Frost in the air

Fees to borrow social media stocks have cooled over the past two years. With most securities in this sector faring well for long investors, EquiLend's Christopher Gohlke looks at what this mean for the shorts

Securities lenders and borrowers watched the Twitter IPO with eagle eyes as a gauge for the state of the social media sector as a whole. Less than a year and a half prior, when rival Facebook went public, fees to borrow the stock kicked off white hot amid general uncertainty about the staying power of the social media industry's stocks. The short sellers had prudent foresight; within four months the stock had dropped to half its IPO price, and fees to borrow spiked.

But the dip was relatively short-lived. By fall of 2012, Facebook's stock price began to reverse its decline, and fees dropped back down to warm and ultimately general collateral levels, according to DataLend data. Following that experience, how would Twitter fare in its IPO? And what would that mean for the sector?

By the end of trading on 7 November 2013, Twitter's first day as a public company, the stock closed more than 70 percent higher than the $26 IPO price paid by institutional investors to Twitter's underwriters, in contrast to the post-IPO slump that Facebook weathered.

So far, with Twitter, both longs and shorts have avoided the wild ride that Facebook investors endured in its first few months as a public company. In contrast to Facebook's decline, Twitter rose to more than double its IPO price just one month in.

Upon its debut in the securities lending and borrowing market following those first settled trades, fees to borrow Twitter stock were hot—but just a third of the levels Facebook was trading at on its first day of lending. DataLend data show that a week later, Twitter's fees to borrow dropped to lukewarm levels, and despite a slight gradual incline since then, they remain generally low after that day-one peak.

With the social media sphere's (arguably) two most important companies lending at relatively low rates today, it is worth a look at other examples in this sector too.

The social media industry saw plenty of IPO activity prior to the well-publicised debut of Facebook. LinkedIn went public back in May 2011, hot on the heels of the IPO of RenRen, the Chinese Facebook equivalent. In November that year, social coupon company Groupon and crowd-sourced review website Angie's List went public, followed by rival Yelp in March 2012.

Table 1 depicts some of the highest-profile social media companies that have been public for more than a year. Of the six stocks, five are lending at considerably lower rates than a year prior. LinkedIn, the only exception, has been trading almost exclusively in the 7 to 12 bps range for more than a year. With most social media stocks now lending at relatively low rates, short interest in the sector as a whole is fairly low and continues to decline.

That was not the case even further back, when many of the aforementioned stocks were trading at vastly higher rates. In early 2012, Angie's List was lending at upwards of 7000 bps, Groupon at more than 4000 bps and RenRen at more than 1000 bps. The others have followed similar trajectories, all dropping to the general collateral to lukewarm levels of today.

Of course, there are particularities in each stock that have impacted their fees to borrow, and rallying equities markets have resulted in a decline in borrowing rates overall in the past couple years. But the steep declines in fees to borrow social media stocks suggest investor confidence in this sector.

Naysayers claim social media stocks are riding a bubble akin to that of the dot-com era. Forbes, Barron's, Businessweek, CNBC and the Wall Street Journal, to name a few, have drawn comparisons between the two in recent months. But as social media stock prices continue to tick upward, and lending rates cool, it seems short sellers are not buying it for now.

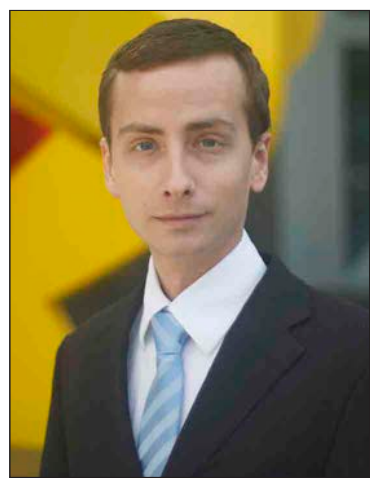

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Table 1

	IPO Date	Fees to Borrow 13 December 2012 (bps)	Fees to Borrow 13 December 2013 (bps)
RenRen	04 May 2011	712	123
LinkedIn	19 May 2011	8	11
Groupon	04 November 2011	263	11
Angie's List	17 November 2011	333	87
Yelp	02 March 2012	227	7
Facebook	18 May 2012	14	0.19

Source: DataLend