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March 25, 2009, 1:16 PM ET

Undaunted, Bears Put Down More Bets

The bears have tired of betting against banks, but they're placing plenty of bets elsewhere.

Even as the last couple weeks of March have brought a roaring stock market rally, long-short equity players are aggressively teetering back to the short side. According to data released Tuesday, short-selling surged at both the New York Stock Exchange and the Nasdaq Stock Market in the first half of March, and traders believe the short positions have increased from there.

“This is a real opportunity to put on more shorts,” said Harry Rady, chief executive of Rady Asset Management, a long-short investment management firm in La Jolla, Calif. “It still might be early and we could run up to 8000 [on the Dow Jones Industrial Average], but I’m very confident a defensive bias will work out.”

But simply shorting large financial sector stocks is no longer the popular trade, a notable departure from more than a year's worth of shorting data. Of the 10 most heavily shorted companies on the S&P 500, as defined by the largest percent amount of their securities currently out on loan, none are banks. Health care firms, media companies, telecommunications and real estate investment trusts largely round out the list, according to Data Explorers, a short-selling data research firm based in New York.

According to Data Explorers, landing into two of the top three spots are health care firms Mylan Inc. and Cephalon Inc. — each with more than 20% of their stock currently out on loan.

Short-selling is essentially a bet against a stock that involves selling borrowed shares in the hopes of repurchasing them later at a lower price.

For Mr. Rady and others looking to short, the likely names have been “story stocks” - those companies able to find buyers thanks to a larger macroeconomic trend, but which may still have individual headwinds. Mr. Rady new short positions include Amazon.com Inc., AutoZone Inc. and Netflix Inc. All three companies are up more than 80% since the market's low points of November, though they largely rely on a consumer still facing the burden of rising unemployment and weak credit.

For the broader market, that long-short equity players are leaning more toward the short end isn't necessarily a bearish sign. Short interest actually dipped in January prior to the

stock market reaching fresh 12-year lows. Moreover, equities are regularly shorted for reasons other than bearish bets, including to hedge another trade.

The jump in short activity in the past couple weeks could also be an unintended consequence of possible government intervention to limit short selling through the reintroduction of the uptick rule. Chief executives from four U.S. exchanges on Tuesday proposed a modified version of the rule, which requires traders to wait for a stocks price to tick upward before they can sell the security short.

As a result of the possible rule change, some traders are rushing to get in their short positions before Washington changes the trading landscape.