



Hold on to your shorts!

It's been a horrible year for global investors so far. Equity and bond markets have concurrently experienced three negative quarters in a row, which is unprecedented.

How much lower can markets go? It is impossible to say, but judging by the exuberant excesses observed last year (remember Spacs and NFTs?), there is still some way to go. Short positions would have offered some protection for your portfolio, but after a few sharp falls, shares that are grossly overvalued (that is, short candidates) are becoming difficult to find. Let's consider whether this year's five worst-performing shares in the MSCI world equity index are still good shorts.

Shopify

A year ago, this global e-commerce giant was the largest publicly listed company in Canada. Pundits were excited about Shopify's strategy of launching a fulfilment service, pulling together more than a million independent online stores (already making use of Shopify's online tools) into an integrated marketplace. But revenue growth has slowed and costs have surged, tipping Shopify from last year's operating profit into a loss. With the shares now trading 80% lower, CEO Tobi Lütke will need to inspire his team to continue working hard, even though their share options are deep under water. Shopify recently announced that both its CFO and COO are departing, an indication that there might be more downside to come.

Affirm Holdings

Founded in 2012 by PayPal co-founder Max Levchin, Affirm is a buy-now-pay-later pioneer. After peaking at \$168 in November last year, the shares are now trading below \$20. Affirm charges merchants a fee of up to 8% of an item's selling price, and at the same time offers short-term credit at no interest (usually in the



123RF/shock77

form of four equal biweekly payments) to consumers, so that a sale can be clinched.

Due to sharply higher interest rates, which squeeze Affirm's interest margin and push up consumer delinquency rates, Affirm's basic business model is being questioned. Instead of losses decreasing as the business scales up, they have ballooned. Perhaps it would be best to sell Affirm now, and buy it back later.

Kion Group

Headquartered in Frankfurt, Kion is Europe's largest manufacturer of forklifts (under the Linde and STILL brands) and one of the world's leading warehouse automation solution providers via the Dematic brand. During the Covid-induced surge in demand for warehouse automation solutions, Kion won many large multiyear projects, but it omitted cost escalation clauses in its contracts (ouch!).

Now, with inflation surging, it has to complete the projects at a fixed price while input costs are going through the roof. These loss-making contracts are putting huge pressure on Kion's balance sheet, and the share price has dropped from above €100 to below €20. If it can

fill its CFO vacancy and avoid a dilutive rights issue, Kion can rise again, but it will take a herculean effort.

Wayfair

Wayfair shareholders have been on a rollercoaster ride. Shares in the world's second-largest online household goods retailer dropped to below \$25 at the onset of Covid, then rose to more than \$300, and are now trading at roughly \$30.

The share price has mirrored the fluctuating expectations of the business: initially, shareholders doubted if Wayfair could compete effectively with leader Amazon. Then, business boomed as millions of consumers, cooped up at home during lockdowns, splurged on new household furnishings. When lockdowns were lifted, such spending decreased, and logistics costs surged – a double whammy which pushed Wayfair into the red. With shipping rates dropping sharply over the past few months, Wayfair might be able to stem the bleeding and live to fight (and sell furniture) another day.

Uniper

Arguably the biggest corporate casualty of the Ukrainian war, Uniper has gone from one of the world's largest publicly traded power producers to the brink of being nationalised. Uniper's shares started the year at about €40 and are now trading below €4. The German government will soon buy a 99% stake in Uniper for €1.70 a share, so there is little hope for recovery. This will inject €8bn of capital to stabilise Uniper and allow it to satisfy margin calls on energy market hedging transactions.

Uniper also generates roughly 5% of Russia's electricity, making it a forced seller (due to sanctions) of Russian power plants for which no buyer has been found yet. Though Uniper has been a disastrous investment, it will play a crucial role this coming winter in keeping the lights on (and the heaters warm) across Europe.

It's not quite time yet to swap those shorts for something warmer, but we're getting closer. ✕

Verster is CEO of Protea Capital Management