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Speculation on Squeezes

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Abstract

This paper focuses on the factors that might predict the occurrence of the squeeze effect. Using panel regression, we analyze 70 small cap companies listed on the NASDAQ exchange. The research concerns the impact of the January effect, attention, short interest, trading volume, profitability, and market capitalization on the likelihood of the effect. We find investment attention, volatility, and trading volume as significant indicators of the occurrence of the squeeze effect. Excessive volatility is led by an increase in the short interest and trading volume before the anomaly arises. Presented results can be helpful for portfolio managers of hedge funds who aim to protect their portfolios from excessive volatility.

Keywords: squeeze effect, short-selling strategy, market anomalies, logistic regression