

IBKRCampus

**IBKR**Webinars

December 12, 2023

# Market Structure **EDGE**

## Why Is It So Hard To Short the Market?

---

**Tim Quast**

Founder & CEO  
Market Structure EDGE

[www.ibkrcampus.com/webinars](http://www.ibkrcampus.com/webinars)

[www.ibkrcampus.eu/webinars](http://www.ibkrcampus.eu/webinars)

Exchange and Industry Sponsored Webinars are presented by unaffiliated third parties. IBKR is not responsible for the content of these presentations. You should review the contents of each presentation and make your own judgment as to whether the content is appropriate for you. IBKR does not provide recommendations or advice. This presentation is not an advertisement or solicitation for new customers. It is intended only as an educational presentation.

## Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled Characteristics and Risks of Standardized Options by visiting [ibkr.com/occ](http://ibkr.com/occ). Multiple leg strategies, including spreads, will incur multiple transaction costs.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit your local Interactive Brokers Website.

Short selling is an advanced trading strategy involving potentially unlimited risks and must be done in a margin account.

Trading on margin is only for experienced investors with high risk tolerance. You may lose more than your initial investment. For additional information about rates on margin loans, please see [Margin Loan Rates](#).

Security futures involve a high degree of risk and are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading security futures, please read the [Security Futures Risk Disclosure Statement](#). For a visit copy your local Interactive Brokers Website.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.

Interactive Brokers LLC is a member of NYSE FINRA SIPC

Interactive Brokers Canada Inc - Is a member of the Canadian Investment Regulatory Organization (CIRO) and Member - Canadian Investor Protection Fund

Interactive Brokers (U.K.) Limited is authorised and regulated by the Financial Conduct Authority. FCA Register Entry Number 208159

Interactive Brokers Ireland Limited is regulated by the Central Bank of Ireland. CBI, reference number C423427

Interactive Brokers Australia Pty. Ltd. - ABN 98 166 929 568 is licensed and regulated by the Australian Securities and Investments Commission AFSL: 453554

Interactive Brokers Singapore Pte. Ltd. - Is licensed and regulated by the Monetary Authority of Singapore. MAS, Licence No. CMS100917

Interactive Brokers Hong Kong Limited is regulated by the Hong Kong Securities and Futures Commission, and is a member of the SEHK and the HKFE

Interactive Brokers India Pvt. Ltd. member: NSE, BSE, SEBI. Regn. No. SEBI Registration No. INZ000217730; NSDL: IN-DP-NSDL-301-2008

Interactive Brokers Central Europe Zrt. is licensed and regulated by the Central Bank of Hungary (Magyar Nemzeti Bank) under no. H-EN-III-623/2020

As with all investments, your capital is at risk

# **Why So Hard to Short the Market?** ***And What to Know Before You Try***

**Tim Quast, founder and CEO of  
Market Structure EDGE  
Dec 12, 2023**

- **Tim Quast – founder of two market structure analytics firms**
- **ModernIR.com – Market leader, quantitative equity Market Structure Analytics for US issuers**
- **Market Structure EDGE – Only quantitative Supply and Demand data for traders**





Bloomberg

+ Follow

## Short Seller Jim Chanos Shuts Hedge Funds After 38-Year Run

Story by Hema Parmar • 2w

Source: Yahoo! Finance via web search

# Top Chanos Buys/Sells at 09/30/23

2023-09-30 Top Buys (13F)		2023-09-30 Top Sells (13F)		2023-09-30 13F Holdings Summary	
BY CHANGE IN % PORTFOLIO >		BY CHANGE IN % PORTFOLIO >		Name	\$ Change
Name	% Change	Name	% Change		
EQIX <a href="#">Equinix Inc</a>	13.32%	CVNA <a href="#">Carvana Co</a>	3.89%	DLR <a href="#">Digital Realty Trust</a>	56.82%
QQQ <a href="#">Invesco QQQ Trust, S</a>	0.24%	GE <a href="#">General Electric Co</a>	2.89%	EQIX <a href="#">Equinix Inc</a>	28.51%
ABNB <a href="#">Airbnb, Inc.</a>	0.22%	RUN <a href="#">Sunrun Inc</a>	1.53%	VRT <a href="#">Vertiv Holdings Co</a>	4.59%
JOBY <a href="#">Joby Aviation Inc</a>	0.09%	COIN <a href="#">Coinbase Global Inc</a>	1.48%	DBRGpH <a href="#">DigitalBridge Group</a>	1.8%
IPXX <a href="#">Inflection Point Acq</a>	0.05%	TSLA <a href="#">Tesla Inc</a>	1.42%	DLR <a href="#">Digital Realty Trust</a>	1.52%
<a href="#">SEE ALL HOLDINGS</a>					

Data: Whalewisdom.com

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

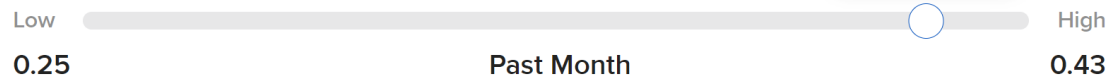
# Example: TSLA Shares to Short

## Shortable Shares at IBKR

88,867,294

Quantity Available

Current: 0.41



Num. of Lenders w/ inventory 17  
Country United States  
ISIN Code

## Today's Shortable Shares

TIME	SHORTABLE SHARES
8:07 AM	88,793,447
8:06 AM	88,787,043
8:05 AM	88,789,329
8:04 AM	88,797,561
8:03 AM	88,808,125
8:02 AM	88,809,922
8:01 AM	88,809,222

Source: Interactive Brokers – Fundamental Insights

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

# Example: TSLA Securities Lending



TSLA X Search Inside



Trade

Home Portfolio Trade Research Transfer & Pay Performance & Reports Education

Refer a friend! Get \$2

TSLA TESLA INC NASDAQ

245.20 +6.48 +2.71%

Ask 245.22 x 100

Bid 245.19 x 300



Quote Options Fundamentals Ne

View Company Profile Key Ratios Dividends Impact Financials Analyst Ratings Analyst Forecast Ownership Social Sentiment Short Selling Securities Lending

## ORBISA Securities Lending Analytics

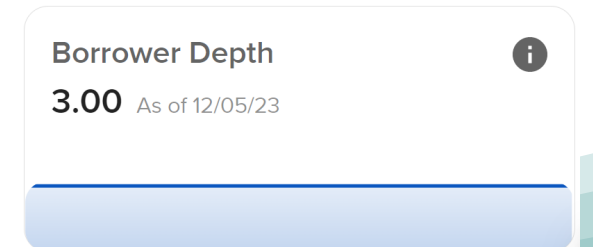
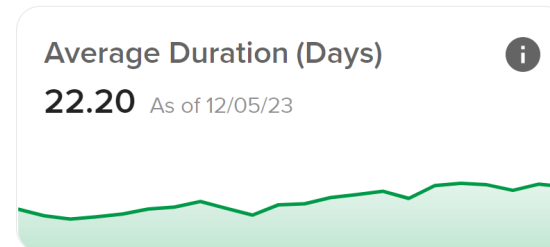
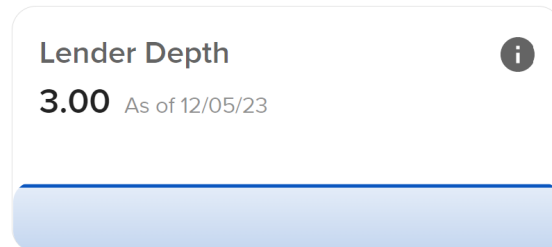
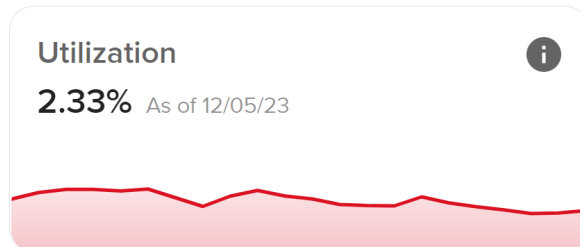
Disclaimer

Start a free trial today to access Premium Orbisa securities lending metrics and compare multiple securities side by side.

Free 30-day Trial

Select Metrics

Week Month Year Custom



Source: Interactive Brokers – Fundamental Insights

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.





# The Problem with Short Interest

## § 220.1 Authority, purpose, and scope.

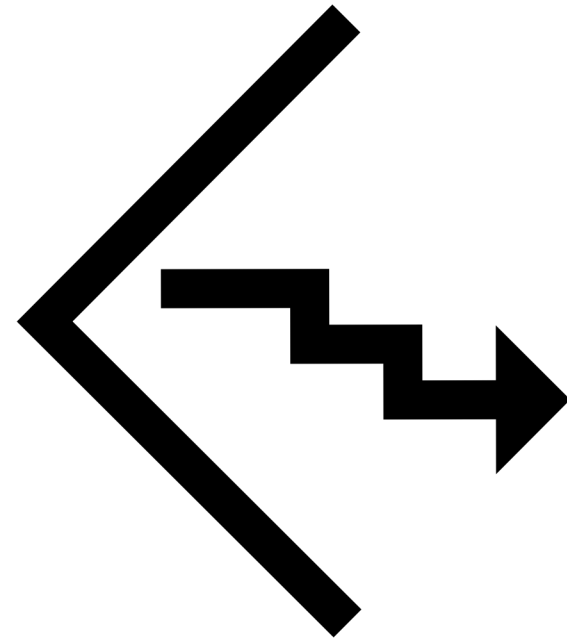
(a) *Authority and purpose.* Regulation T (this part) is issued by the Board of Governors of the Federal Reserve System (the Board) pursuant to the Securities Exchange Act of 1934 (the Act) (15 U.S.C.78a et seq.). Its principal purpose is to regulate extensions of credit by brokers and dealers; it also covers related transactions within the Board's authority under the Act. It imposes, among other obligations, initial margin requirements and payment rules on certain securities transactions.

- 1. Short Interest is a 1974 measure, and largely unchanged since then.**
- 2. Created by the Federal Reserve to regulate brokers, not by the SEC to meter shorting.**
- 3. Established in response to currency, interest-rate, volatility arising from leaving gold standard in 1971.**
- 4. Almost zero correlation to how stocks behave.**

Source: [ecfr.gov](https://www.ecfr.gov), Federal Reserve System

**Short Interest is the WRONG BASIS for shorting.**

**Shorting is hard because the supply of stock is elastic.**



**Short Volume. Not Short Interest.  
(We call Short Volume “Supply.”)**

# Here's what the SEC says about SHORT VOLUME

**From:** <https://www.sec.gov/investor/pubs/regsho.htm>

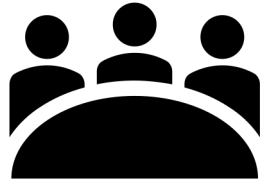
## Naked Short Sales

“Naked” short selling is **not necessarily a violation of the federal securities laws or the Commission’s rules...[BECAUSE]...**broker-dealers that make a market in a security generally stand ready to buy and sell the security on a regular and continuous basis at a publicly quoted price, even when there are no other buyers or sellers.

**Thus, market makers must sell a security to a buyer even when there are temporary shortages of that security available in the market.** This may occur, for example, if there is a sudden surge in buying interest in that security, or if few investors are selling the security at that time...particularly in a fast-moving market, [when they] may need to sell the security short without having arranged to borrow shares.

**SOURCE:** <https://www.sec.gov/investor/pubs/regsho.htm>

# GameStop (GME): Let's Suppose...



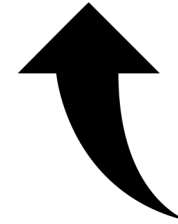
GME Stockholders  
Neither buy or sell



100% of the outstanding stock



...Retail traders jam the pipeline  
with limit orders to buy...



Stock Soars!



...and Market Makers  
manufacture stock...



**Wait, what? Manufacture stock?  
Yes. That's most of Short VOLUME.**

# Why Can Market Makers Manufacture Stocks?

**Regulation National Market System (Reg NMS): *Regulators wanted a “continuous auction market” where there are always 100 shares of everything to buy or sell (the minimum bid/offer).***

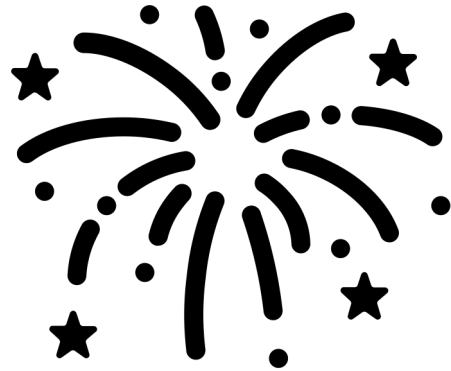
- Art auction: Art first, buyers next
- Market-makers said they could not make a bid/offer in everything without an exemption from the “short locate” rules (T+3 to verify stock can be borrowed)
- The SEC agreed – **THUS SHORT VOLUME AS A METRIC (~50%)**
- *Market Makers are exempt from **Reg SHO Rule 203(b)(2)** requiring everyone to locate shares to borrow*

14

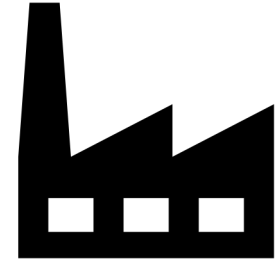
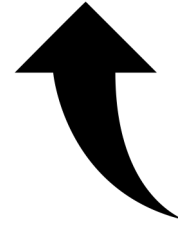


# What Fed the Meme Stock Craze

Retail brokers...



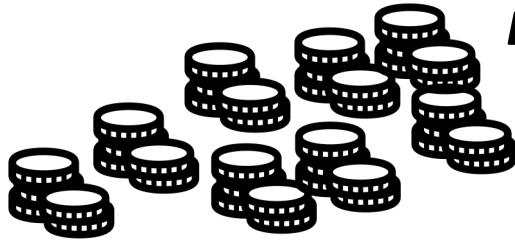
Sell the order pipeline...



...to Citadel Securities et al,  
which **buy the Sell orders**, and  
**manufacture stock to fill the  
Buy orders**, driving the price  
of AMC, GME, whooshing up...



*Buy Orders*



*Sell Orders*



Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

## Short Volume:

1. **Modified uptick rule: Reg SHO Rule 201.**
2. **Finra requires brokers to furnish data.**
3. **SEC exempts brokers engaged in bona fide market-making (bids/offers) from Reg SHO Rule 203(b)(2). No “locate” rule.**

# Short Volume is measurable, predictive.

Source: Statistical analysis by ModernIR since 2010.  
Data science at Market Structure EDGE.

### NVDA Market Structure Sentiment™ (Demand) vs. Closing Price

October 24, 2023 - December 5, 2023

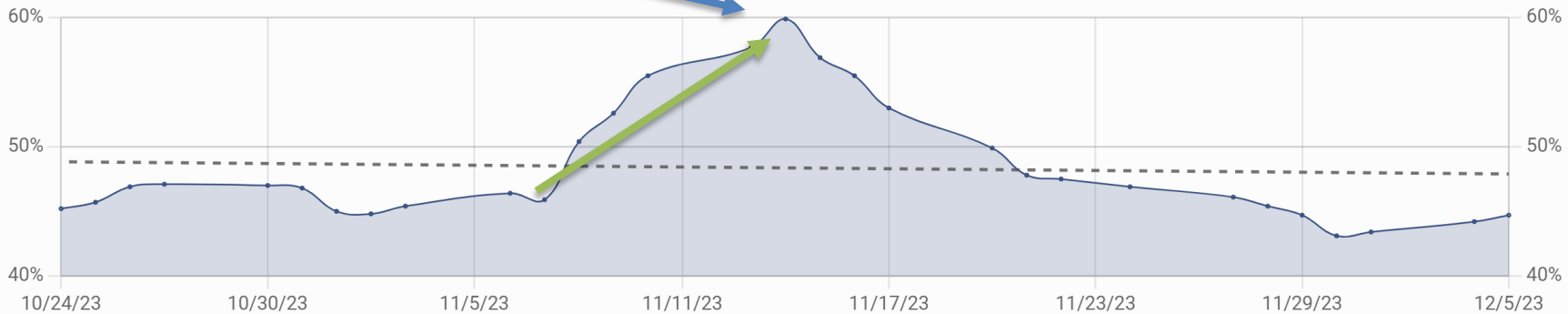
Market Structure Sentiment™: 1.8 Closing Price: 465.66 Trade Date: 12/5/2023



### Short Volume

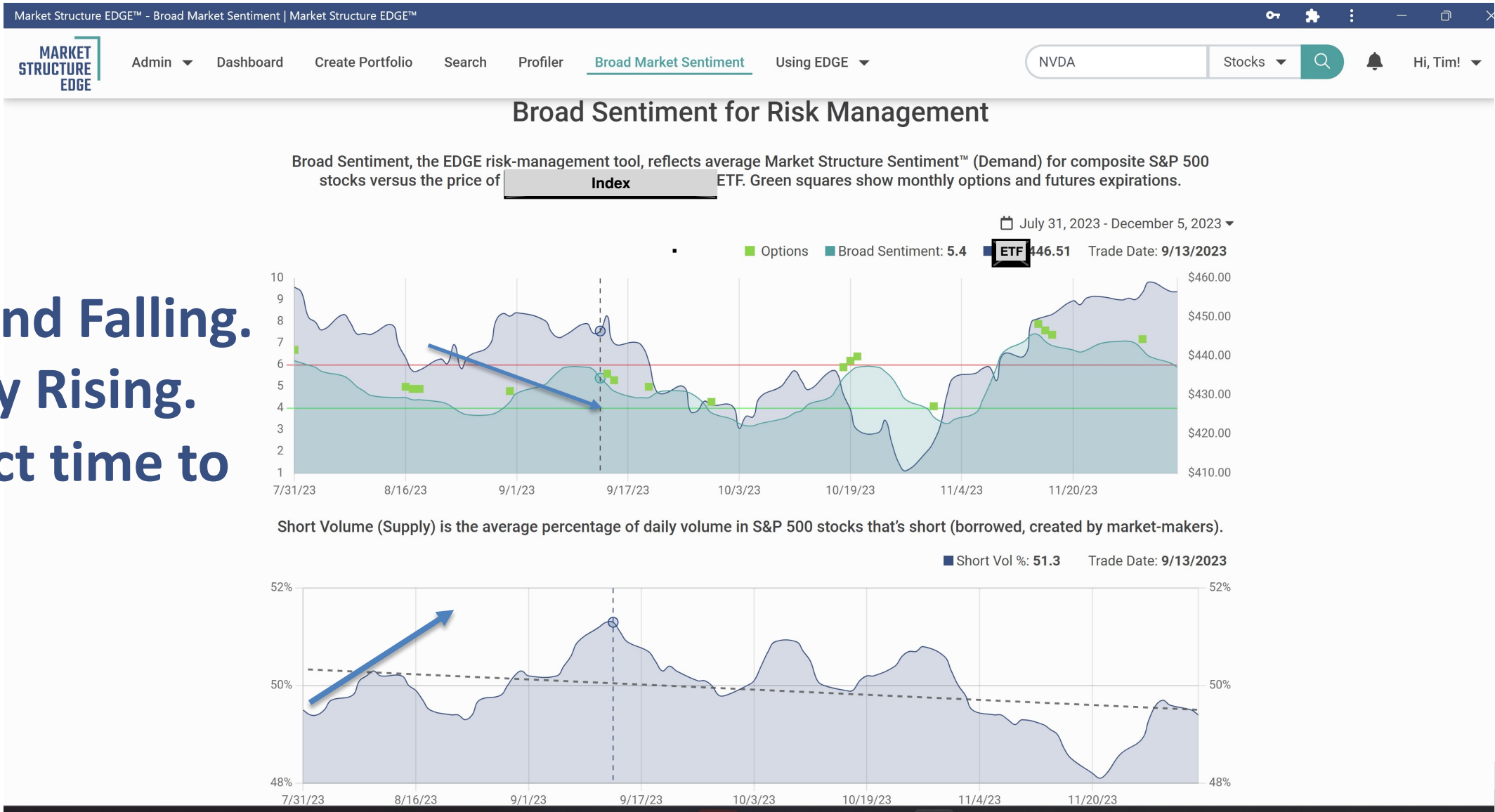
#### NVDA Short Volume % (Supply)

Short Vol %: 44.7 Trade Date: 12/5/2023



### Data from Market Structure EDGE

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.



**Demand Falling.  
Supply Rising.  
Correct time to  
short.**

## Broad Market Sentiment for risk management at Market Structure EDGE

*Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.*

# What Are “Supply” and “Demand”?

**Demand**. An algorithm called “Market Structure Sentiment” metering buying and selling by investors under rules governing quotes and trades in US stocks.

**Supply**. Short volume is the percentage of trading volume predicated on borrowed stock.

## Rules:

1. **Rising Supply (Short Volume) shows high inverse correlation to price.\***
2. **Don't fight the broad market.**
3. **It's a SHORT-TERM tactic.**

\*EDGE models show an inverse correlation coefficient of -75.6% in 2023

**Let's go to [marketstructureedge.com](https://marketstructureedge.com) and see EXAMPLES...**



**BENZINGA**

**GLOBAL  
FINTECH  
AWARDS**

**WINNER**

**2021**

**Winner: Market Structure EDGE**

Best Day Trading Software

# Take Gains, Not Chances

The only trading decision-support platform built on stock market behavior and rules. Sign up for a free 30-day trial, no credit card needed.



Free Trial



Request a Demo

**30D Free Trial through your IB Account, live education most Thursdays, 230p ET**

