



Excuse me Sir, I think your shorts are on fire...

By James Penny, Chief Investment Officer at TAM Asset Management

It won't be lost on many that 2025 has been a gangbusters year for stocks, global equities up nearly 20% in 2025 in dollar terms and that's including a pretty spicy sell off in April around Trump's tariffs. If one looks at the rally in the aftermath of that sell off you will see global equities having rallied 33%, almost in a straight line since then. Likewise, the tech dominated US Nasdaq is up over 43% since that April low. These are big numbers. Have clients benefited? You bet. The indomitable 60/40 model portfolio continues to deliver ahead of its long run average of mid-single digits which is certainly something to be celebrated as we head into the holiday period.

How have we gotten up to these levels? A cocktail of stable inflation, resilient growth, and rising optimism for rate cuts has kept sentiment alive whilst a strong undertow of retail investors buying every dip has staved off any serious sell-off. Market leadership is thankfully broadening beyond U.S. tech, with Europe, Asia, and select emerging markets showing solid momentum and all favouring the 60/40 portfolio which is invested into all these areas. Structural drivers include insatiable AI enthusiasm which is verging on the frenetic, automation, infrastructure investment and commodities fuelling further performance. Earnings growth is steady, central banks remain supportive, and investor sentiment is in rude health. In short, 2025 has, so far, been a great year to be invested into global companies.

Alas, to most, this won't be the first time you are reading about the positives of 2025. Let's instead talk about a group of investors for whom 2025 hasn't been so gilded.

Investing in a company, via buying its shares, is a vote that the fortunes of that company are on the rise and therefore, in time, those fortunes will see the price of your shares go up. The same is true in reverse, "going short" a stock is betting that the fortunes of a company are going to fall and therefore the price of the company's stock, in the future will be worth less than today. No surprise then that with a market this hot, betting against via "going short" has been a pretty awful investment.

How does shorting work? In practical terms, an investor wanting to short a stock borrows the shares from a willing owner with

the promise to return the shares at an agreed point in the future. Once borrowed, the trader sells that stock immediately on the belief that the stock will later fall in value. Should the company's fortunes indeed fall on hard times, the trader buys the shares back, on the open market, for less than they originally sold and keeps the profit. Thus being able to financially benefit from the demise of a company.

However, shorters beware, your investment could go up in smoke! Should the shares of that company rise in value, rather than fall, then the trader owes that rise in share price to the original owner, which is called a “margin call”, just like in the movies. Remember a stock can only fall to zero so if you buy a stock the worst you can do is to lose your original investment but as we know, the price of a stock can rise indefinitely. Therefore, betting against a stock which rises 200% for example, can lose far more than your original investment, which makes the act of betting against stocks much riskier, hence the title of smoking shorts!

The 250 companies which investors most like to “go short” have risen, in aggregate over 57% in 2025 and left short sellers in deep losses. These seemingly hated companies haven't had a run this good going back to the great rallies seen after COVID-19.

Sainsbury's, a favourite of short sellers is up 14%, Kingfisher, another perennially hated UK company is up 25% and the darling of short sellers, Hertz, is up 43% in 2025.

Over in the US a stock called Terawulf, a data centre provider with 43% of its available shares in the hands of short sellers, is up over 143%. The renowned “IBM” has also appeared in the chart for the top 10 most shorted US stocks this year. Year to date the stock is up 41%. Ouch!

Shorting stocks has been vilified by politicians, media outlets and executives since the dawn of time. Indeed, Trump recently suggested launching a criminal investigation to find short sellers of his media company of which he remains a majority shareholder. Despite this style of investing delivering blockbuster returns to those who get it right, shorting has seemingly burnt even the most seasoned short sellers in 2025.

Understanding why short selling is failing is a nice alternate window into why traditional investors are feasting on the other side of the table in this gangbusters market. A lot of the rally we are seeing in 2025 is rational buying of high-quality businesses with high quality earnings and businesses models. The hype around the future of AI certainly looks to be a factor driving prices higher but the long-term drivers underpinning this technology revolution certainly point to a rally which still makes sense from a technical earnings perspective. However, with traditional investing rooted in good fundamentals, speculative investing can be a side effect in which stocks are purchased with less regard for why, under the belief that this market will just keep going up. So it matters less about what you are buying and more about how much you are buying. The phrase “a rising tide floats all boats” works nicely here.

This influx of cash into the market has been supercharged in 2025 by a record number of retail investors. The new 2025 investors have been the lower income and younger age, Gen Z demographics than in previous years. In part driven by investment platform penetration and commission free trading apps allowing more and more sophisticated investments to be executed from the comfort of a sofa. Research shows in the first half of 2025, \$155 billion was invested into the market from retail investment sources which is the highest in history, and 21% more than in 2024. Further, retail investors now account for 20% of all daily buying and selling on the US exchange which has been growing steadily. This larger presence of a more emotive investor has certainly boosted the “buy the dip” mentality which is iron clad in 2025 and remains responsible for cutting short market sell offs which would have driven the market a lot lower in previous years to the benefit of short sellers.

Longer term, it's a good thing to see more investors coming into a more inclusive market who will participate in the buying and selling of stocks for decades, which is supportive of longer-term price appreciation. Short term, the influx of capital and the subsequent aggregate performance boost have created a reinforcing loop called the wealth effect which is doing a fantastic job of encouraging consumers to keep spending as their portfolio performance surges which in turn boosts GDP and keeps the stock market partying.

However, this wall of money, this “rising tide” which is floating all boats essentially renders the short seller redundant as their analysis into the faults of a company get washed out as more money chases a finite number of stocks. So much so that famed short seller Nate Anderson, founder of Hindenberg Research, has shuttered the firm in 2025.

This market remains in a state of historic bifurcation, in one part we are entering a new industrial revolution with the advent of machine learning to which the blistering rally we are seeing in AI related investments is testament, and certainly at its core, is justifiable when one looks at the revenue being generated. But on the other side of the ledger is a large and growing cohort of investors buying into today's market under the belief that “markets only go up”. Whilst history suggests markets (stocks) do go up, like any form of powerful momentum, the sure-fire cure to high stock prices will eventually be, high stock prices.

TAM is undeniably a fundamental investor, investing in an opportunity for little reason other than “its going up” does our clients, who remain the lifeblood of this firm, a disservice.

In that respect, the act of analysing a company's fundamentals looking for negative indicators (short selling) certainly has just as much theoretical justification as investing into a company for its merits and certainly takes the same amount of skill and a good deal more steel to execute. Indeed, a list of positive and negative investment options are outputs of the same detailed analysis process, so why not seek to make a return off both elements?

One could also make the argument that owning a fund looking to profit from companies with poor governance, fiscal largesse and in extremis, fraudulent activity serves to cleanse a client's portfolio of badly run companies, thus elevating the average quality of a client's portfolio holdings. These investments usually come in the form of "long/short funds" which does what it says in the title.

TAM, contra to what we have seen in 2025, is positive on the long-term prospects of these investments to complement our clients long only funds which have delivered such stellar gains this year. The key component here is, as always, quality analysis from high quality funds which can deliver an additive process consistently, at a price which delivers value for money back to our clients.

Human ingenuity has afforded investors, through innovation, the ability to make money going both "long" and "short". As stewards of our client's capital, TAM see value in using both long and short options to the benefit of our client's long-term performance whilst diversifying risk. Capital markets are at times rational and logical, and at times fickle and irrational. Where we are at present is up for debate but some froth in this market is certainly evident. Whilst this breakneck growth could continue for some time, it's best to evaluate what hasn't worked in the face of it, and ask the question, would our clients benefit from it in the future?

So, whilst there may be some 2025 investors walking around with smoking shorts, they might just become gilded shorts if this market decides to take an irrational turn lower, so don't write the process off just yet!

If you would like to speak with us about anything in this note, or to discuss our discretionary investment management services in general, please get in touch with our UK business development manager David Terry today.



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