

The Madness of Crowds Creates Short Opportunities in Nordic Small Caps

Shorting Nordic small and mid-cap stocks requires more than identifying companies whose valuations appear stretched. Limited borrow availability, thin trading volumes, and unpredictable price movements can make timing just as important as the underlying investment thesis. For Pontus Dackmo, CIO of fund boutique Protean Scandinavia Funds and portfolio manager of the long/short equity fund Protean Select, some of the most compelling opportunities arise from the tendency of investors to follow the crowd, a dynamic that can create mispricing but also make short positions difficult to time.

"In a global context, we believe the Nordic markets are more liquid and have significantly higher retail participation than many other markets," Dackmo explains. "This creates a greater tendency for herding, where overreactions on both the upside and downside can create opportunities."

Protean Select, the boutique's opportunistic long/short equity fund, seeks to exploit these market inefficiencies through fundamental stock selection, selective short positions, and shorter-term trades with attractive risk/reward profiles. The sector-agnostic strategy relies on bottom-up analysis to identify opportunities on both sides of the market.

For short sellers, however, identifying an overvalued company is only half the battle. While borrow availability and liquidity are persistent constraints when shorting smaller companies, Dackmo argues that the unpredictable nature of investor behavior presents a greater challenge. "Availability of borrow is always a constraint, as is liquidity," confirms Dackmo. "But mostly, it is the madness of crowds. If something is already irrationally priced, there is nothing to say that another doubling of the price is any more or less irrational."

He points to Silvers Semiconductors, the Swedish semiconductor company, as an example of how investor enthusiasm can drive a share price far beyond what short sellers might consider justified. The company's exposure to AI infrastructure and optical communications has attracted considerable investor interest, sending its shares sharply higher in 2026 and making it a target for short sellers. The episode illustrates the risks of betting against a stock on valuation grounds alone: even when investors believe a price has become detached from fundamentals, momentum and speculative demand can push it higher still.

Unlike a long position, where the potential loss is generally limited to the initial investment, a short position carries theoretically unlimited loss potential as the share price rises. A stock can therefore continue to generate losses for a short seller even when the underlying valuation thesis remains intact.

The risk is particularly pronounced in smaller companies, where investment narratives can exert considerable influence over share prices. Short sellers must assess not only whether a stock is overvalued, but also how much enthusiasm remains behind the prevailing narrative and what might cause it to lose momentum.

Timing the Turn

Dackmo describes the process of identifying that turning point in terms of how far an investment narrative has spread through the market. "Many small and mid-cap stocks are tremendously narrative-driven, and a thesis can travel almost like a virus," explains Dackmo. "Timing depends on when the whole animal is infected — in other words, when the marginal seller or buyer has been filled," he elaborates. "That is when a short case can start working."

In practice, this means assessing when the pool of investors willing to buy into a popular story may be running out. Even when a company's valuation appears difficult to justify, persistent buying pressure can keep its share price elevated. Limited liquidity can amplify these moves, making it harder to establish or exit a position without affecting the market price.

Protean's approach therefore considers market positioning and investor sentiment alongside fundamental valuation, with particular attention to the possibility that a stock may continue rising before its investment narrative begins to unravel.

A Higher Bar for Short Ideas

Developing a short thesis in the small and mid-cap segment requires more extensive research and a higher degree of conviction than shorting a larger company, according to Dackmo. "There are no shortcuts here. The hurdle for shorting a small- or mid-cap stock is higher than for a large-cap, since liquidity and volatility are typically more challenging," he says. "You need to do more fundamental research and be more certain of your thesis before engaging."

The composition of the shareholder base adds another layer of risk. A heavily shorted stock can become vulnerable to a short squeeze if its price rises sharply, forcing short sellers to buy back shares to limit losses. That buying can accelerate the rally, regardless of whether the company's fundamentals have materially changed.

Dackmo points to the GameStop episode as a reminder of the risks associated with crowded short positions. Understanding the level of short interest, the available free float, and the liquidity needed to cover a position is therefore an important part of risk management. Ultimately, fundamental analysis alone cannot determine when a short position will begin to perform. "When it comes to timing, the only validation you have is basically the price action," Dackmo says.

For Protean Select, shorting Nordic small and mid-cap stocks is as much about market dynamics as valuation. Success requires identifying companies whose prices appear excessive, understanding what continues to sustain those prices, and judging when investor enthusiasm may begin to fade. In markets driven by powerful narratives, being right about a stock's valuation is not necessarily enough; the timing and management of the position can be just as important.