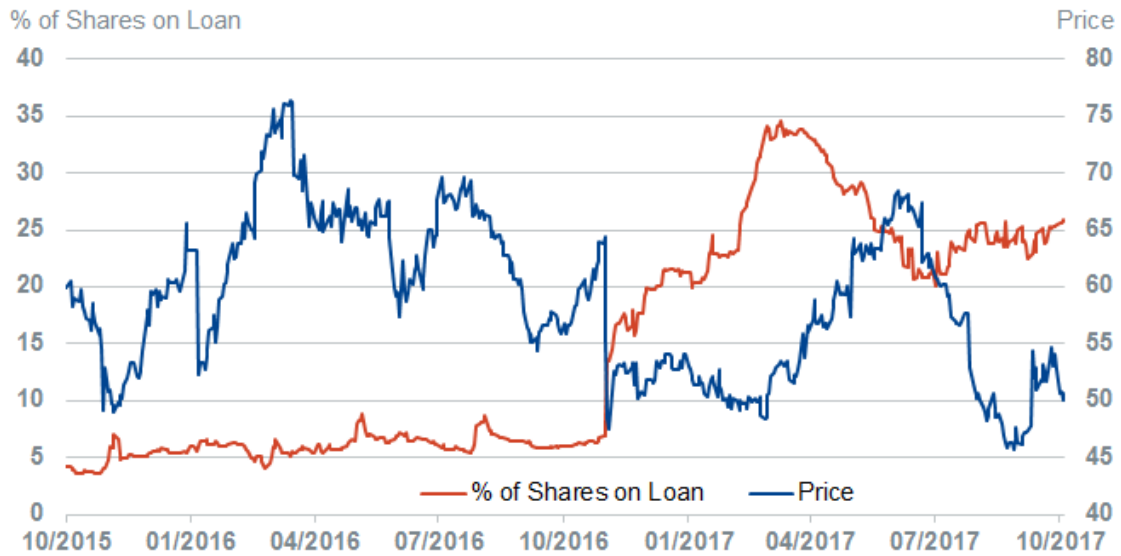
US gun stocks were once again in focus last week after the tragic shooting in Las Vegas. As has been the case with previous mass shootings, gun stocks perversely rallied following Sunday's events. The market priced in the possibility of history repeated – the bump in sales that happened in 2013 – the last time gun control was seriously on the legislative agenda. This recent rally proved to be short-lived, however, and gun stocks quickly fell back to their pre-Vegas levels when it became apparent that the Republican Congress is in no rush to drastically alter the status quo on gun control in America.

The 11 months since the election haven't been easy for the two main US gun makers, Sturm Ruger and Smith & Wesson owner American Outdoor Brands, who have both seen their shares retreat by more than 20% since the election. A large part of this decline has been driven by a slump in gun sales as customers see no rush to preempt any legislation. The volume of background checks going through the FBI's National Instant Criminal Background Check System backs up this lack of urgency: the system processed 8% fewer checks in the first nine months of 2017 compared to the same period last year.

Sturm Ruger CEO Christopher Killoy seized on this trend during his company's last quarterly earnings announcement. He attributed his company's 22% decline in year-on-year revenues to an industry-wide slump experienced since the election.

This slump hasn't gone unnoticed by short sellers, and they have been busy adding to their positions since last November. Last week's tragic events did little to dent resolve in the trade, and these two stocks saw the demand to borrow their shares climb to the highest level in over three months. The current average borrow activity in the two stocks (21% of shares outstanding) is roughly ten times that of the average S&P 500 constituent – underscoring the irony of the entire situation.

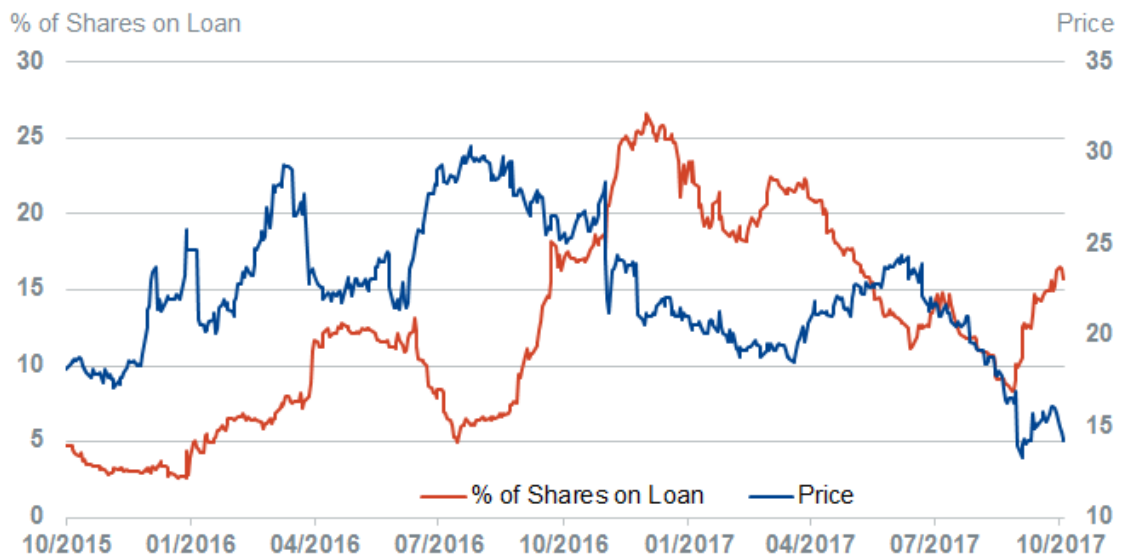
## Sturm Ruger & Company Inc



Source: IHS Markit

For now, short sellers have taken bets against Sturm Ruger, which has 25% of its shares on loan. Since the election, Sturm shares have outperformed those of American Outdoors – which trade at less than half of their pre-election level – however, the previously mentioned Q2 earnings have started to prove skeptics right after Sturm shares sank to new post-election lows.

## American Outdoor Brands Corp



Source: IHS Markit

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