Hedge funds keep piling into Wirecard shorts as returns soar to $3.2bn

Wirecard short sellers loaded up on bearish bets even after the stock tumbled in mid-June

The headquarters of German payments provider Wirecard in Aschheim near Munich, southern Germany
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By Tom Teodorczuk
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Wirecard shorts continue to rake in profits.

Short positions against Wirecard have made over $3.2bn in paper profits in 2020 as of 26 June, profiting on the fate of the German fintech company even after the company notified investors that more than $2bn was missing from company accounts.

Hedge funds profiting from Wirecard's woes include Coatue Management, Slate Path, TCI and Marshall Wace, according to short-selling research firm Breakout Point.

The Wall Street Journal revealed on 20 June that Wirecard short-sellers pocketed $2.6bn in profits.

They didn't cash in their bearish bets, but piled into more. According to updated research from data-analytics firm S3 Partners, over 40 million shares were borrowed to short Wirecard this year as hedge funds to retail investors bet that the fortunes of the company would implode.

Wirecard's share price has collapsed from €104.50 per share, immediately prior to auditors revealing that over $2bn was missing from the company's accounts on 18 June, to €4 on 29 June.

Short-sellers borrow shares in the hope that they can buy them back at lower prices and pocket the difference as profit.

Veteran American short-seller Marc Cohodes has had a short position in Wirecard since spring 2019. Although Cohodes declined to say how much he had profited from the company's fall, he told *Financial News* the revelation of the black hole in the company's accounts on 18 June occurred on his birthday and had given him "an ideal 60th birthday present".

He added that short-sellers pocketing handsomely from the Wirecard scandal shouldn't blind investors to how difficult the practice has become.

"Short-selling is so beyond difficult right now that the only real chance you have is when companies like Wirecard have to come clean on their practices," he said. "Everyone thought they were going to get away with it because it remains people's preconceived notion that just because you say something bad [about a company] then you're bad. Free speech seems only to be free if you're bullish- unless you say something positive, it's still the case that nobody wants to hear it."

Oliver Fochler, chief executive at Stone Mountain Capital, said the scandal vindicated short-selling which has come under fire from regulatory bodies. Earlier this year the Financial

Conduct Authority issued a temporary ban on the short-selling of mainly Spanish and Italian stocks traded in London.

"What is currently happening to Wirecard reinforces that short selling is required for the market to function properly," Fochler said. "It serves a regulatory purpose, almost like a white blood cell clearing up an infection on an organism."

Marshall Wace and Coatue declined to comment. The other hedge funds were contacted for comment.