



4 Solid "Short Covering" Candidates

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"[Short covering](#) rallies" are often predicted for stocks with an inordinate size of their [float](#) being held as short positions. However, I think that far too often investors simply assume that a lot of open short trades means a rally is a foregone conclusion. It's much more complicated than that.

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Yes, when a heavy percentage of the float is short, that's fuel for the fire, but the stock needs to fulfill a couple of other requirements as well. One, it needs to be attractive enough - fundamentally speaking - to attract the kind of buyers that don't know or care what short means. Two, the stock needs to experience some sort of technical catalysts that will actually begin the short-covering rally. Otherwise, it's just another falling stock the short-sellers continue to pile on.

With that as a backdrop, here are four high-odds short covering candidates - stocks with too much of their float held as short positions, as well as stock with compelling technicals and fundamentals.

Shorts Now Getting the Horn

I understand how **RINO International Corporation** (Nasdaq:[RINO](#)) shares fell from \$31 earlier in the year to a low around \$12 before the bleeding stopped. It's a pollution control stock, which can fall in and out of favor at the drop of the hat - and can stay there for longer than you'd expect. Looking back on four straight earnings beats though, the market appears to be accepting the fact that the single-digit P/E ratio isn't a fluke.

More importantly, RINO is on the move, up from \$12 to \$16 over the last two months, and crossing a couple of key technical resistance lines in the process. With nearly 45% of the float held as short positions as of the end of July, a lot of people have got to be close to their breaking point - close to covering their short trade by buying it - if they haven't already.

Titan-ic Shift

Given its recent past, it's not surprising to see that nearly 30% of **Titan International** (NYSE:[TWI](#)) shares were held as shorts. A funny thing happened in the meantime though: the company has swung back into the black, and the stock's actually made bullish progress, even if it was volatility progress. The stock's moved up from \$8 to above \$10 since the beginning of the year.

All that volatility has obscured the fact that we've seen a large gain from this stock, and I suspect that the string of lower highs over the last four months has led some of these short position owners to think the overall weakness will resume soon enough. However, that hope may be misplaced. As I said, not only has Titan International come back to profitability, the last two quarters were both significant beats. The tide is quietly turning here.

Not Too Hot to Handle, Yet

I'm generally gun-shy about jumping on a stock that's already gone parabolic the way **Ebix Inc.** (Nasdaq:[EBIX](#)) has, but I'll make an exception in this case, although I'd still shop around for a slightly cheaper entry.

There are three reasons for this: All three short covering criteria have been met; fundamentally speaking, the company has three straight earnings beats and a projected P/E of 14.0; and, at the heart of it all, 32% of the stock is being held as short trades, with some nervous trigger fingers behind those trades.

Diamond in the Rough

This is probably the least-compelling fundamental case of the four stocks in focus here. **Diamond Foods** (Nasdaq:[DMND](#)) is trading at a fairly-frothy 18 times 2011's anticipated earnings. After four straight earnings beats though, perhaps traders are catching on to the idea that we've been underestimating DMND.

Either way, what Diamond Foods may lack in performance pizzazz it makes up for in the technical arena. It's been firmly on the rise since the beginning of the year (from \$34 to \$44), shrugging off the market's bearish curve balls and making a string of higher lows. If it can just get over the hump at \$46 - where it topped twice in recent weeks - that should spook all those short trades out in a hurry. And, at 22% of the float, such a short-covering rally could really fan the bullish flames. (To learn more, see [The Short And Distort: Stock Manipulation In A Bear Market.](#))

The Bottom Line

These preceding stocks all have too much of their float held as short positions, as well as compelling technicals and fundamentals. Traders should take a closer look at these short-covering candidates.

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