

Toward understanding short-selling activity: Demand and supply

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Summary

We investigate the demand and supply sides of short-selling activity in the U.S. from 2003 to 2015. We construct four types of demand side variables from fundamentals, and three types of supply side variables from institutional ownership (IO) and stock loan data. The supply side variables play a more important role in determining short selling than the demand side variables. The IO of quasi-indexer type is the most important supply side variable, while the arbitrage and hedging with options market is the most important demand side variable. Finally, a portfolio sorting approach confirms the same results.