

Seeking Alpha α

Short Squeeze Stocks That Can Create a Rocket Portfolio

by: MyPlanIQ

July 14, 2011 | about: [CSTR](#), [EBIX](#), [ENTR](#), [FSLR](#), [GMCR](#), [SODA](#), [TZOO](#)

Brian Stoffel of the Motley Fool [points out that a short squeeze](#) -- a heavily shorted stock that has positive news can induce stocks to rocket up -- another path for a rocket portfolio.

His example:

On Aug. 25, 2010, **Green Mountain Coffee Roasters** ([GMCR](#)) was:

- Sporting a P/E greater than 50.
- Seeing its stock reach record highs, having gone up over 300% in the previous two years.
- Was being heavily shorted.

Clearly, this was a stock to avoid, right? Wrong. The stock is up 190%.

Two key things to look for:

1. Innovation wins out.
2. Heavily shorted stocks can jump on any sign of good news.

He then points out these six innovative companies currently attracting a lot of attention from short-sellers, as well as the percent of their available shares (float) being shorted.

Company	What They Do	Short % of Float
Entropic (Nasdaq: ENTR)	Connects your home's electrical devices	33%
Soda Stream (Nasdaq: SODA)	Soda-making machines for the home	30%
Ebix (Nasdaq: EBIX)	On demand e-commerce solutions for the insurance industry	32%
Travelzoo (Nasdaq: TZOO)	Travel and local deals	45%
First Solar (Nasdaq: FSLR)	Solar power	39%
Coinstar (Nasdaq: CSTR)	Redbox DVD rentals and coin-counting machines	37%

Source: Finviz.com.

We are going to compare this with Fredrik Arnold's rocket portfolio.

- CARBO Ceramics ([CRR](#))
- Netflix, Inc. ([NFLX](#))
- Fossil Inc ([FOSL](#))
- Tractor Supply Company ([TSCO](#))
- Lululemon Athletica inc. ([LULU](#))

And an ETF dividend portfolio:

Asset	Fund in this portfolio
REAL ESTATE	ICF (iShares Cohen & Steers Realty Majors)
CASH	CASH
FIXED INCOME	TIP (iShares Barclays TIPS Bond)

- Emerging Market [VWO](#) (Vanguard Emerging Markets Stock ETF)
- US EQUITY [DVY](#) (iShares Dow Jones Select Dividend Index)
- US EQUITY [VIG](#) (Vanguard Dividend Appreciation ETF)
- INTERNATIONAL EQUITY [IDV](#) (iShares Dow Jones Intl Select Div Idx)
- High Yield Bond [HYG](#) (iShares iBoxx \$ High Yield Corporate Bd)
- INTERNATIONAL BONDS [EMB](#) (iShares JPMorgan USD Emerg Markets Bond)

- [Fools Short Squeeze Rocket Stocks](#) -- Total of \$10K invested equally in each stock
- [Fredrik Arnold 5 Rocket Stocks](#) -- Total of \$10K invested equally in each stock
- [Retirement Income ETFs Tactical Asset Allocation Moderate](#) -- Above funds using TAA (40% fixed income, 30% for each of the top two asset classes)
- Retirement Income ETFs Strategic Asset Allocation Moderate -- Above funds using SAA (40% fixed income, 12% for each of the five asset classes -- funds selected based on price momentum)

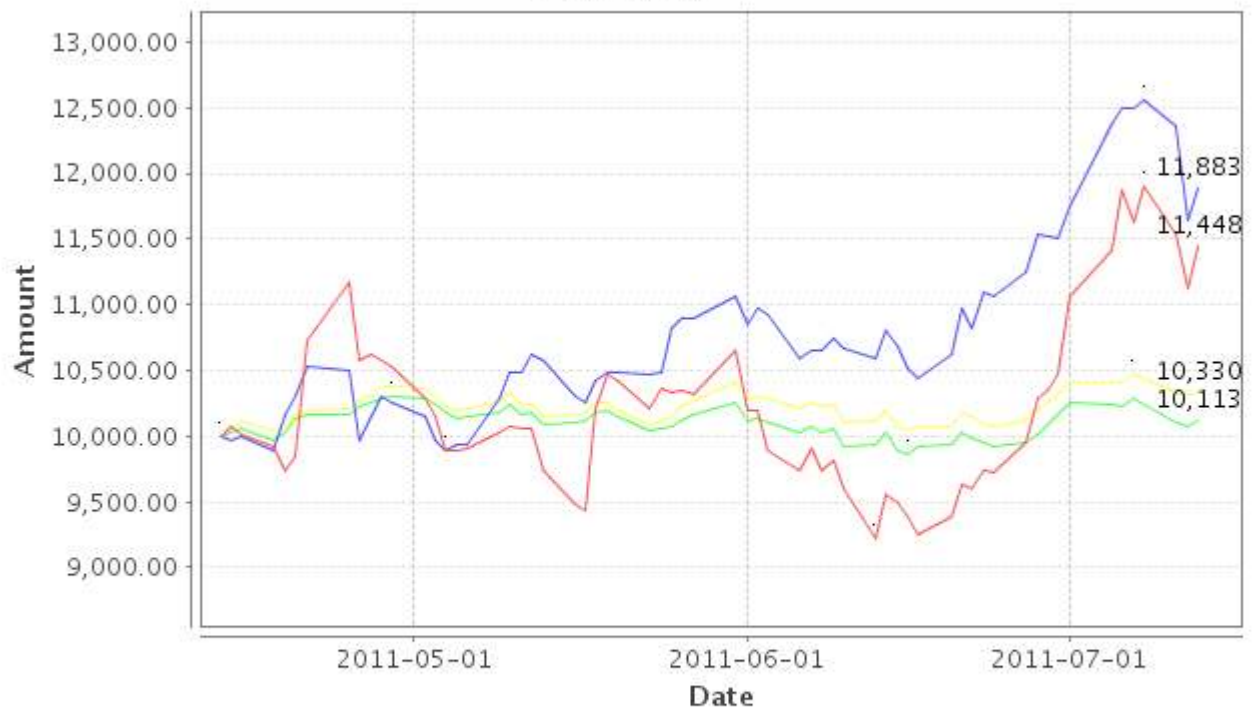
Portfolio Performance Comparison

Portfolio/Fund Name	1Yr AR	1Yr Sharpe	3Yr AR	3Yr Sharpe	5Yr AR	5Yr Sharpe
Fredrik Arnold 5 Rocket Stocks	157%	513%	77%	195%		
Retirement Income ETFs Strategic Asset Allocation Moderate	21%	218%	6%	30%	6%	27%
Retirement Income ETFs Tactical Asset Allocation Moderate	16%	172%	12%	97%	11%	81%
Fools Short Squeeze Rocket Stocks						

[Click all to enlarge]

Three Month Chart

Portfolio Comparison
From MyPlanIQ

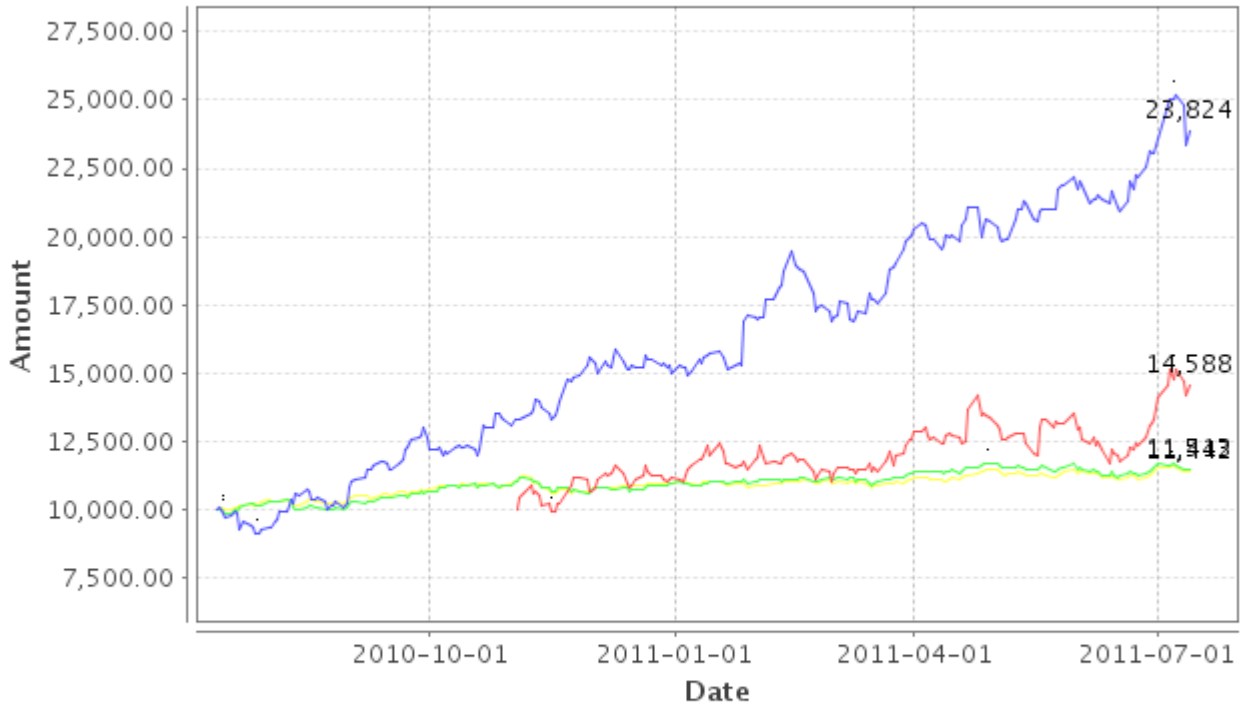


- Fools Short Squeeze Rocket Stocks — SA Reader 5 Rocket Stocks
- Retirement Income ETFs Strategic Asset Allocation Moderate
- Retirement Income ETFs Tactical Asset Allocation Moderate

One

Year Chart

Portfolio Comparison From MyPlanIQ

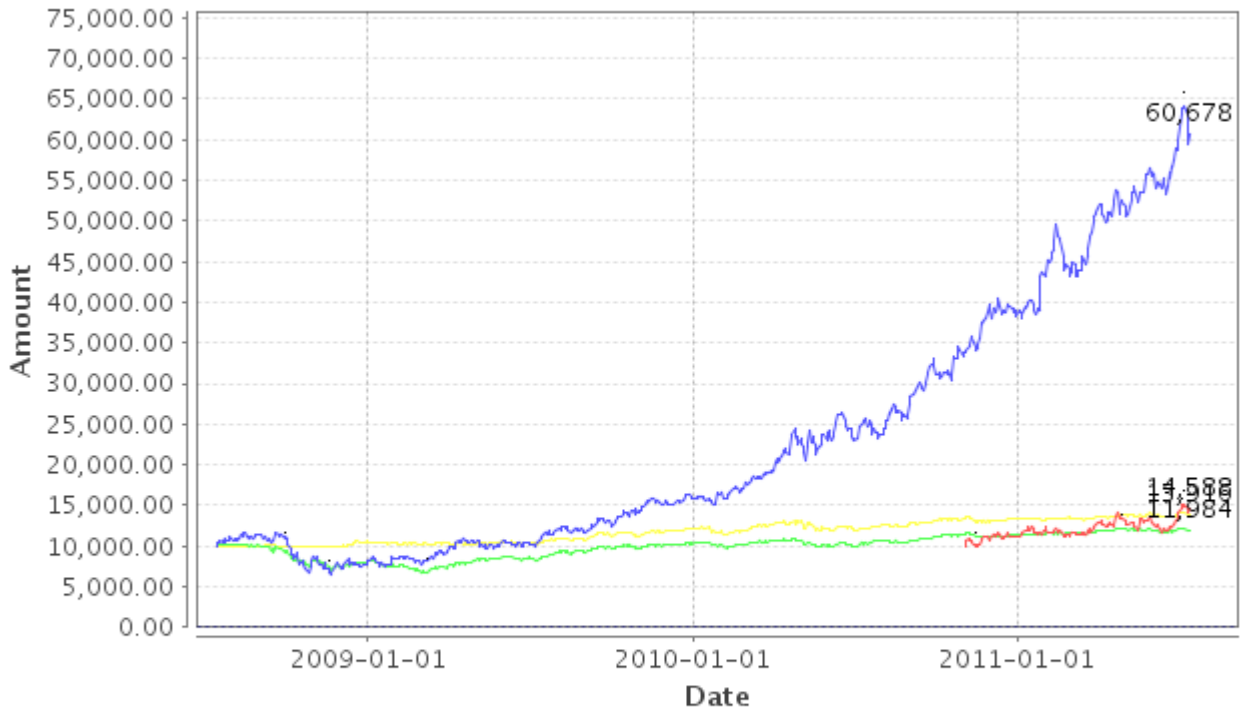


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Year Chart

Three

Portfolio Comparison From MyPlanIQ



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The notion of a short squeeze to provide a sharp increase in value is intriguing and it's possible to see in the very recent past that there is a steep rise in the value of the portfolio that would warrant a rocket assignment. However, it is very early in the game and we will track this over the next couple of months to see whether it comes true. The Frederik Arnold 5 still looks awfully good in this company!

Disclosure: MyPlanIQ does not have any business relationship with the company or companies mentioned in this article. It does not set up their retirement plans. The performance data of portfolios mentioned above are obtained through historical simulation and are hypothetical.