Discussion: *Caveat Venditor — Crowded Exits* Clunie, Moles, Gao

Discussant: Dale W.R. Rosenthal[1]

UIC Finance
Liautaud Graduate School of Business

6 March 2009

[1] daler@uic.edu

Reaction

- Paper covers a topic we have all heard of: short squeezes.
- Prior studies used only short interest/stock lent. (precursor)
- This adds an important piece: lending changes. (indicator)
- Yields stronger results than Au, Doukas, and Onayev (2008).
- Better still: work quantifies *crowding* effect.
- Not unique to short sellers: index deletions may be similar.
- Under Reg SHO, results may apply to US markets also.

Questions

- Why not deduct spread from AR vs. skipping a day?
- Separating out convertible bonds is good. (Warrants?)
- Would like to see summary data for CB and non-CB portfolios.
- "Could not exploit this by buying into crowded exits."
  - Buyer price impact might increase the exit rate.
  - Maybe buyers could exploit this; or, is that manipulative?
  - Inefficiency; or, risk premium for low liquidity post-exit?
  - Theory justifying exploitation: probably from Jarrow (1992).
- Later: Relate stock loan changes to crowded exit returns?

UIC Liautaud