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Kuan-Hui Lee, Shu-Feng Wang, Min-Cheol Woo

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Do Individual Short-Sellers Make Money? Evidence from Korea

Kuan-Hui Lee*  
Seoul National University Business School

Shu-Feng Wang**  
Sungkyunkwan University Business School

Min-Cheol Woo***  
Korea Exchange

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Abstract

We use a proprietary trade- and account-level dataset of short sales to investigate the profitability of individual investors short-selling in the Korean stock market from August 1, 2007, to May 31, 2010. Using actual data on short-covering transactions, we find that the average profit is 26,810 Korean won (roughly USD 24.4) per trade per hour, and about 44% of shorted trades are covered within a day. We also find that the profitability of short-selling decreases as the hours-to-cover increases. Account-level analyses show that investors who sell short more firms make higher profits than those who sell short fewer firms and that the profitability of short-selling is persistent. We attribute the profitability to short-sellers’ ability to exploit short-run price reversals and information processing skills.

Keywords: Short-selling; short cover; individual investor; emerging market; Korean stock market

I. Introduction

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* Associate professor. 703 LG Building, Business School, Seoul National University, 1 Gwanak-Ro, Gwanak-Gu, 151-916, Seoul, S. Korea; e-mail kuanlee@snu.ac.kr.

** Assistant professor, 313 Business Building, Business School, Sungkyunkwan University, 25-2 Sungkyunkwan-Ro, Jongno-Gu, 110-745, Seoul, S. Korea; e-mail wangsf82@skku.edu.

*** Ph.D. Korea Exchange, 76 Yeouinaru-Ro, Yeongdeungpo-Gu, Seoul, S. Korea; e-mail wmc73@krx.co.kr.
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