

Obligated Demand Under Constrained Supply: A General Theory of Short-Squeeze Formation

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A short squeeze is often described as a sudden increase in a heavily shorted stock caused by short sellers rushing to close their positions. Although broadly correct, this description is analytically incomplete. High short interest alone does not produce a squeeze, nor does every rapid price increase in a heavily shorted security represent one. A genuine short squeeze emerges from the interaction of several conditions: a large preexisting obligation to repurchase shares, restricted access to tradable supply, a catalyst that weakens the prevailing bearish thesis, rising urgency among short sellers, and a feedback mechanism through which covering itself drives further price appreciation. This paper develops a general framework for identifying such conditions without relying on particular companies, market episodes, or temporary ticker lists. It distinguishes squeeze fuel from squeeze activation, separates investable reversals from speculative momentum events, and introduces a multidimensional screening framework incorporating short interest, days to cover, float structure, securities-lending conditions, catalysts, dilution risk, market confirmation, and corporate survivability. The central argument is that the strongest prospective squeeze is not necessarily found in the most heavily shorted security. It is found where the short thesis is becoming invalid faster than obligated sellers can exit through the available supply of shares.

Keywords: short squeeze, short selling, short interest, securities lending, market liquidity, float, days to cover, catalysts, forced buying, feedback loops, dilution, market structure.

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1. Introduction

A short sale begins with the sale of a security that the seller does not presently own. The shares are borrowed, sold into the market, and expected to be repurchased later at a lower price. The difference between the sale price and the later purchase price, after borrowing costs and other expenses, becomes the short seller's profit. The transaction therefore reverses the ordinary investment sequence. A conventional investor buys first and sells later. A short seller sells first and must eventually buy later.

That final purchase obligation gives short selling a distinctive market structure. A long investor may hold a security indefinitely, subject to financial capacity and willingness. A short seller faces continuing borrowing costs, the possibility that borrowed shares will be recalled, margin requirements, potentially unlimited losses, and the unavoidable need to acquire shares before the position can be fully closed. The short position therefore contains a latent source of future demand.

This latent demand does not by itself imply that a squeeze will occur. A market may contain a large population of short sellers without experiencing any unusual price movement. The company may continue to deteriorate, trading volume may remain abundant, new shares may enter the market, and short sellers may cover gradually without disrupting price. The presence of a large short position should consequently be understood as stored mechanical potential rather than as an immediate prediction.

A short squeeze begins when the market's capacity to absorb covering demand becomes smaller than the urgency of the obligation to buy. The price rises, short sellers experience losses, risk controls compel some of them to reduce exposure, and their purchases produce additional upward pressure. That pressure may then attract momentum traders, option buyers, algorithmic systems, retail attention, and additional long investors. The resulting movement can become self-reinforcing.

The central analytical problem is therefore not merely to identify securities with high short interest. It is to determine when a large repurchase obligation is likely to collide with restricted supply under conditions that make delay increasingly costly.

This paper proposes a general model of that collision. The model may be summarized as five interacting components:

Fuel + confinement + catalyst + feedback + survivability

Fuel is the quantity of potential forced buying embedded in the existing short position. Confinement describes the difficulty of obtaining enough shares to close that position. A catalyst provides the new information or event that challenges the bearish thesis. Feedback

converts initial buying into additional buying. Survivability distinguishes companies that may recover fundamentally from companies whose shares merely experience temporary speculative pressure.

The framework is intended to remain useful across market cycles. It does not depend on the identity of a particular company, the popularity of a social-media platform, or the peculiarities of a single historical squeeze. Instead, it treats squeeze formation as a general problem of obligated demand, constrained supply, changing information, and nonlinear feedback.

2. Short Selling as Deferred Demand

Every open short position represents a completed sale paired with an incomplete purchase. The first half of the transaction has occurred, but the second half remains outstanding. This asymmetry is essential. The short seller has already contributed selling pressure to the market and has created a future requirement to contribute buying pressure.

The relationship can be expressed simply:

Open short position = prior sale + future purchase obligation

The word “obligation” should not be interpreted as meaning that every short seller must cover immediately or on a predetermined date. Many short positions may remain open for long periods. Nevertheless, they cannot remain open forever without continued access to borrowed shares, sufficient collateral, acceptable financing costs, and tolerance for adverse price movement. The obligation is therefore conditional in timing but unavoidable in ultimate structure.

This deferred demand differs from ordinary potential demand. A prospective investor may choose whether to buy. A short seller who wishes or is required to close a position must buy. The distinction between optional demand and obligated demand is one of the foundations of squeeze dynamics.

In normal markets, this obligation is not destabilizing because the purchases required for covering are distributed through time. Some short sellers enter while others exit. Daily trading volume is sufficient to accommodate their transactions. Market makers and long investors supply shares at progressively changing prices. The deferred demand is therefore absorbed without a discontinuity.

A squeeze becomes possible when several short sellers attempt to satisfy the same deferred obligation within a compressed period. The relevant question is no longer simply how many

shares are short. It is how many shares must be purchased relative to the number of shares realistically available at current prices.

This distinction reveals why reported short interest cannot be interpreted in isolation. A short position of ten million shares may be enormous for a company that trades one million shares per day and has a tightly held float. The same position may be relatively unimportant for a company trading fifty million shares per day with a vast and widely distributed float.

The fundamental comparison is therefore between obligated demand and accessible supply.

Let:

S = shares sold short

F = effective tradable float

V = normal daily trading volume

A = shares realistically available near the current market price

The most commonly reported ratio is short interest as a percentage of float:

Short interest percentage = $S \div F \times 100$

This ratio estimates the size of the short position relative to the tradable ownership base. A second measure, days to cover, compares the same short position with normal trading activity:

Days to cover = $S \div V$

Neither measure is sufficient by itself. Short interest percentage estimates crowding. Days to cover estimates the time theoretically required to unwind that crowding under ordinary trading conditions. Effective squeeze pressure, however, depends on the smaller and less observable quantity A: the number of shares whose owners are actually willing to sell near the prevailing price.

The effective tradable supply may be much smaller than the reported float. Some shareholders may be passive institutions that rarely trade. Others may be founders, strategic investors, index funds, committed long-term holders, or investors who refuse to sell during rising prices. As the market advances, additional holders may withdraw their sell orders in expectation of further gains. Supply can therefore contract precisely when demand is accelerating.

This produces the first general principle of squeeze formation:

A squeeze does not result merely from a large short position. It results when the demand required to close that position becomes large relative to the supply offered at accessible prices.

3. Fuel: Measuring the Stored Repurchase Obligation

Short interest provides the most direct measure of potential squeeze fuel. It represents the number of shares that have been sold short and remain open as of a reporting date. When divided by the float, it describes the concentration of future repurchase obligations within the tradable share base.

Low short interest generally provides little mechanical support for a squeeze. A positive surprise may still cause rapid appreciation, but ordinary buyers rather than forced covering are likely to dominate the move. As short interest rises, covering demand becomes increasingly capable of amplifying a price reversal.

A practical interpretation may divide short interest into broad ranges. Short interest below approximately ten percent of float is ordinarily unremarkable. Between ten and twenty percent, bearish positioning is elevated. Above twenty percent, the position becomes material to market structure. Above thirty percent, the trade may be considered crowded. Levels exceeding forty percent are extreme, but they frequently indicate that short sellers perceive profound weaknesses in the company.

These ranges are not natural laws. They are screening conventions. The same percentage can have different implications depending on liquidity, ownership structure, borrow availability, options activity, corporate financing, and the credibility of the short thesis.

The trend in short interest is often as important as its absolute level. Rising short interest indicates that new bearish capital is entering or that existing short sellers are increasing exposure. Falling short interest may indicate that covering has already begun. Neither trend has a single interpretation.

Rising short interest can strengthen the stored squeeze potential, but it may also mean that sophisticated investors have identified worsening fundamentals. Falling short interest may reduce the remaining fuel, but it can also provide early evidence that the bearish consensus is beginning to fracture.

The strongest prospective setup often occurs when short interest remains high even as the facts supporting the short thesis begin to change. This creates a temporal mismatch. The company's condition improves before the positioning structure has adjusted.

That mismatch can be expressed as:

Squeeze potential rises when thesis deterioration exceeds position reduction.

Here, “thesis deterioration” refers to the weakening of the bearish argument, not the deterioration of the company. The short position remains large, but the reasoning that originally justified it becomes progressively less persuasive.

This is the point at which short interest changes from a measure of pessimism into a possible source of obligated demand.

4. Confinement: Float, Liquidity, and the Difficulty of Escape

Fuel describes how much potential buying is stored in the short position. Confinement describes how difficult it would be for short sellers to satisfy that obligation without moving the market substantially.

The simplest measure of confinement is days to cover:

Days to cover = shares sold short ÷ average daily trading volume

This ratio estimates how many normal trading days would theoretically be required for all reported short positions to be repurchased. It is not a literal forecast. Short sellers do not all cover simultaneously, and total daily volume cannot be devoted entirely to covering. Nevertheless, the ratio provides a useful approximation of how crowded the exit may become.

A low days-to-cover value implies that the market may be capable of absorbing substantial covering demand without severe disruption. A high value suggests that closing positions could require many days of ordinary volume. The longer the theoretical exit time, the more vulnerable short sellers become to an abrupt change in information.

A practical interpretation may use the following ranges:

Below two days: limited confinement.

Two to five days: moderate confinement.

Five to eight days: significant confinement.

Eight to ten days: strong confinement.

Above ten days: potentially severe confinement, although illiquidity risk also becomes substantial.

Days to cover must be interpreted carefully because average volume can be distorted. A stock may have experienced a recent burst of speculative trading that temporarily inflates the denominator. Conversely, a quiet period may make the ratio appear more extreme than it would

be during an actual catalyst. Short-term, medium-term, and longer-term average volumes should therefore be compared.

The most informative question is not merely how much volume normally occurs, but how much of that volume represents shares that can realistically be purchased by short sellers during a rising market.

A reported daily volume of five million shares does not mean that five million distinct shares become permanently available. The same shares may trade repeatedly among market makers, algorithms, day traders, and short-term participants. Volume is transactional activity, not a direct measure of unique supply.

This leads to a crucial distinction:

Reported volume measures turnover. Effective supply measures willingness to sell.

During an advancing market, willingness to sell may fall. Existing shareholders may raise their asking prices or withdraw offers entirely. New buyers may acquire shares and immediately remove them from circulation. Short sellers may therefore confront a shrinking available supply even while reported volume rises.

The squeeze problem is accordingly nonlinear. The price increase that motivates covering may simultaneously reduce the number of shares offered near the current price.

This mechanism may be written conceptually as:

Price appreciation → reduced sell willingness → tighter effective supply → greater covering impact

The reported float introduces a similar complication. Float ordinarily refers to shares available for public trading after excluding certain insider, restricted, or strategic holdings. Yet even this adjusted figure can overstate the supply accessible to covering short sellers.

Some shares may be held by index funds that trade only when index weights change. Some may be held by institutions with long investment horizons. Some may be concentrated among founders, employees, strategic partners, or investors whose conviction increases during a rally. Other shares may be locked in option strategies, lending arrangements, or tax-sensitive accounts.

The more concentrated and inert the ownership base, the smaller the effective float may become.

The relevant quantity is therefore not merely legal float but behavioral float:

Behavioral float = shares whose owners are plausibly willing to sell within the relevant price interval

Behavioral float cannot be measured precisely. It must be inferred from ownership concentration, turnover, institutional behavior, insider holdings, historical trading patterns, and reactions to prior price movements.

A stock with a large nominal float may still be tightly confined if most shares are held by passive or committed owners. A stock with a small nominal float may be less confined if speculative holders are willing to sell rapidly into strength.

The general principle is:

Confinement depends less on the number of shares that exist than on the number of shares offered for sale when covering demand becomes urgent.

5. Securities Lending and the Cost of Remaining Short

A short position depends on borrowed shares. The securities-lending market therefore provides another layer of information about squeeze risk.

The short seller ordinarily pays a borrow fee to maintain access to the shares. For easy-to-borrow securities, this cost may be minimal. For scarce securities, the fee can become substantial. Rising borrow costs increase the expense of waiting and can turn a position with a sound long-term thesis into an unattractive near-term trade.

Borrow pressure can be evaluated through several indicators:

- Borrow fee
- Available shares to borrow
- Loan utilization
- Frequency of recalls
- Broker restrictions
- Changes in collateral requirements
- Classification as hard to borrow

The borrow fee reflects the price of access to lendable shares. A rising fee suggests that demand to borrow is increasing relative to available supply. Extremely high fees can create pressure on short sellers even without an immediate price increase.

Loan utilization estimates how much of the available lendable inventory is already committed. High utilization indicates that the lending pool is heavily occupied. When utilization approaches its practical limit, new short positions become more difficult to establish and existing borrowers may face greater recall risk.

A decline in available shares to borrow can therefore signal increasing confinement. However, borrow data are fragmented. Different brokers and data vendors observe different lending pools. One platform may report scarce availability while another still has inventory. Borrow metrics should consequently be treated as directional evidence rather than as exact universal measurements.

The most meaningful signal is often the trend rather than the absolute number:

Rising fee + falling availability + high utilization = increasing cost of delay

The cost of remaining short can become a catalyst in its own right. A short seller may continue to believe that the stock is overvalued but still reduce the position because carrying costs, recall risk, and margin requirements have become excessive.

This reveals an important distinction between being correct and being solvent.

A short thesis may ultimately prove correct, yet the position may still fail if the market moves sharply against it before the expected decline occurs. Short selling is therefore path-dependent. The sequence of prices matters, not merely the final valuation.

A long investor who purchases a stock at \$20 and later sees it fall to \$10 before recovering to \$30 may survive if no leverage or forced sale intervenes. A short seller who sells at \$20 and sees the stock rise to \$60 before falling to \$10 may be forced to close at a catastrophic loss even though the original valuation argument later proves correct.

The path dependency can be summarized as:

Correct destination does not guarantee survivable passage.

This principle is central to squeeze formation. Short sellers may cover not because they have abandoned their analysis, but because they can no longer tolerate the route by which the market is moving.

6. Catalyst: The Event That Converts Potential Into Motion

Fuel and confinement can exist for long periods without producing a squeeze. A catalyst is the event or information change that converts stored repurchase potential into immediate buying pressure.

A catalyst matters only to the extent that it changes expectations. Good news that confirms what the market already believes may have little effect. Modest news that contradicts a deeply embedded bearish consensus can have enormous effect.

The most important question is therefore not:

Is the news positive?

It is:

Does the news weaken the reason the stock is short?

This distinction separates decorative catalysts from thesis-breaking catalysts.

Suppose a company is heavily shorted because investors expect insolvency. A new product announcement may attract attention but leave the central bearish thesis intact. A successful refinancing, by contrast, may radically alter the probability of failure.

Suppose a company is shorted because its growth is thought to be artificial or temporary. A small cost-cutting program may be irrelevant. Evidence of durable customer retention, improving unit economics, or recurring revenue may directly challenge the thesis.

Suppose a company is shorted because dilution appears unavoidable. A minor earnings beat may not matter. Positive free cash flow or non-dilutive financing may matter greatly because it removes the expected need to issue shares.

The catalyst must therefore be interpreted relative to the specific bearish argument.

A useful catalyst classification includes:

Balance-sheet catalysts: refinancing, debt extension, asset sale, capital infusion, covenant relief, or improving cash flow.

Operating catalysts: revenue acceleration, margin expansion, customer growth, improved retention, cost discipline, or a return to profitability.

Regulatory catalysts: product approval, license award, court ruling, government authorization, or policy change.

Strategic catalysts: acquisition interest, partnership, major contract, distribution agreement, activist involvement, or management change.

Market-structure catalysts: index inclusion, lockup expiration in the opposite direction than expected, borrow recall, or changes in securities-lending conditions.

Narrative catalysts: credible evidence that the market has misunderstood the company's competitive position, technology, legal exposure, or addressable market.

Catalysts vary in certainty. A scheduled earnings report has a known date but an unknown outcome. A pending court ruling may have an uncertain date and uncertain result. A signed financing agreement has greater factual certainty but may already be reflected in price.

Three dimensions are especially important:

Certainty: How likely is the event to occur?

Magnitude: How much could it alter valuation or survival?

Surprise: How far does the outcome differ from current expectations?

A catalyst with high certainty but low surprise may have limited effect. A catalyst with high surprise but low probability may produce a binary gamble rather than an investable setup. The strongest configurations combine credible occurrence, meaningful economic consequence, and substantial disagreement with the prevailing bearish consensus.

The timing window also matters. Catalysts too far in the future may not create enough urgency. Short sellers can wait, hedge, or reduce positions gradually. Catalysts expected within several days or weeks compress the period available for adjustment.

This suggests a temporal principle:

The shorter the interval between new information and required portfolio adjustment, the greater the potential for nonlinear covering.

The catalyst does not need to prove the entire bullish case. It only needs to make the existing short position appear too large relative to the revised probability distribution.

Short sellers manage risk under uncertainty. Once the probability of a severe upside outcome rises beyond acceptable limits, some will reduce exposure. Their purchases then alter price, and that price movement changes the calculations of other short sellers.

The catalyst therefore initiates not one decision, but a sequence of interdependent decisions.

7. Thesis Invalidation and the Speed of Reassessment

The deepest source of squeeze pressure is not positive news alone but rapid thesis invalidation.

A short thesis is usually built from several assumptions. These may concern revenue quality, competitive decline, leverage, regulation, management credibility, valuation, customer concentration, technological weakness, or capital requirements.

A catalyst becomes dangerous to short sellers when it weakens one of the assumptions that supports the others.

For example:

- Refinancing may remove bankruptcy risk.
- Removing bankruptcy risk may improve supplier confidence.
- Improved supplier confidence may stabilize operations.
- Stabilized operations may improve revenue visibility.
- Better revenue visibility may attract institutional buyers.
- Institutional buying may raise the share price.
- A higher price may force short covering.

The initial event can therefore propagate through the thesis as a network rather than affecting only one isolated variable.

This can be described as cascading invalidation:

Primary assumption fails → dependent assumptions weaken → valuation range shifts → risk limits tighten → covering accelerates

The speed of this reassessment matters. If the bearish thesis erodes gradually, short sellers can exit over time. If several assumptions fail simultaneously, the required adjustment becomes compressed.

The most squeeze-prone situation occurs when the market changes faster than the short community can coordinate its exit.

Short sellers are not a unified group. They differ in entry price, time horizon, leverage, mandate, borrow cost, conviction, and risk tolerance. Some may have large unrealized profits and remain patient. Others may have entered recently and face immediate losses. Some may hedge with options. Others may be structurally unable to tolerate a large adverse move.

This heterogeneity creates sequential covering.

The weakest or most highly leveraged shorts cover first. Their buying raises the price. The higher price pressures the next group. That group covers, raising the price further. The process can continue through successive layers of risk tolerance.

The squeeze is therefore not simply simultaneous panic. It is often a cascade through differently constrained participants.

The structure resembles a chain reaction:

Initial covering → price increase → expanded losses → tighter margin constraints → additional covering

The critical variable is the rate at which the bearish thesis becomes obsolete relative to the rate at which positions can be reduced.

This relationship may be stated as the central inequality of squeeze formation:

Rate of thesis invalidation > rate of orderly exit

When this inequality holds, the market may move discontinuously rather than gradually.

8. Feedback: How Covering Becomes Self-Reinforcing

A squeeze becomes nonlinear when the act of covering changes the conditions faced by the remaining short sellers. The first purchases are not merely responses to price movement. They become causes of further price movement.

This produces a feedback loop:

Covering demand → higher price → larger short losses → tighter risk constraints → additional covering

In an ordinary market, new supply may appear as prices rise. Existing shareholders take profits, traders sell into strength, and institutions rebalance positions. This additional supply can absorb demand and stabilize the market.

During a squeeze, however, the opposite may occur. Rising prices can persuade shareholders not to sell because they expect further appreciation. Momentum traders may enter. Call-option buyers may increase exposure. Analysts may revise price targets. Financial media may draw attention to the move. The increase in price therefore attracts new demand while simultaneously reducing immediate willingness to supply shares.

The market then enters a reflexive state:

Higher price → stronger expectations → greater demand → lower sell willingness → higher price

This process does not require irrationality. Each participant may be responding rationally to changing incentives. Short sellers reduce risk. Long holders delay selling. Momentum traders follow price strength. Market makers hedge options exposure. Institutional investors revise estimates. The aggregate result can nevertheless become unstable.

The relevant distinction is between negative and positive feedback.

Negative feedback stabilizes price. As a security becomes more expensive, buyers withdraw and sellers increase. Positive feedback destabilizes price. As a security becomes more expensive, additional buyers enter and sellers withdraw.

A short squeeze is therefore a temporary transition from a predominantly negative-feedback market to a positive-feedback market.

The transition may be represented as:

Ordinary market: price increase → increased supply → stabilization

Squeeze market: price increase → increased demand + reduced supply → acceleration

This change in market behavior explains why historical volatility may underestimate the size of a squeeze. Models calibrated to normal conditions assume that liquidity remains reasonably available as prices change. During a squeeze, liquidity can disappear precisely when it is most needed.

The order book may appear deep under ordinary conditions but become thin during rapid appreciation. Sell orders are cancelled, limit prices move upward, and market orders consume increasingly distant offers. A relatively modest volume of urgent buying can therefore produce a disproportionately large price movement.

This is a liquidity discontinuity.

The stock does not rise only because many shares are being purchased. It rises because shares are being purchased urgently from a supply curve that is retreating.

The distinction can be written as:

Price impact = demand intensity ÷ available liquidity

When available liquidity contracts, the same quantity of buying produces greater price impact.

This is why the visible size of the short position alone cannot predict the magnitude of a squeeze. The decisive quantity is the relationship between urgent demand and contemporaneous liquidity.

9. Price and Volume Confirmation

A potential squeeze should not be inferred entirely from static positioning data. Market behavior often reveals whether the structure is beginning to activate.

One of the earliest signs is abnormal resilience. A heavily shorted stock may stop declining despite continued negative commentary, weak sentiment, or broadly unfavorable market conditions. This does not prove that the bearish thesis is wrong, but it may indicate that selling pressure has become exhausted.

The sequence frequently develops as follows:

Bad news loses power → price stabilizes → favorable news gains power → volume expands → short covering becomes visible

The first stage is not necessarily a strong rally. It may simply be the failure of expected declines to occur.

This asymmetry matters. When a company reports disappointing information and the stock no longer falls, the market may already have incorporated the negative thesis. When modestly positive information then produces a large gain, the balance between buyers and sellers may have shifted.

Relative strength provides additional evidence. A stock that begins outperforming its industry, market-capitalization group, or relevant index may be undergoing a reassessment before the change becomes obvious in reported fundamentals.

Volume is also important. A price advance occurring on ordinary or declining volume may reflect temporary scarcity or speculative noise. Repeated advances on volume substantially above normal suggest that new participants are entering and that existing positions are being transferred at higher prices.

Useful patterns include:

- A large upward move on two or more times normal volume
- Strong closes near the upper end of the daily range
- Higher lows following favorable announcements

- Recovery of levels that previously produced heavy selling
- Continued strength after an initial gap upward
- Large volume without a corresponding collapse in price
- Positive performance during broader market weakness

These patterns do not identify the source of buying. They cannot distinguish perfectly among short covering, institutional accumulation, retail speculation, market-maker hedging, and ordinary investment demand. Their value lies in showing that the market is absorbing supply at progressively higher prices.

Confirmation is particularly important because short-interest data are delayed. A stock may appear heavily shorted according to the latest report even though substantial covering has already occurred. Price and volume can provide more immediate, though less specific, evidence.

A useful principle is:

Positioning data describe stored potential; price and volume reveal whether that potential is being released.

Confirmation should not be confused with chasing. Once a stock has already risen several hundred percent, the squeeze may be mature rather than emerging. The same price action that confirms activation can eventually signal exhaustion.

The objective is to identify transition rather than climax.

An emerging squeeze often shows:

Stabilization → breakout → confirmation → acceleration

A mature squeeze may show:

Vertical price movement → extreme volume → public euphoria → widening intraday reversals → exhaustion

The distinction is probabilistic rather than exact. Nevertheless, it separates the search for an asymmetric setup from participation in a fully developed speculative event.

10. Options as an Amplifier

Options can intensify a squeeze by creating additional demand for the underlying shares. This mechanism is sometimes called a gamma squeeze, although the term is frequently used imprecisely.

When investors purchase call options, the seller of those options may hedge by buying shares. The amount of stock required for the hedge depends partly on the option's delta, which changes as the underlying price moves.

As the stock rises, call options may become more sensitive to further price changes. The option seller may then purchase additional shares to maintain the hedge.

The sequence is:

Call buying → dealer hedging → share purchases → higher stock price → larger hedge requirement → additional share purchases

This feedback can operate alongside short covering:

Short covering + option hedging + momentum buying = compounded demand

The strongest amplification generally occurs when large call exposure is concentrated near strike prices that the stock approaches or crosses. As previously out-of-the-money calls become more likely to finish in the money, hedging demand may increase rapidly.

However, several cautions are necessary.

First, options activity is not always bullish. Calls may be sold rather than purchased, or they may form part of spreads, hedges, or more complex institutional positions. Publicly visible option volume does not fully reveal the direction or purpose of every trade.

Second, market makers may already be hedged. The existence of large call open interest does not prove that substantial new share purchases will be required.

Third, implied volatility often rises before a known catalyst. Options may therefore become extremely expensive. A trader can correctly predict an upward move and still lose money if the move is smaller than the premium implied.

Fourth, short-dated options introduce severe timing risk. The catalyst may occur later than expected, the squeeze may unfold gradually, or the stock may initially decline before rising. Common shares can survive timing errors that cause options to expire worthless.

For these reasons, options should be treated as a feedback amplifier rather than as the foundation of the squeeze thesis.

The central causal chain remains:

Crowded short position + constrained supply + thesis-breaking catalyst

Options may accelerate this process, but they cannot reliably create durable value where the underlying conditions are absent.

The distinction is important for an evergreen framework. A temporary concentration of speculative call buying may produce dramatic price movement, but the movement may collapse once hedging demand reverses. As calls are sold, expire, or move out of the money, dealers may reduce hedges by selling shares.

The same mechanism can therefore operate in reverse:

Falling stock price → lower call delta → hedge reduction → share sales → further price decline

Options amplify instability in both directions.

A squeeze dependent entirely on call speculation is therefore more fragile than one driven by genuine thesis invalidation and improving fundamentals.

11. Survivability: When a Squeeze Candidate Is Also an Investment

A short squeeze is a market mechanism, not a business model. The existence of squeeze potential says little by itself about the long-term value of the underlying company.

This distinction separates two fundamentally different propositions:

A stock may rise because short sellers must buy.

A company may become more valuable because its economic prospects improve.

The strongest setups contain both possibilities. The company's condition improves, weakening the bearish thesis, while the large short position amplifies the market's reassessment.

Survivability is therefore the bridge between speculative squeeze analysis and investment analysis.

A survivable company must possess enough financial and operational capacity to reach the catalyst and continue operating afterward. The central questions concern liquidity, debt, cash flow, customer demand, margins, and access to capital.

Cash reserves should be considered relative to expected cash consumption. A large nominal cash balance may provide little protection if operating losses, debt service, and capital expenditures consume it rapidly.

A simple approximation is:

Cash runway = unrestricted liquidity ÷ expected net cash consumption per period

This calculation is necessarily imperfect. Cash consumption may accelerate, management may cut expenses, working capital may fluctuate, and financing may become available. Nevertheless, a company with only a few months of liquidity faces a materially different risk from one with several years of runway.

Debt structure also matters. Near-term maturities can force refinancing under unfavorable conditions. Variable-rate debt may become more burdensome as interest rates rise. Covenants may restrict operations or trigger default before cash is fully exhausted.

The analysis should therefore ask:

- When does material debt mature?
- Is refinancing necessary?
- Are covenants close to being breached?
- Is debt secured by essential assets?
- Does the company have access to undrawn credit?
- Could creditors force restructuring?
- Would refinancing require substantial dilution?

Operating trends are equally important. Revenue growth without improving economics may not increase survivability. A company can expand sales while losing more money on each additional customer.

Gross margin, contribution margin, customer acquisition costs, retention, recurring revenue, and operating leverage help determine whether growth produces economic value.

The most powerful squeeze catalyst often occurs near an inflection point:

Persistent losses → narrowing losses → cash-flow neutrality → self-financing growth

At this transition, the company may no longer depend on external capital to survive. A central pillar of the short thesis can disappear.

Survivability also includes management credibility. Executives who repeatedly miss guidance, issue promotional statements, change performance definitions, or dilute shareholders weaken the investment case even when the mechanical squeeze setup appears attractive.

Conversely, conservative guidance, transparent reporting, insider ownership, and disciplined capital allocation can increase the probability that favorable developments represent real improvement.

An investable squeeze candidate should therefore satisfy two separate tests:

Mechanical test: Can constrained covering demand drive a large price movement?

Economic test: Can the company justify value after the forced buying ends?

A security that passes only the first test is a trade. A company that passes both may be an investment with an embedded nonlinear catalyst.

12. Dilution as a Pressure-Release Mechanism

Dilution is among the most important reasons a theoretically strong squeeze fails.

The squeeze mechanism depends on constrained share supply. When a company issues new shares, it increases the quantity available to the market. This can absorb buying pressure, reduce scarcity, and provide short sellers with a more orderly path to cover.

The relationship is direct:

New share issuance → larger float → greater available supply → reduced squeeze pressure

The company may issue shares through an underwritten offering, an at-the-market program, a private placement, convertible securities, warrant exercises, employee compensation, or acquisition consideration.

An at-the-market program is especially important because it allows the issuer to sell shares incrementally into public trading. During a rapid price increase, management may rationally use the elevated valuation to raise capital. This can strengthen the company's balance sheet while simultaneously weakening the squeeze.

The interests of the company and short-term speculative shareholders may therefore diverge.

Management may view a squeeze as an opportunity to fund operations, repay debt, or acquire assets. Traders may view issuance as an interruption of the scarcity they expected to produce further gains.

The paradox is:

The price increase that validates the squeeze may create the incentive and opportunity for the company to terminate it.

Shelf registrations should therefore be reviewed before evaluating a squeeze candidate. A shelf registration does not mean that shares will necessarily be issued, but it provides legal capacity for future offerings.

Convertible debt requires similar attention. Convertible securities may eventually become common shares, enlarging the float. They may also be associated with hedged short positions. An investor who buys convertible debt may short common shares to reduce exposure to price changes. The resulting reported short interest does not necessarily represent a simple bearish directional bet.

This distinction can materially alter interpretation.

Short interest arising from outright bearish conviction may be vulnerable to thesis invalidation. Short interest arising from convertible arbitrage may remain economically hedged and less sensitive to rising prices.

Warrants create another potential source of supply. When the share price exceeds the warrant exercise price, holders may exercise and receive newly issued shares. The resulting supply can emerge precisely during a rally.

Employee stock compensation can also be significant, particularly in companies that report large adjusted profits while issuing substantial equity to employees. Even when no public offering occurs, the share count may rise steadily.

The correct squeeze denominator is therefore not merely today's float.

A more complete concept is:

Prospective float = current float + probable near-term issuance

This quantity is uncertain but essential. A company with a small current float and enormous issuance capacity may be less confined than a company with a larger but stable float.

Dilution analysis should include:

- Authorized but unissued shares
- Active shelf registrations
- At-the-market capacity
- Convertible debt
- Outstanding warrants
- Stock-based compensation

- Earn-out shares
- Lockup expirations
- Acquisition-related issuance
- Historical issuance behavior
- Management statements about capital needs

Dilution is not always bearish in the long term. Capital raised at a high valuation may remove bankruptcy risk, fund profitable growth, or eliminate expensive debt. Such issuance may weaken the immediate squeeze while strengthening the fundamental investment case.

This creates a distinction between mechanical and economic effects:

Mechanical effect of dilution: reduced scarcity

Economic effect of dilution: potentially improved survivability

The net result depends on price, quantity, use of proceeds, and the company's preexisting financial condition.

A disciplined framework should therefore neither ignore dilution nor treat every issuance as automatically destructive. It should ask whether the capital raised creates more economic value than the ownership percentage surrendered.

For squeeze analysis, however, the immediate conclusion remains clear:

A company capable of rapidly manufacturing new float possesses a built-in mechanism for relieving obligated demand.

13. An Integrated Screening Architecture

The preceding analysis can be converted into a repeatable screening process. The purpose of such a screen is not to predict every squeeze. It is to identify securities in which the structural preconditions for a squeeze are unusually concentrated.

The screen should proceed in stages rather than reducing every variable immediately to a single number.

The first stage establishes investability. Securities should ordinarily be exchange-listed common shares with sufficient price, market capitalization, and dollar volume to permit entry and exit under normal conditions. Extremely low-priced, thinly traded, bankrupt, delisted, or over-the-

counter securities may display dramatic price movements, but those movements are difficult to distinguish from manipulation, technical dislocation, or the inability to transact at quoted prices.

A reasonable initial universe may favor:

- Common shares listed on a major exchange
- A share price above approximately \$3 to \$5
- A market capitalization above approximately \$250 million
- Average daily dollar volume above approximately \$15 million to \$25 million
- No immediate bankruptcy, delisting, or liquidation process
- No obvious dependence on a single unverifiable promotional claim

These thresholds are not claims about intrinsic value. They are liquidity and market-integrity filters.

The second stage measures fuel. Candidates with short interest below approximately ten percent of float are generally removed unless another form of forced demand is present. Securities with short interest above twenty percent receive greater attention, and those above thirty percent are treated as structurally crowded.

The third stage measures confinement. Days to cover above approximately five suggests that the short position could not be closed quickly through ordinary volume. A small behavioral float, concentrated ownership, rising borrow fees, high utilization, and declining availability strengthen the case.

The fourth stage identifies a catalyst. The event should be scheduled or plausibly imminent, economically material, and capable of weakening the actual short thesis. A vague possibility of future success is not enough. The catalyst should alter the probability of survival, profitability, financing, regulation, strategic value, or competitive position.

The fifth stage examines confirmation. Price stabilization, relative strength, elevated volume, favorable reactions to news, and persistent buying after an initial advance indicate that the market may already be transitioning from equilibrium to positive feedback.

The sixth stage tests survivability. The company should possess enough liquidity, operating continuity, and access to capital to prevent the squeeze thesis from being overwhelmed by insolvency, default, or compulsory dilution.

The final stage examines pressure-release mechanisms. Active share issuance, convertible hedging, warrant exercises, lockup expirations, and large shelf registrations can absorb the very demand that would otherwise produce a squeeze.

The complete screening sequence is therefore:

Investability → fuel → confinement → catalyst → confirmation → survivability → dilution review

The sequence matters. A security should not advance because of one spectacular number. High short interest cannot compensate for imminent bankruptcy. A dramatic catalyst cannot compensate for unlimited issuance. Strong price action cannot compensate for fabricated financial statements.

The screen should be interpreted conjunctively rather than additively. Several conditions must coexist.

14. Disqualifiers and False Positives

Short-squeeze analysis is especially vulnerable to false positives because the features that produce mechanical upside are often found in weak or distressed companies.

High short interest may indicate an overlooked opportunity. It may also indicate that sophisticated investors have identified accounting irregularities, unsustainable financing, technological obsolescence, legal exposure, customer attrition, or management misconduct.

The first major disqualifier is a credible fraud concern.

A company facing material questions about revenue recognition, related-party transactions, asset existence, customer authenticity, cash balances, auditor independence, or internal controls should not be treated as an ordinary squeeze candidate. A rapid price increase may still occur, but the analytical basis is no longer a normal disagreement about valuation. It becomes a contest over whether the reported company exists economically as described.

The second disqualifier is imminent financing failure.

A company with insufficient liquidity to meet payroll, suppliers, interest payments, or debt maturities may experience temporary rallies, but the short thesis can remain correct even after substantial covering. A squeeze does not eliminate contractual obligations.

The third disqualifier is unlimited or near-unlimited dilution capacity.

When management repeatedly issues shares into every rally, the security may function less like a fixed ownership claim and more like a continuously expanding financing instrument. The short position may remain large because participants expect each price increase to be met by new supply.

The fourth disqualifier is a catalyst that does not address the short thesis.

A product announcement does not invalidate a debt crisis. Revenue growth does not invalidate negative unit economics. A partnership does not invalidate fraud. Cost cutting does not invalidate technological irrelevance. The analytical connection must be explicit.

The fifth disqualifier is a squeeze that has already become the dominant public narrative.

Once nearly every participant recognizes the same crowded-short structure, the opportunity may have shifted from early asymmetry to late-stage reflexivity. Public recognition can intensify a move, but it also increases the probability that the price already reflects extreme expectations.

The sixth disqualifier is ambiguous short interest.

Reported short interest may arise from convertible arbitrage, merger arbitrage, options hedging, index activity, or paired trades. A large gross short position does not necessarily represent a large unhedged bearish exposure.

The seventh disqualifier is unreliable liquidity.

Thin trading can make days to cover appear extraordinary. Yet the same illiquidity that increases theoretical squeeze pressure also makes exits difficult. A quoted gain is not economically meaningful when only a small number of shares can be sold near the displayed price.

The eighth disqualifier is adverse asymmetry.

Short squeezes can rise rapidly, but they can also collapse before an investor can react. A candidate should be rejected when the plausible loss is permanent and nearly total while the supposed upside depends on a single low-probability event.

The ninth disqualifier is management hostility to shareholders.

Repeated reverse splits, promotional announcements, insider selling, excessive compensation, related-party transactions, and poorly explained capital raises suggest that even a successful squeeze may primarily benefit creditors, executives, or new investors rather than existing shareholders.

The tenth disqualifier is analytical substitution.

A squeeze thesis should not replace fundamental analysis. Statements such as “the shorts must cover” are incomplete because the timing of covering is unknown, shares may become available, positions may be hedged, and new shorts may enter at higher prices.

No short seller is required to validate a trader’s schedule.

15. A General Scoring Model

Although squeeze formation is conjunctive, a scoring model can help compare candidates consistently.

A useful model assigns one hundred total points across mechanical, informational, behavioral, and fundamental dimensions.

Short-position structure: 30 points

- Short interest as percentage of float: 15 points
- Days to cover: 10 points
- Direction of short interest: 5 points

Supply confinement: 15 points

- Effective float and ownership concentration: 10 points
- Borrow cost, utilization, and availability: 5 points

Catalyst structure: 30 points

- Catalyst certainty: 10 points
- Catalyst magnitude: 10 points
- Capacity to invalidate the short thesis: 10 points

Market activation: 10 points

- Price, volume, and relative-strength confirmation: 10 points

Corporate survivability: 10 points

- Liquidity, debt capacity, cash-flow direction, and operational continuity: 10 points

Supply stability: 5 points

- Absence of probable near-term dilution: 5 points

The score may be interpreted approximately as follows:

Below 50 points: heavily shorted but structurally incomplete.

50 to 65 points: watchlist candidate requiring additional evidence.

65 to 75 points: credible squeeze configuration.

75 to 85 points: unusually strong convergence of conditions.

Above 85 points: exceptional configuration or evidence that the model has overlooked a major hidden risk.

The final warning is important. Extreme scores may result from genuine asymmetry, but they may also appear when variables are not independent. A distressed company can receive high short-interest, days-to-cover, borrow-pressure, and catalyst-magnitude scores simultaneously because bankruptcy risk has already made the security abnormal.

A high score should therefore trigger deeper investigation rather than automatic purchase.

The model should also impose minimum conditions.

A candidate should ordinarily have:

- Short interest near or above twenty percent of float
- Days to cover near or above five
- A catalyst capable of weakening the central short thesis
- No immediately fatal balance-sheet event
- No overwhelming near-term issuance program

These minimums prevent unrelated strengths from compensating for a missing mechanism.

A company with an excellent balance sheet but little short interest may be a good investment, but it is not primarily a squeeze candidate. A company with extreme short interest and no catalyst contains fuel without ignition. A company with a powerful catalyst but unlimited issuance contains ignition without confinement.

The score is therefore best viewed as a map of interacting conditions rather than as a prediction engine.

16. Data Limitations and Measurement Error

Short-squeeze analysis depends on data that are delayed, incomplete, vendor-specific, and behaviorally unstable.

Official short interest is reported periodically rather than continuously. By the time the information becomes public, positions may already have changed substantially. A security reported as heavily shorted may have experienced significant covering after the reporting date.

Daily short-sale volume does not solve this problem.

Short-sale volume measures transactions marked as short during a trading session. It does not reveal how many of those positions remained open. Some may be closed within seconds or minutes. Some may arise from market making rather than directional bearish speculation. Short-sale volume and short interest therefore describe different quantities.

Float measurements are also inconsistent.

One provider may exclude insider holdings, strategic ownership, restricted stock, and closely held shares. Another may use a broader figure. Some vendors may update share counts faster than others. Corporate actions, conversions, warrant exercises, and offerings can create additional discrepancies.

Days to cover inherits these errors because it combines reported short interest with an average-volume denominator that varies according to the selected period.

A five-day volume average can produce a very different ratio from a thirty-day average. A recent speculative surge may lower the apparent days to cover even though the security's normal liquidity remains poor.

Borrow data are even more fragmented.

Borrow fees, utilization, and availability differ among brokers and lending pools. A trader observing one broker's inventory does not observe the entire securities-lending market. A reported fee is therefore a local price, not necessarily a universal price.

Options data contain similar ambiguities.

Open interest reveals outstanding contracts, but not the complete economic exposure behind them. A call option may be purchased, written, hedged, spread against another strike, or paired with a stock position. Public data cannot reconstruct every participant's net delta, gamma, or intention.

Ownership data are delayed and incomplete. Institutional filings may describe positions weeks or months after they existed. A reported long-term holder may have sold, lent, hedged, or reclassified shares.

Behavioral float is fundamentally unobservable.

No dataset reveals exactly how many shareholders would sell at prices five, ten, or fifty percent above the current market. That willingness changes during the event itself.

This produces a measurement paradox:

The variable most important to the squeeze—the supply actually offered during urgent covering—is the variable least directly observable before the squeeze begins.

The framework must therefore combine delayed structural data with live behavioral evidence.

Structural data include:

- Short interest
- Reported float
- Institutional ownership
- Borrow conditions
- Share issuance capacity

Behavioral evidence includes:

- Price resilience
- Volume expansion
- Response to news
- Relative strength
- Order-book withdrawal
- Options repricing

Neither category is sufficient alone. Structural data without market confirmation may identify dormant potential. Market confirmation without structural data may identify an ordinary rally.

The correct conclusion is probabilistic.

The screen cannot determine that a squeeze will occur. It can identify situations in which the market contains unusually large obligated demand, unusually restricted supply, and unusually strong reasons for reassessment.

17. Risk Management and Position Construction

A correct squeeze thesis can still produce a poor investment result if position construction is unsound.

Squeeze candidates frequently display large overnight gaps, trading halts, wide spreads, sudden reversals, and volatility that exceeds ordinary expectations. Stop orders may execute far below their trigger price. Options may lose most of their value even when the stock later moves in the predicted direction.

Position size should therefore reflect discontinuous risk.

An investor should assume that a squeeze candidate can lose fifty percent or more before a normal response is possible. Distressed candidates can approach total loss. The appropriate position is one whose failure does not threaten the portfolio.

Common shares ordinarily provide greater tolerance for timing errors than short-dated calls. Shares do not expire, although the underlying company can fail. Options impose a second prediction: the investor must be correct about both direction and timing.

Long-dated options reduce but do not eliminate this problem. High implied volatility can make even long-dated contracts expensive. A substantial upward move may already be embedded in the premium.

A staged position can reduce timing risk. An investor may establish a small initial position, add only after market confirmation, and refuse to increase exposure merely because the price has declined.

Averaging down is especially dangerous when the thesis depends on a catalyst. A falling price may indicate that the catalyst has failed, that dilution has begun, or that the market has discovered information absent from the original analysis.

Exit planning should occur before entry.

The investor should distinguish among:

- Fundamental value realization
- Mechanical squeeze acceleration

- Speculative overshoot
- Thesis failure

The exit rule for each condition differs.

A fundamentally improving company may justify continued ownership after shorts cover. A pure mechanical squeeze may require selling into accelerating demand. A failed catalyst may require immediate reassessment regardless of the unrealized loss.

The most dangerous mistake is allowing a temporary squeeze trade to become an involuntary long-term investment after the squeeze fails.

The governing principle is:

Position size should be determined by the plausible loss, not by the imagined size of the squeeze.

18. A General Theory of Squeeze Formation

The complete framework can now be stated more formally.

A short squeeze requires five interacting conditions:

Fuel: a substantial outstanding obligation to repurchase shares.

Confinement: limited access to shares at prices near the existing market.

Catalyst: new information that alters the probability distribution against the short thesis.

Feedback: buying that raises price and thereby creates additional buying.

Survivability: sufficient corporate continuity for the reassessment to persist.

Dilution acts as a negative term because it increases supply.

A conceptual squeeze-potential relationship may therefore be expressed as:

Squeeze potential $\propto$ fuel $\times$ confinement $\times$ catalyst $\times$ feedback $\times$ survivability $\div$ prospective dilution

The expression is not intended as a directly computable equation. It represents the multiplicative character of the mechanism.

The multiplicative structure is important. If any essential factor approaches zero, the complete squeeze potential may collapse.

High fuel with no catalyst remains dormant.

A catalyst with no short position produces an ordinary revaluation.

A crowded short position with abundant liquidity produces orderly covering.

Strong feedback in an insolvent company may produce only a temporary speculative spike.

A viable company with unlimited dilution may strengthen economically while preventing share scarcity.

The framework also reveals that a short squeeze is a special case of a broader market phenomenon:

obligated demand under constrained supply

Similar structures can arise elsewhere.

A commodity producer may be required to deliver physical material into a scarce spot market. An options dealer may need to purchase an underlying asset as delta changes. A leveraged fund may need to buy back an asset after a risk limit is breached. An index tracker may be required to acquire newly included securities. A merger arbitrageur may need to unwind a failed hedge. A bank may need to obtain collateral during a funding shock.

In each case, demand becomes less sensitive to price because the buyer is not acting solely from preference. The buyer is satisfying an obligation, mandate, hedge, contract, or risk constraint.

Ordinary demand asks:

Is the asset attractive at this price?

Obligated demand asks:

How many units must be obtained before the constraint becomes intolerable?

This change in the nature of demand alters market behavior.

Optional buyers can withdraw when price rises. Obligated buyers may become more urgent when price rises. The demand curve can therefore become locally upward reinforcing rather than downward sloping.

The squeeze is not simply a large number of investors changing their opinions. It is a structural conversion of prior selling into compulsory future buying.

This leads to the paper's central proposition:

A short squeeze occurs when the market's obligation to reverse earlier sales becomes more urgent than the market's willingness to supply the required shares.

The catalyst does not create the obligation. The original short sale created it.

The catalyst changes the timing.

The float does not determine the full supply. Shareholder behavior determines the supply available at each price.

The price increase does not merely reflect covering. It alters the constraints governing those who have not yet covered.

The squeeze is therefore temporal, behavioral, and reflexive.

19. Discussion

The popular image of a short squeeze emphasizes conflict between short sellers and bullish traders. This framing captures the social drama but obscures the underlying mechanism.

A squeeze does not require coordinated retail action, moral judgment about short selling, or a public campaign against institutional investors. It can arise entirely from ordinary market participants responding independently to changing information and risk.

Nor are short sellers inherently irrational or malicious. Short selling contributes to price discovery, exposes weak companies, challenges promotional narratives, and provides liquidity. Many heavily shorted companies deserve their short interest.

The analytical mistake lies in treating short sellers as either always correct or automatically vulnerable.

A short position can be fundamentally correct and mechanically fragile.

A long position can be fundamentally weak and mechanically powerful.

The strongest squeeze occurs when these dimensions reverse together: the company becomes less weak while the short position remains mechanically fragile.

This explains why the best candidate is rarely the company with the highest short-interest percentage alone. Extreme short interest may simply identify the worst business. The more important question is whether the market structure still reflects a bearish world that no longer exists.

A squeeze candidate becomes unusually compelling when:

- The short thesis was once reasonable.
- The short position became crowded.
- The company survived longer than expected.
- A new development weakens the central bearish assumption.
- The float remains constrained.
- Short sellers have not yet reduced exposure.
- The market begins confirming the change.
- The company can avoid issuing enough shares to relieve the pressure.

This is a problem of delayed adaptation.

The information state changes first. The positioning state changes later. The squeeze occupies the interval between them.

That interval may be brief because markets are adaptive. Once the new information is broadly recognized, short interest declines, options become expensive, new shares may be issued, and long investors may take profits.

The opportunity is therefore not permanent. The framework is evergreen, but each individual configuration is transient.

20. Conclusion

A short squeeze should not be understood as a synonym for a heavily shorted stock, a social-media campaign, or an unusually rapid rally.

It is a specific market structure in which a large deferred purchase obligation encounters restricted supply after new information increases the urgency of exit. Covering raises the price, the higher price tightens the constraints on remaining short sellers, and the resulting purchases can create a self-reinforcing feedback loop.

The durable analytical framework consists of five elements:

Fuel + confinement + catalyst + feedback + survivability

Fuel measures the quantity of stored repurchase demand.

Confinement measures the difficulty of obtaining shares without moving the price.

The catalyst determines whether the bearish thesis must be reassessed.

Feedback determines whether initial covering produces additional covering and speculative demand.

Survivability determines whether the security represents a potentially improving enterprise or merely a temporary market dislocation.

Dilution weakens the structure by expanding supply.

The strongest prospective squeeze is therefore not necessarily the security with the largest short position. It is the company in which the bearish thesis is becoming wrong faster than the market can unwind the positions built upon it.

The central principle may be stated in its most compact form:

A squeeze begins when obligated demand accelerates into withdrawing supply.

The practical implication is equally concise:

Do not search only for crowded shorts. Search for crowded shorts confronting a changing reality.

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