

77 Views | 5 CrossRef citations to date | 0 Altmetric

Research Articles

# Short Selling and Common Stock Prices

J. Randall Woolridge & Amy Dickinson

Pages 20-28 | Published online: 31 Dec 2018

“ Cite this article <https://doi.org/10.2469/faj.v50.n1.20>

CFA Institute members: [sign in to access the Financial Analysts Journal.](#)

Sample our  
Mathematics & Statistics  
Journals

>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

“ Citations

Metrics

Reprints & Permissions

[Read this article](#)

## We Care About Your Privacy

We and our 849 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

I Accept

Essential Only

Show Purpose



# Short Selling and Common Stock Prices

J. Randall Woolridge and Amy Dickinson

*An analysis of overall market data and of individual companies traded on the NYSE, Amex and OTC markets indicates a positive but statistically insignificant relation between changes in short position and stock prices (even after accounting for market movements and risk). Short sellers, on average, do not earn abnormal returns. Furthermore, the relation between short selling and stock price does not seem to be materially affected by whether the stock is traded on the NYSE or Amex or over the counter.*

*The results provide strong evidence refuting the popular notion that short sellers earn abnormal profits at the expense of less informed traders. Short sellers do not appear to drive prices down through their short sales. In fact, if anything, short sellers provide market liquidity by shorting into up markets and reducing short positions in down markets.*

While short selling has been an accepted form of trading in markets for centuries, it has come under increased scrutiny by regulators and the media in recent years as some market observers have blamed it for increased market volatility and declines in both the overall market and individual security prices. This article evaluates the short sales-stock price relationship, focusing on three issues related to short selling:

- Do short sales, in and of themselves, affect security prices?
- Is a high level of short interest a bullish or bearish indicator for stock prices?
- Do short sellers, on average, earn abnormal returns?

These propositions are tested in two phases. Initially, to assess the overall short selling and security return relationship, we evaluate monthly short sale and stock return data for the NYSE, Amex and NASDAQ markets. Then we analyze monthly short sale data and stock returns for individual companies using a random sample of 100 NYSE, Amex and NASDAQ companies. The study covers the 1986-91 period.

Overall, the results provide strong refutation of the popular notion that short sellers earn abnormal profits at the expense of less informed investors by artificially driving down stock prices. We find, on an aggregate market level as well as the individual company level, a positive relation between monthly short-selling activity and stock returns. The positive relation between short selling and returns for individual companies holds when

both short ratios and short interest are regressed against raw as well as market and risk-adjusted returns. While these findings do not imply a causal relation between short-position changes and stock returns, they do indicate that, on average and on a month-to-month basis, short sellers are selling as stock prices are going up and reducing short positions when stock prices are declining. Other tests show that a high level of short interest is not necessarily a bullish or bearish indicator for stock prices and that short sellers do not, on average, earn abnormal stock returns.

## SHORT SELLING IN THE EQUITY MARKETS

Figure A shows monthly total short interest (in millions of shares) on the NYSE, Amex and NASDAQ for the 1986-91 period. While short interest increased in all three markets over the period, the NYSE experienced the most volume and growth of short interest. Also evident on the NYSE is a pre-Gulf War increase in short interest and a subsequent decline; no similar change is evident on the NASDAQ or Amex.

It also appears that the volatility of short interest was greater on the NYSE than on the NASDAQ or Amex markets. Figure B shows percentage changes in monthly short interest for the NYSE, Amex and NASDAQ. Monthly percentage changes declined slightly.

Figure C provides monthly short interest ratios (SIRs) for the NYSE and NASDAQ for the 1986-91 period. SIRs in both markets increased, with the SIR for the NYSE averaging nearly twice the SIR for NASDAQ over the entire period and being somewhat more volatile. Overall, the 1986-91 data indicate that short interest and SIRs are greater and more volatile for the NYSE than for NASDAQ.

*J. Randall Woolridge is Professor of Finance and the Goldman, Sachs & Co. and Frank P. Smeal Endowed University Fellow at the Smeal College of Business Administration at Pennsylvania State University. Amy Dickinson is Assistant Professor of Finance at Florida Atlantic University in Boca Raton.*



Log in

> Account



Log out

> Logout

Restore

> Restore content access for purchases made as guest


## Purchase options \*

Save for later

### PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed


USD 53.00

 Add to cart

### Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- Article PDFs can be printed

USD 162.00

 Add to cart

\* Local tax will be added as applicable

## Related Research

People also read

Recommended articles

Cited by  
5

Short S

Haiyan  
Europea  
Publishe

Do  
Ch

Zhisher  
The Eur  
Publishe

A Close



View more

### Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

### Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

### Open access


- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

### Help and information

- Help and contact
- Newsroom
- All journals
- Books

### Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright © 2019 Taylor & Francis Group, an informa business

Access to this journal is available for free at  
Register to receive personalised research and resources by email  
5 Howick Place

