

Day Trading a Short Squeeze | Tradingsim Video Lessons



One of the most powerful trading setups is the short squeeze. A short squeeze occurs when you have a crowded trade on the short side. Here's the key with these types of setups. You want to be able to throw gasoline on the fire. What do I mean by this? Well, having a high short interest ratio is one thing but coupling that with a low float stock can create explosive moves very quickly.

Our job is to first identify good candidates for this type of trade and then create a game plan and execute it.

You may ask why a high short interest can lead to huge squeezes. After all, stocks with high short interest are most likely terrible companies on their way to bankruptcy, right?

Possibly, but we don't care. The short squeeze is a supply/demand dynamic which exploits a whole bunch of traders who believe there is free money shorting this stock. When you have well defined areas of strong resistance in a chart and those levels get broken, you end up having a whole bunch of traders in a losing position. This triggers stop loss orders to cover the stock. High short interest = lots of shares which need to be covered (or bought on the open market).

Well, imagine having a huge number of buyers with not enough shares available to buy. Buyers end up having to pay sellers whatever they want. Therefore, the large number of buyers is the fire and the lack of supply or liquidity is the gasoline being thrown into the fire.

My research involves identifying stocks which heavy short interest (typically above 25%) and looking for stocks that have low float (~below 100 million shares). Here is a good site with this information:

<http://www.highshortinterest.com/>. Next, I will evaluate the chart pattern and look for heavy areas of resistance and good chart setups. As you will see in the video below, identifying these levels is 80% of the job. Then, intraday trade execution is the other 20%.

The video you see above was created using our own [Tradingsim Market Replay tool](#). Feel free to take our [free 7 day trial](#) and improve your day trading skills and money management approach. We have over 2 years worth of data you can practice against. We are essentially a trading DVR!