

Assessing the information content of short-selling metrics using daily disclosures

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Abstract

As a consequence of the 2008 financial crisis, the Australian regulator mandated daily reporting and disclosure of both short flow and short interest at an individual stock level. This provides a unique opportunity to study the nature and source of information embedded in each metric. Our empirical findings are consistent with short sellers being heterogeneous with respect to their information. Short flow is strongly related to recent returns and buy-order imbalance, and both anticipates and reacts to price-relevant announcements. In contrast, short interest is related to the mispricing of firm fundamentals. The distinct differences in the nature of information embedded in the two metrics provide an economic rationale for both the unique ability of each metric to predict returns and the future horizons over which the information is relevant.

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