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Which Shorts Are Informed?

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Abstract

We construct a long daily panel of short sales using proprietary NYSE order data. From 2000 to 2004, shorting accounts for more than 12.9% of NYSE volume, suggesting that shorting constraints are not widespread. As a group, these short sellers are well informed. Heavily shorted stocks underperform lightly shorted stocks by a risk-adjusted average of 1.16% over the following 20 trading days (15.6% annualized). Institutional nonprogram short sales are the most informative; stocks heavily shorted by institutions underperform by 1.43% the next month (19.6% annualized). The results indicate that, on average, short sellers are important contributors to efficient stock prices.

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