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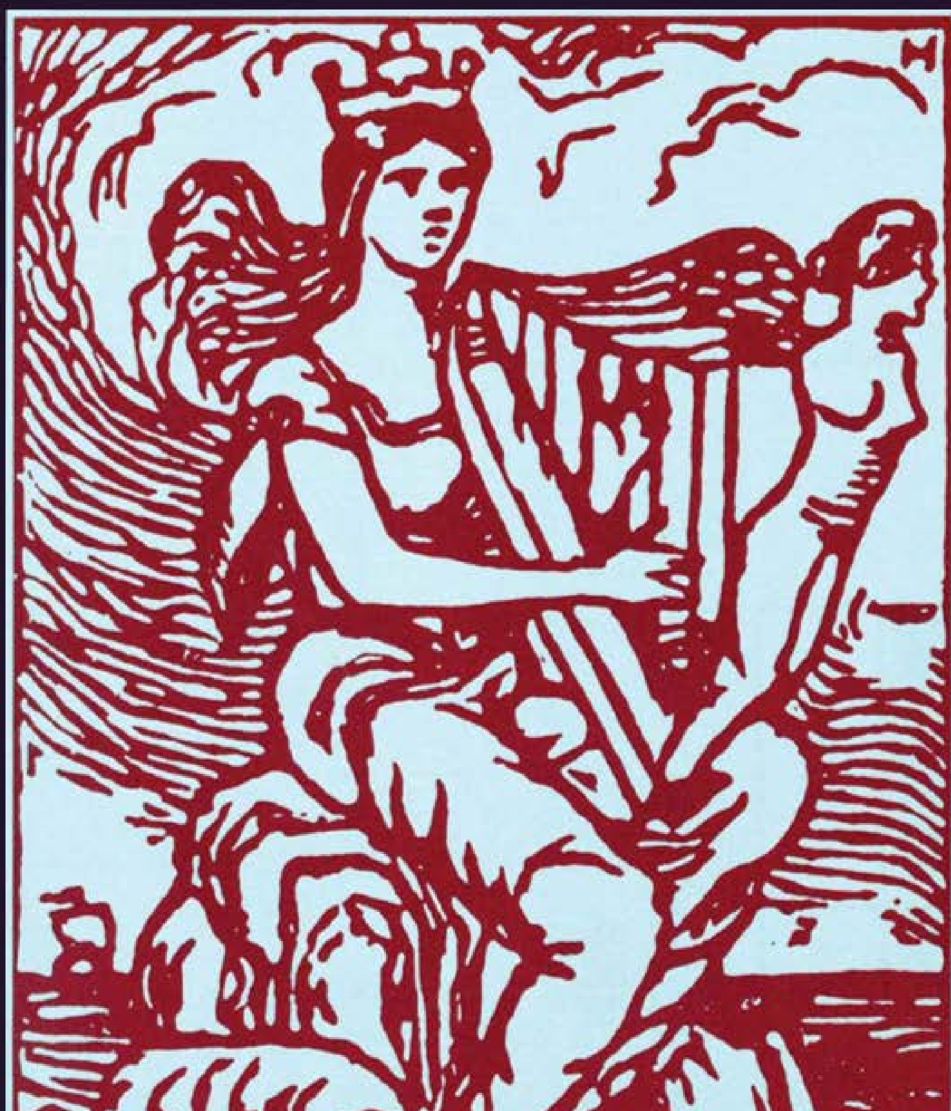
THE GAMESTOP BIG PICTURE



Gamestop Big Picture: The Short Singularity

January 26, 2021

u/jn_ku

Gamestop Big Picture: The Short Singularity

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch.

There are numerous posts on this sub and others diving into the technical guts behind some of the recent moves behind GME, so I will keep it high level for everyone scratching their heads wondering what's going on.

There has been much talk on CNBC and in other financial media calling what's happening in GME a distortion of the market and an unjustifiable departure from the fundamentals. That is undeniably true. That being said, the distortion is not what's playing out now, but rather what happened about 1.5 years ago when short interest in GME first began to approach (and later exceed) 100% of the available float.

Short selling is usually a tool that aids in price discovery, but like most market mechanisms, at the extremes things get more complicated.

Short sellers, having borrowed shares, are guaranteed (indeed obligated) future buyers of the stock. They put themselves in that position on the thesis that there are reasons to expect the stock price to go down, such that when they buy the shares back they can return what they borrowed at a lower price and pocket the difference. As such, as short interest grows, there is a short term downard push on the price (the initial sale of the borrowed shares), but also future upside pull on the stock price as a natural result, kind of like gravity, but pulling the price upward. Normally that pressure is so slight and subtle that short interest in and of itself should not be a mover of the stock price.

That being said, a common rule of thumb is that you should start to concern yourself with that pressure when short interest crosses the threshold of between 20% and 25% of the effective float (shares actually available to trade). At that level and above, the pressure starts to become noticeable, kind of like the moon causing currents and tides.

GME short interest was recently **140%** of the float. In recent days, short interest has actually continued to accumulate (I'll explain why later).

There is, in effect, a critical mass of short interest hanging over GME's price exerting not subtle pull, but face-ripping force like the gravity of a black hole. A short singularity, if you will.

Previous short squeeze case studies such as VW or KBIO were all about someone engineering a way for effective float to evaporate, suddenly leaving what was previously a relatively reasonable aggregate short interest position in a world of hurt. This is the first time where we're seeing a situation play out where it wasn't someone engineering a shrinkage of effective float, but large market-moving players simply blowing up the short interest to the point where it simply overtook effective float by a large margin. Why would they do that? Because they expected GME to declare bankruptcy in the very near term so that returning borrowed shares costs $0, as the shares are worthless at that point. Also, an arguably intentional side-effect of this massive artificial sell-side pressure on the stock is that it becomes more difficult for GME to obtain any kind of financing to avoid bankruptcy, making it, in theory, a self-fulfilling prophecy. GME, however, did not go bankrupt for reasons that are well explained by other posters.

In order to close their positions and limit their exposure (which remains theoretically infinite otherwise), short interest holders need to collectively buy back more shares than are available on the market, and especially since GME is no longer at risk of imminent bankruptcy, that buying action would push the price into a parabolic upward move, likely forcing brokers to liquidate short interest-holding accounts across the board on the way to buy shares at any price to cover their otherwise infinite liability exposure (and that forced covering will push the price further upward into a feedback loop--like crossing the event horizon of the black hole in our analogy).

So what is happening now, and where do we go from here?

Right now, short-side interests are desperately trying to drive the price down. There has been an across-the-board media blitz to try to scare investors away from GME. But there is really only one way to drive price down directly, and that is selling. In fact, given that most of the large holders of GME long positions are simply sitting on their shares, it means selling. even. more. shares. short.

Even as price has been grinding upward, and liquidity has been evaporating, short sellers, who have lost billions mark-to-market currently (my guess is on the order of $10bn by the end of trading today), can only keep selling, piling on even more exposure and losses, staving off oblivion hour by hour, minute by minute.

GME might also decide to issue more shares to recapitalize its business on the back of the elevated share price, but it is unlikely they could issue enough shares to change the overall trajectory of the stock at this point (especially not given their fiduciary responsibility to current stock holders). It might, however, run the clock out a little while longer.

At this point it looks like there will either be some type of external market intervention by regulators (though I can't see any reason for them to step in myself), or we will soon see what happens when short positions representing ~$8bn in current mark-to-market liability goes parabolic.

edited for grammar

edit Please keep discussion to helping everyone understand what’s happening, which is the point of this post, not giving advice or telling people to take actions!

edit Didn't realize people were still reading this. If you're interested, please see my subsequent post: https://www.reddit.com/r/investing/comments/l6xc8l/gamestop_big_picture_the_short_singularity_pt_2/

Gamestop Big Picture: The Short Singularity Pt 2

January 28, 2021

u/jn_ku

Gamestop Big Picture: The Short Singularity Pt 2

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low (average ~$45/share with my later buys averaged in), and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

First, thank you everyone for the comments and questions on my first post on this topic. Given the traffic and sheer volume of questions, I figured writing another post would be better (and actually something I can manage).

I wanted to focus this post on a few common themes I saw in the comments to the first post, as well as questions people were asking me directly, and related themes I saw on other posts and subs that I believe would be informative for this sub.

First, a simplified recap of the 1/27/2021 trading day as I saw it. The following is my interpretation of events, and may include personal opinions, assumptions, and outright errors. Apologies for the length, but I hope this helps some of the newer traders thinking about jumping into the water with these sharks. I honestly don't think that you should, but you make your own decisions. I'll just try to help provide some information to help if I can.

Euro Market Hours: Retail Euphoria & The Setup

After-hours and Euro market activity rockets the stock in an essentially unbroken streak from ~$146 to $365. GME long social media is going ballistic.

Volume is too low. There is no sell-side pushback. Allowing consolidation at these prices would be a major setback for the short-side, yet they are doing nothing on volume they could easily push back.

I smell a rat. This is too easy.

5am Eastern: Fear, Uncertainty, Doubt (FUD)

If you ask most retail market participants about how quants with their algorithms, hedge funds with their trading strategies, sophisticated experienced traders, etc., conduct their operations, you will probably get responses about sophisticated programs and high frequency trading, fundamental analysis, risk hedging strategies, lots of math, etc. That is largely true, but it is critically incomplete. The most successful hedge fund managers also deeply understand that beneath the surface, the primal forces driving markets are fear and greed, and they know how to best leverage information asymmetry to play other investors--and especially retail investors--like fiddles.

As retail sentiment reaches fever pitch, Andrew Ross Sorkin gets a call from Melvin Capital just before the start of CNBC's Squawk Box, by far the most-watched pre-US market show and files a breaking news alert at the start of the show.

(Paraphrasing) Melvin Capital is out. They didn't go bankrupt but they came close and took a huge loss. Congratulations WSB, you've won and you've burned the house down, and now that the shorts are out this whole thing is going to crash and burn all the retail investors you dragged along with you.

"Who's going to be left holding the bag ?... uh, the thing that concerns me most, at this point, is whether **some of these investors will actually start to get out today**--they'll look at this and say 'we won the game'--if that's winning, uhh unclear, you know, where the finish line is, uh in that regard, but uh, as much pain as they may have uh, created for Melvin Capital for example, umm, **my-my great anxiety at this point is the number of-of retail investors that have been jumping into this uhh.. in literally the last 24 hours who very well may get hurt, uh, far more, and lose far more than some of the hedge funds that were involved, uh in this**. Um, let's just show you where we are now..."

"**Where are the regulators**.. and is this just the beginning?"

Meanwhile, as if it had been choreographed and rehearsed, the Squawk Box team are outraged--absolutely outraged at what is going on, while a big graphic of GME price crashing off a cliff dominates 2/3 of the screen and social media is flooded with messages and posts skillfully crafted to stoke the fear.

In WSB, other subs, and other social media sites, dozens of bots start posting bogus messages purporting to mock the retail investors with messages like "Thanks for the free gainz retards!".

The fear is almost palpable coming through my monitor. People start trying to sell, then start asking why their market sell orders won't go through while they're watching a practically vertical dive on the GME chart next to Joe Kernan as he says "If you think there's speculation in crypto [...] and-and-**now they're looking for the next mark, right**? They'll-they'll find another Gamestop, once they're done with Gamestop, but **in the meantime, there's gonna be BLOOD**".

Congratulations Squawk Box--you beautifully played your part in engineering peak, nigh-hysterical fear among the less experienced retail investors, and basically shouted "FIRE!!!" in the market equivalent of a locked theater. I truly believe your feelings were sincere, and you truly do have concern for the retailers who have been and will be hurt in all of the volatility, but that made your actions all the more effective in driving many try to lock in losses. C'mon, you can do better--I've seen you do good work and am thankful for what you did getting good info out during the peak of the pandemic--please do some investigation before spreading only one side of the narrative handed to you by financially conflicted parties. You have analysts doing your background research--any of them could tell you the short interest in GME would take more than an entire trading day to unwind even if the buy-side of every single transaction that day was to close a short position and no new short positions were initiated. Also, any of them could tell you that it's unlikely Melvin Capital held 100% of all short interest in GME. Melvin leaving is not equal to all shorts being covered--and you didn't even get confirmation that Melvin actually covered! Get them to say it themselves on air rather than carrying their water and letting them ride on your reputation and providing cover from an SEC stock manipulation investigation.

Most retail brokerages don't open pre-market trading until around 7am. All those people could do was watch their positions bleed as GME plummeted over the remainder of the next 2 hours, hitting the floor of $182, nearly 50% down from the peak about 3 minutes before retail brokerages open pre-market trading.

Wow. I have to hand it to the short-side hedge funds. Some of your traders must have studied drama for their undergrad or something--that is almost perfect timing.

Almost, but not quite.

Pre-Market Tears... of Joy and Relief

The engineered crash was probably intended to run right through the open of retail pre-market, with the idea of getting panicking retail to sell into the low liquidity environment for more violent downward price moves without the benefit of Limit Up/Limit Down halts, causing a stampede for the exits. Man, how many hours did you guys spend thinking this strategy up? I'm honestly impressed.

Two minutes prior to pre-market open, however, some deep conviction, deep pocket players, understanding the market mechanics and fundamentals behind the recent wild ride in GME started raking in the shares at discount prices they probably never thought they'd ever see again during this campaign. I'm sure tears of joy were shed, as they realized floor-to-close of regular trading gains of nearly 100%. Whoever you are, well played.

I would note here that those people could easily have waited for the engineered crash to drain the blood of the fearful retailers who would have punched out, which would have allowed them to lock in greater share volumes at even lower prices, but they stopped the crash early instead. I don't know if that was their intention, but a lot of retail people were probably saved because of that.

With the almost literally last-minute reversal, price rode green candles upward through the retail pre-market open, and many who would have despaired and punched out to lock in losses instead white-knuckled through the chop and held, with very bullish action through to the market open. Those who survived the day--good on you, I know it couldn't have been easy.

Chamath

Let's let the man speak for himself (and speak up for retail). Well worth spending 30 minutes to watch if you have the time. I have to give Scott Wapner credit--he asks tough questions and he repeatedly brings on guests that he know will go toe-to-toe with him with the gloves off to ensure that there is a good, vigorous debate representing diverse viewpoints. Be on the right side of history big boy, lol.

Skirmishing continues at lower volume than the last 2 trading days. Bullish patterns everywhere--buying up on high volume, straggling down on low volumes. Liquidity is running out. Short-side is rationing, saving ammo for the end-of-day push.

Shenanigans, End of Day, More Shenanigans

At various points throughout the day, levers are pulled to flush retail positions out by margin calling profitable accounts across many of the retail brokerage firms, changing margin requirements with no notice.

Short-side attacks coincide with ominous warnings on news media about potential regulator action, short-side touts spreading FUD across mainstream media.

Short-side's rationed insufficient shares to make meaningful progress on the last tick of regular trading. This is key, as prime brokers of highly levered players pay a lot of attention to the status of accounts at the end of regular trading each day.

After hours it looks like more retail traders are dumped out of their profitable portfolios due to margin change requirements--right into the abyss of super-low after-hours volume. Had their brokers at least liquidated their accounts toward the end of the main trading day into meaningful trading volume they would have gotten much better returns. Dumping them into no volume means the last few accounts took massive losses vs mark to end of trading day market price. Thank, you brokerages, for protecting those people from themselves. Hopefully they took lower profits vs being dumped into the red.

Some people see the diving ticker and panic again.

One thing that was particularly irritating to me is that people were all over CNBC multiple times a day, making outrageous claims of how retail traders were slamming risk into the market via leveraged trades even as the retail brokers changed their policies in realtime to disallow use of any margin in accounts holding GME, and dumped those retail traders out of their positions. I knew what kind of volatility to expect, so I had maintained a net cash position in my account ever since buying, just in case something like this happened--thank goodness.

Technical Analysis for the Day

I wish this sub would allow charts, but I'll describe instead.

On the daily chart, RSI has been in an ascending channel since April '20(!), and rocketed to 98+(!!!) at the end of the trading day. Price is dislocating wildly higher every day for the past 4 days into descending volume.

My read of the chart is that it shows massive buy-side dominance into worsening sell-side weakness and lower liquidity. I read this as mind-meltingly, parabolically bullish, and something that would not be possible if not for the distortion of the supercritical mass of short interest, and I guess this is what a short squeeze looks like when you have access to all the data retail fintech can provide. The technicals tell me to expect massive volatility, but also that this is possibly the most asymmetrical risk environment imaginable.

I feel bad for the retail shorts that I know were out there. I saw a few posts about people taking short positions because Andrew Left got on TV and told them GME is going bankrupt, it's going back to $20, and he's an expert unlike you reddit amateurs, and by the way about 30 other experts followed and backed him up over the past few days. For this reason I'm glad that many of the retail brokerage firms have disallowed shorting GME and other volatile names. I hope they got out before their accounts got obliterated.

Lessons Learned

I wondered what kind of things you might see when billions of dollars were on the line, and I have to say that the short-side guys know how to go all-in and pull surprise after surprise out of the hat. They are good at manipulating people, letting them build up euphoric feelings only to slam them in the face with nonstop fear. They do it in media, and they do it in sudden price-crushing rushes, slamming the ticker down to try to get weak hands to fold. As I stated earlier, I am trading deep in the money, on capital I can afford to lose, and even I can't avoid feeling it. I honestly don't know how some of you trading on borrowed money meant for next month's rent can handle it.

The short-side players are running out of ammo, but they don't just go toe-to-toe in the market--they'll blanket media and even flood your discord server, message board, and social media with well-coordinated bot attacks. You will face those moments of stark terror--they are good getting people to feel fear. If you're thinking of getting into this trade--please understand that before deciding whether to jump in. You might not think that a stock that's been going basically vertical could leave long-side casualties on the field, but believe it--fear and volatility can get you to zero your account (or worse!) in any environment.

FAQs from the First Post (comments and messages)

(answers are my opinions only--do not take as financial advice. I've consolidated common themes.)

- **I'm afraid I'm missing out on a unique opportunity to make returns that could change my life trajectory in a positive way. Should I buy in at this point?**

First, each person decides on their own what trades they choose to make. However, I will say this: Fear is giving you this anxiety. Maximum FOMO is when you see green candles going up until the fear makes you punch the buy order in. Maximum despair and fear of life-altering losses hits peak during deep downward price movements, making you punch out to avoid losing your entire position. Fear makes you buy high and sell low. HFT houses are full of algorithms designed to exploit fear through the price movement, and find gaps in your risk mitigation strategy (e.g. stop-loss hunting algorithms, etc.). If fear is driving you to trade, I urge you not to swim in low-liquidity waters with sharks who specifically make their money exploiting fear.

- **I am a regular investor holding broad ETFs or mutual funds for my retirement. I do not actively trade, but I am concerned that what's happening here might impact the broader market, and maybe even my retirement account. Have you thought of that while you're having all this fun? What about systemic risk?**

You may be surprised to hear that I, and likely many others have thought quite a lot about these things. In fact, I hold about 75% of my capital in the same type of boring IRA and 401(k) accounts you're talking about, and I maybe rebalance them a few times a year and don't even check the balances regularly otherwise.

As for what kinds of impacts there may be--in all honestly, no one knows. Specifically, no one knows because no one knows exactly what the levered hedge funds involved hold, how they trade, etc. The massive short interest in GME is basically a deliberately engineered market distortion that is now blowing off, and distortions blowing off are always scary, and can spell financial damage or disaster for the unprepared.

That, however, is part of the market. To paraphrase Dr. King and Keynes, the arc of the market may be long (and longer than you can remain solvent), but it bends toward efficiency, given the right conditions. The US stock market is pretty good in this respect.

Now I won't deny that these hedge funds are run by smart people, but they occasionally get either arrogant or too clever for their own good and get caught. In GME they essentially voluntarily engineered themselves into a short squeeze entirely on their own while no one was even looking. In fact, the only way the trade works is if no one ever finds out and GME quietly goes bankrupt. In the meantime, a legitimate fundamentals-based turnaround story came to light and just lit the fuse. They're crying now about being cornered, but they walked into that corner themselves, then dug themselves in so deep that the only way out was GME bankruptcy, and sat there for a year just assuming GameStop would go bankrupt while no one was paying attention and they'd take their free money and walk. If this doesn't make sense, and you have a free 20 minutes and tolerance for mild profanity, I suggest you watch this video: https://www.youtube.com/watch?v=4EUbJcGoYQ4

Anyway, That being said, market "corrections" are aptly named, even if painful, because they are, in essence, corrections of various distortions in the market. The longer they go uncorrected, the harder, faster, and more drastic the move when it does happen--with usually worse consequences (see the 2008 financial crisis, which was a distortion 10+ years in the making before blowing off).

- **It looks like maximum gains on this trade would have started if you bought in at $4. Should I be looking for names at <$4 to find another opportunity like this? I heard some people made a lot of money on Hertz. Is this like Hertz?**

I have no idea. I wasn't looking at Hertz at the time. Obviously it's different in that GME is not going bankrupt despite what some people on the news might say (honestly, I don't understand their apparent conviction on this given most of them profess to not even know any details about Gamestop).

The sense I get is that some people realized that many stocks had their prices artificially suppressed by the pure panic in the market at the time, and were likely to bounce back. Stocks crushed down to penny stock land could easily bounce back multiple hundreds of percent just by moving back up by $1, and if you had a good reason to think they'd survive, that's a pretty good deep value trade.

Some people seemed to jump on that bandwagon with the mistaken idea that you should basically just scan all stocks for things <$5 today that used to be >$20 or whatever and assume the 90+% drop will result in a bounce off the floor, even if it’s a “dead cat” bounce on the way to $0. DO NOT TRY TO TRADE THIS.

The theory is that a $100 stock that drops to $10 on its way to bankruptcy could bounce back to $15 first—a return of 50% if you time the floor and the bounce perfectly. In practice almost everyone who tries this loses all their money much sooner rather than later.

By the same token, people who “know” a company is heading to bankruptcy get their accounts wiped out when they short something on margin right as it hits a floor on the way down, get margin called on the bounce, and subsequently join the company in insolvency as they end up owing their broker more than they put in. Being right in the end is cold comfort at that point.

- **Could Gamestop just issue shares to bail out the short sellers?**

I guess it could, speaking entirely theoretically. That being said, consider the following:

They’ve already filed to issue $100mio worth of shares, or 500k shares using $200/share as a price assumption. I don’t know if they’ve begun to execute on that.

That was just to give them the runway required to take bankruptcy completely off the table.

As you note, at these prices, using stock to finance a turnaround is absolutely feasible.

There are, however, a few things to consider:

1. They have a fiduciary responsibility to their shareholders. They need to be able to justify how issuing even more shares is ultimately beneficial for the company and shareholders. “Because our stock price is high right now” is not typically a compelling reason, though maybe these circumstances are an exception to that rule given the extremity of the price.
2. While a healthy balance sheet would be an improvement, debt is usually cheaper than equity when it comes to financing a company’s activities. If they can secure solvency with the $100mio stock issue already authorized, and leverage the healthier balance sheet and insanely improved market cap to instead borrow what they need to restructure, especially in this ultra low interest rate environment, that would be better for the company and shareholders.
3. They can’t just make a snap judgment to do so. It takes time, board approvals, regulatory paperwork that is public, etc. There is a lot of work and potential risk in this process—particularly for this company.
4. Even if they did this, the incredible total volume of short interest being squeezed means that in practice it would be hard for the share issue to change the trajectory of the stock. The main effect might be to terrify some retail longs into bailing out of their position depending on how the news is presented to them.

- **_______ securities pricing theory/model means short interest has no impact on a security's price, short positions can be held infinitely so there really is no obligation to cover, so the thesis behind the short**

- **squeeze trade is invalid, etc. Mathematically long and short positions are the same thing.**

That may be true in some ideal theory assuming you are trading in some kind of mathematically ideal market using very specific assumptions, but you're trading in a real market that includes things like counterparty risk, regulatory and contractual limits on ability to borrow (at least in theory--Hello SEC, threshold securities list??), interest cost, etc. that make trading in an real market different. I'll build on Box by saying all models are wrong, but some are useful--*within the bounds of certain assumptions.* The situation playing out now tells you that the short interest of GME is wildly outside the bounds of whatever models the hedge fund people are using to model position risk.

You can, in theory, infinitely roll your debt forward if you can continue to find willing lenders and are ok paying interest forever. Maybe this works out to be mathematically preferable to a squeeze to infinity.

But, step away from pure theory for a moment. We don't even have to look at empirical evidence in real markets. All we need to do is build a stochastic model of an equity market sophisticated enough to model margin limits and dynamic account balances tied to securities being traded as they are in real markets and you'll see the probability of continuing to carry a short position converges to 0 over time. The only question is which happens first: you cover proactively, the underlying company goes bankrupt (and you cover for $0 less interest paid to borrow the stock), or you're margin called and forced to cover with potentially unlimited downside. Take bankruptcy off the table as we have in the case of GME and you have one of two choices--get out or eventually get squeezed out. There is no such thing as infinite ability to roll borrowing forward in real markets, and if your risk models assume that I feel sorry for you.

- **Is this illegal? Will the SEC step in somehow?**

I am not a lawyer. I do not give legal advice. And, honestly, I have no idea. I can't think of any securities regulation that at least I may have violated, but I also don't have the ability to lobby the SEC on international news.

- **So what will happen next?**

I don't know, and most likely anyone who tells you they know is kidding themselves. All I see is a good fundamentals-based position I bought into at a reasonable but bullish valuation followed by the most bullish chart I've ever seen from a TA perspective. I have theories, but there are doubtless other people better qualified to opine on that.

All I can say is if you're in the trade, strap in and prepare for a wild ride. If you're watching from the sidelines get out the popcorn. The rate at which liquidity is disappearing means whatever is going to happen will happen soon (assuming the SEC doesn't step in with an extended pause in trading to bail out the hedge funds).

Thank you for reading, and good luck with your trades.

Update from Original Draft, 1/28 Pre-Market

We're seeing tons of retail brokerages limit trading on GME to only allow selling, even when current positions and intended trades would be cash only?

Wow, I mean it kind of occurred to me in some sort of theoretical, abstract sense that somehow limiting large swathes of retail to sell-only was actually better than a general 2-way trading suspension, but who knew the short-side people could actually get retail brokers to do something so bonkers?? I guess you really do find a way to try basically anything when you're about to lose that much money.

edits to fix formatting issues

Gamestop Big Picture: The Short Singularity Pt 3

January 29, 2021

u/jn_ku

Gamestop Big Picture: The Short Singularity Pt 3 - WTF edition

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Thank you everyone for the comments and questions on the first and second post on this topic.

Today was a study in the power of fear, courage, and the levers you can pull when you wield billions of dollars...

Woops, excuse me. I'm sorry hedge fund guys... I meant trillions of dollars--I just briefly forget you control not just your own but a lot of other peoples' money too for a moment there.

Also, for people still trading this on market-based rationale (as I am), it was a good day to measure the conviction behind your thesis. I like to think I have conviction, but in case you are somehow not yet familiar with the legend of DFV, you need to see these posts (fair warning, nsfw, and some may be offended/triggered by the crude language). The last two posts might be impressive, but you should follow it in chronological order and pay attention to the evolution of sentiment in the comments to experience true enlightenment.

Anyway, I apologize, but this post will be very long--there's just a lot to unpack.

Pre-Market

Disclaimer: given yesterday's pre-market action I didn't even pay attention to the screen until near retail pre-market. I'm less confident in my ability to read what's going on in a historical chart vs the feel I get watching live, but I'll try.

Early in the pre-market it looks to me like some momentum traders are taking profit, discounting the probability that the short-side will give them a deep discount later, which you can reasonably assume given the strategy they ran yesterday. If they're right they can sell some small volume into the pre-market top, wait for the hedge funds try to run the price back down, and then lever up the gains even higher buying the dip. Buy-side here look to me like people FOMOing and YOLOing in at any price to grab their slice of gainz, or what looks to be market history in the making. No way are short-side hedge funds trying to cover anything at these prices.

Mark Cuban --well said! Free markets baby!

Mohamed El-Erian is money in the bank as always. "upgrade in quality" on the pandemic drop was the best, clearest actionable call while most were at peak panic, and boy did it print. Your identifying the bubble as the excessive short (vs blaming retail activity) is money yet again . Also, The PAIN TRADE (sorry, later interview segment I only have on DVR, couldn't find on youtube--maybe someone else can)!

The short attack starts, but I'm hoping no one was panicking this time--we've seen it before. Looks like the momentum guys are minting money buying the double dip into market open.

CNBC, please get a good market technician to explain the market action. Buy-side dominance, sell-side share availability evaporating into nothing (look at day-by-day volume last few days), this thing is now at runaway supercritical mass. There is no changing the trajectory unless you can change the very fabric of the market and the rules behind it (woops, I guess I should have knocked on wood there).

If you know the mechanics, what's happening in the market with GME is not mysterious AT ALL. I feel like you guys are trying to scare retail out early "for their own good" (with all sincerity, to your credit) rather than explain what's happening. Possibly you also fear that explaining it would equate to enabling/encouraging people to keep trying to do it inappropriately (possibly fair point, but at least come out and say that if that's the case). Outside the market, however...wow.

You Thought Yesterday Was Fear? THIS is Fear!

Ok short-side people, my hat is off to you. Just when I thought shouting fire in a locked theater was fear mongering poetry in motion, you went and took it to 11. What's even better? Yelling fire in a theater with only one exit. That way people can cause the financial equivalent of stampede casualties. Absolutely brilliant.

Robin Hood disables buying of GME, AMC, and a few of the other WSB favorites. Other brokerages do the same. Even for people on 0% margin. Man, and here I thought I had seen it all yesterday.

Side note: I will give a shout out to TD Ameritrade. You guys got erroneously lumped together with RH during an early CNBC segment, but you telegraphed the volatility risk management changes and gradually ramped up margin requirements over the past week. No one on your platform should have been surprised if they were paying attention. And you didn't stop anyone from trading their own money at any point in time. My account balance thanks you. I heard others may have had problems, but I'll give you the benefit of the doubt given the DDOS attacks that were flyiing around

Robin Hood. Seriously WTF. I'm sure it was TOTALLY coincidence that your big announcements happen almost precisely when what has to be one of the best and most aggressive short ladder attacks of all time starts painting the tape, what looked like a DDOS attack on Reddit's CDN infrastructure (pretty certain it was the CDN because other stuff got taken out at the same time too), and a flood of bots hit social media (ok, short-side, this last one is getting old).

Taking out a large-scale cloud CDN is real big boy stuff though, so I wouldn't entirely rule out nation state type action--those guys are good at sniffing out opportunities to foment social unrest.

Anyway, at this point, as the market dives, I have to admit I was worried for a moment. Not that somehow the short-side would win (hah! the long-side whales in the pond know what's up), but that a lot of retail would get hurt in the action. That concern subsided quite a bit on the third halt on that slide. But first...

A side lesson on market orders

Someone printed bonus bank big time (and someone lost--I feel your pain, whoever you are).

During the face-ripping volatility my play money account briefly ascended to rarified heights of 7 figures. It took me a second to realize it, then another second to process it. Then, as soon as it clicked, that one, glorious moment in time was gone.

What happened?

During the insane chop of the short ladder attack, someone decided to sweep the 29 Jan 21 115 Call contracts, but they couldn't get a grip on the price, which was going coast to coast as IV blew up and the price was being slammed around. So whoever was trying to buy said "F it, MARKET ORDER" (i.e. buy up to $X,XXX,XXX worth of contracts at any price). This is referred to as a sweep if funded to buy all/most of the contracts on offer (HFT shops snipe every contract at each specific price with a shotgun of limit orders, which is far safer, but something only near-market compute resources can do really well). For retail, or old-tech pros, if you want all the contracts quickly, you drop a market order loaded with big bucks and see what you get... BUT, some clever shark had contracts available for the reasonable sum of... $4,400, or something around that. I was too stunned to grab a screencap. The buy market order swept the book clean and ran right into that glorious, nigh-obscene backstop limit. So someone got nearly $440,000 PER CONTRACT that was, at the time theoretically priced at around $15,000. $425,000 loss... PER CONTRACT. Maybe I'm not giving the buyer enough credit.. you can get sniped like that even if you try to do a safety check of the order book first, but, especially in low liquidity environments, if a HFT can peak into your order flow (or maybe just observes a high volume of sweeps occurring), they can end up front running your sweep, pick off the reasonable contracts, and slam a ridiculous limit sell order into place before your order makes it to the exchange. Either way, I hope that sweep wasn't loaded for bear into the millions. If so... OUCH. Someone got cleaned out.

So, the lesson here folks... in a super high volatility, low-liquidity market, a market order will just run up the ladder into the first sell order it can find, and some very brutal people will put limit sells like that out there just in case they hit the jackpot. And someone did. If you're on the winning side, great. It can basically bankrupt you if you're on the losing side. My recommendation: Just don't try it. I wouldn't be surprised if really shady shenanigans were involved in this, but no way to know (normally that's crazy-type talk, but after today....peeking at order flow and sniping sweeps is one of the fastest, most financially devastating ways to bleed big long-side players, just sayin').

edit *so while I was too busy trying not to spit out my coffee to grab a screenshot, /u/piddlesthethug was faster on the draw and captured this: https://imgur.com/gallery/RI1WOuu

Ok, so I guess my in-the-moment mental math was off by about 10%. Man, that hurts just thinking about the guy who lost on that trade.*

Back to the market action..

A Ray of Light Through the Darkness

So I was worried watching the crazy downward movement for two different reasons.

On the one hand, I was worried the momentum pros would get the best discounts on the dip (I'll admit, I FOMO'd in too early, unnecessarily raising my cost basis).

On the other hand, I was worried for the retail people on Robin Hood who might be bailing out into incredibly steep losses because they had only two options: Watch the slide, or bail. All while dealing with what looked to me like a broad-based cloud CDN outage as they tried to get info from WSB HQ, and wondering if the insta-flood of bot messages were actually real people this time, and that everyone else was bailing on them to leave them holding the bag.

But I saw the retail flag flying high on the 3rd market halt (IIRC), and I knew most would be ok. What did I see, you ask? Why, the glorious $211.00 / **$5,000** bid/ask spread. WSB Reddit is down? Those crazy mofos give you the finger right on the ticker tape. I've been asked many times in the last few hours about why I was so sure shorts weren't covering on the down move. THIS is how I knew. For sure. It's in the market data itself.

edit *So, there's feedback in the comments that this is likely more of a technical glitch. Man, at least it was hilarious in the moment. But also now I know maybe not to trust price updates when the spread between orders being posted is so wide. Maybe a technical limitation of TOS*

I'll admit, I tried to one-up those bros with a 4206.90 limit sell order, but it never made it through. I'm impressed that the HFT guys at the hedge fund must have realized really quickly what a morale booster that kind of thing would have been, and kept a lower backstop ask in place almost continuously from then on I'm sure others tried the same thing. Occasionally $1,000 and other high-dollar asks would peak through from time to time from then on, which told me the long-side HFTs were probably successfully sniping the backstops regularly.

So, translating for those of you who found that confusing. First, such a high ask is basically a FU to the short-side (who, as you remember, need to eventually buy shares to cover their short positions). More importantly, as an indicator of retail sentiment, it meant that NO ONE ELSE WAS TRYING TO SELL AT ANY PRICE LOWER THAN $5,000. Absolutely no one was bailing out.

I laughed for a minute, then started getting a little worried. Holy cow.. NO retail selling into the fear? How are they resisting that kind of price move??

The answer, as we all know now... they weren't afraid... they weren't even worried. They were F*CKING PISSED.

Meanwhile the momentum guys and long-side HFTs keep gobbling up the generously donated shares that the short-side are plowing into their ladder attack. Lots of HFT duels going on as long-side HFTs try to intercept shares meant to travel between short-side HFT accounts for their ladder. You can tell when you see prices like $227.0001 constantly flying across the tape. Retail can't even attempt to enter an order like that--those are for the big boys with privileged low-latency access.

The fact that you can even see that on the tape with human eyes is really bad for the short-side people.

Why, you ask? Because it means liquidity is drying up, and fast.

The Liquidity Tide is Flowing Out Quickly. Who's Naked (short)?

Market technicals time. I still wish this sub would allow pictures so I could throw up a chart, but I guess a table will do fine.

Date	Volume	Price at US Market Close
Friday, 1/22/21	197,157,196	$65.01
Monday, 1/25/21	177,874,00	$76.79
Tuesday, 1/26/21	178,587,974	$147.98
Wednesday, 1/27/21	93,396,666	$347.51
Thursday, 1/28/21	58,815,805	$193.60

What do I see? I see the shares available to trade dropping so fast that all the near-exchange compute power in the world won't let the short-side HFTs maintain order flow volume for their attacks. Many retail people asking me questions thought today was the heaviest trading. Nope--it was just the craziest.

What about the price dropping on Thursday? Is that a sign that the short-side pulled a miracle out and pushed price down against a parabolic move on even less volume than Wednesday? Is the long side running out of capital?

Nope. It means the short-side hedge funds are just about finished.

But wait, I thought the price needed to be higher for them to be taken out? How is it that price being lower is bad for them? Won't that allow them to cover at a lower price?

No, the volume is so low that they can't cover any meaningful fraction of their position without spiking the price parabolic almost instantly. Just not enough shares on offer at reasonable prices (especially when WSB keeps flashing you 6942.00s).

It's true, a higher price hurts, but the interest charge for one more day is just noise at this point. The only tick that will REALLY count is the last tick of trading on Friday.

In the meantime, the price drop (and watching the sparring in real time) tells me that the long-side whales and their HFT quants are so certain of the squeeze that they're no longer worried AT ALL about whether it will happen, and they aren't even worried at all about retail morale to help carry the water anymore.

Instead, they're now really, really worried about how CHEAPLY they can make it happen.

They are wondering if they can't edge out just a sliver more alpha out of what will already be a blow-out trade for the history books (probably). You see, to make it happen they just have to keep hoovering up shares. It doesn't matter what those shares cost. If you're certain that the squeeze is now locked in, why push the price up and pay more than you have to? Just keep pressing hard enough to force short-side to keep sending those tasty shares your way, but not so much you move the price. Short-side realizes this and doesn't try to drive price down too aggressively. They can't afford to let price run away, so they have to keep some pressure on at the lowest volume they can manage, but they don't want to push down too hard and give the long-side HFTs too deep of a discount and bleed their ammo out even faster. That dynamic keeps price within a narrow (for GME today, anyway) trading range for the rest of the day into the close.

Good plan guys, but those after market people are pushing the price up again. Damnit WSB bros and Euros, you're costing those poor long-side whales their extra 0.0000001% of alpha on this trade just so you can run up your green rockets... See, that's the kind of nonsense that just validates Lee Cooperman's concerns.

On a totally unrelated note, I have to say that I appreciate the shift in CNBC's reporting. Much more thoughtful and informed. Just please get a good market technician in there who will be willing to talk about what is going on under the hood if possible. A lot of people watching on the sidelines are far more terrified than they need to be because it all looks random to them. And they're worried that you guys look confused and worried--and if the experts on the news are worried....??!

You should be able to find one who has access to the really good data that we retailers can only guess at, who can explain it to us unwashed masses.

Ok, So.. Questions

There is no market justification for this. How can you tell me is this fundamentally sound and not just straight throwing money away irresponsibly?? *(side note: not that that should matter--if you want to throw your money away* *why shouldn't you be allowed to?)*

We're not trading in your securities pricing model. This isn't irrational just because your model says long and short positions are the same thing. The model is not a real market. There is asymmetrical counterparty risk here given the shorts are on the hook for all the money they have, and possibly all the money their brokers have, and possibly anyone with exposure to the broker too! You may want people to trade by the rules you want them to follow. But the rest of us trade in the real market as it is actually implemented. Remember? That's what you tell the retailers who take their accounts to zero. Remember what you told the KBIO short-squeezed people? They had fair warning that short positions carry infinite risk, including more than your initial investment. You guys know this. It's literally part of your job to know this.

But-but-the systemic risk!! This is Madness!

...Madness?

THIS. IS. **THE MARKET!!! *Retail kicks the short-side hedge funds down an infinity loss black hole***.

Ok, seriously though, that is actually a fundamentally sound, and properly profit-driven answer at least as justifiable as the hedge funds' justification for going >100% of float short. If they can be allowed to gamble INFINITE LOSSES because they expect to make profit on the possibility the company goes bankrupt, can't others do the inverse on the possibility the company I don't know.. doesn't go bankrupt and gets a better strategy from the team that created what is now a $43bn market cap company (CHWY) that does exactly some of the things GME needs to do (digital revenue growth) maybe? I mean, I first bought in on that fundamental value thesis in the 30s and then upped my cost basis given the asymmetry of risk in the technical analysis as an obvious no-brainer momentum trade. The squeeze is just, as WSB people might say, tendies raining down from on high as an added bonus.

I get that you disagree on the fundamental viability of GME. Great. Isn't that what makes a market?

Regarding the consequences of a squeeze, in practice my expectation was maybe at worst some kind of ex-market settlement after liquidation of the funds with exposure to keep things nice and orderly for the rest of the market. I mean, they handled the VW thing somehow right? I see now that I just underestimated elite hedge fund managers though--those guys are so hardcore (I'll explain why I think so a bit lower down).

If hedge fund people are so hardcore, how did the retail long side ever have a chance of winning this squeeze trade they're talking about?

Because it's an asymmetrical battle once you have short interest cornered. And the risk is also crazily asymmetrical in favor of the long side if short interest is what it is in GME. In fact, the hedge funds essentially cornered themselves without anyone even doing anything. They just dug themselves right in there. Kind of impressive really, in a weird way.

What does the short side need to cover? They need the price to be low, and they need to buy shares.

How does price move lower? You have to push share volume such that supply overwhelms demand and price therefore goes down (man, I knew econ 101 would come in handy someday).

But wait... if you have to sell shares to push the price down.. won't you just undo all your work when you have to buy it back to actually cover?

The trick is you have to push price down so hard, so fast, so unpredictably, that you SCARE OTHER PEOPLE into selling their shares too, because they're scared of taking losses. Their sales help push the price down for free! and then you scoop them up at discount price! Also, there are ways to make people scared other than price movement and fear of losses, when you get right down to it. So, you know, you just need to get really, really, really good at making people scared. Remember to add a line item to your budget to make sure you can really do it right.

On the other hand..

What does the long side need to do? They need to own as much of the shares as they can get their hands on. And then they need to hold on to them. They can't be weak hands either. They need to be hands that will hold even under the most intense heat of battle, and the immense pressure of mind-numbing fear... they need to be as if they were made of... diamond... (oh wow, maybe those WSB people kind of have a point here).

Why does this matter? Because at some point the sell side will eventually run out of shares to borrow. They simply won't be there, because they'll be safely tucked away in the long-side's accounts. Once you run out of shares to borrow and sell, you have no way to move the price anymore. You can't just drop a fat stack--excuse me, I mean suitcase (we're talking hedge fund money here after all)--of Benjamins on the ticker tape directly. Only shares. No more shares, no way to have any direct effect on the price whatsoever.

Ok, doesn't that just mean trading stops? Can't you just out-wait the long side then?

Well, you could.. until someone on the long side puts 1 share up on a 69420 ask, and an even crazier person actually buys at that price on the last tick on a Friday. Let's just say it gets really bad at that point.

Ok.. but how do the retail people actually get paid?

Well, to be quite honest, it's entirely up to each of them individually. You've seen the volumes being thrown around the past week+. I guarantee you every single retailer out there could have printed money multiple times trading that flow. If they choose to, and time it well. Or they could lose it all--this is the market. Some of them apparently seem to have some plan, or an implicit trust in certain individuals to help them know when to punch out. Maybe it works out, but maybe not. There will be financial casualties on the field for sure--this is the bare-knuckled capitalist jungle after all, remember? But everyone ponied up to the table with their own money somehow, so they all get to play in the big leagues just like everyone else. In theory, anyway.

And now, Probably the #1 question I've been asked on all of these posts has been: **So what happens next?** Do we get the infinity squeeze? Do the hedge funds go down?

Great questions. I don't know. No one does. That's what I've said every time, but I get that's a frustrating answer, so I'll write a bit more and speculate further. Please again understand these are my opinions with a degree of speculation I wouldn't normally put in a post.

The Market and the Economy. Main Street, Wall Street, and Washington

The pandemic has hurt so many people that it's hard to comprehend. Honestly, I don't even pretend to be able to. I have been crazy fortunate enough to almost not be affected at all. Honestly, it is a little unnerving to me how great the disconnect is between people who are doing fine (or better than fine, looking at my IRA) versus the people who are on the opposite side of the ever-widening divide that, let's be honest, has been growing wider since long before the pandemic.

People on the other side--who have been told they cannot work even if they want to, who wonder if congress will get it together to at least keep them from getting thrown out of their house if they have to keep taking one for the team for the good of all, are wondering if they're even living in the same reality.

Because all they see on the news each day is that the stock market is at record highs, or some amazing tech stocks have 10x'd in the last 6 months. How can that be happening during a pandemic? Because The Market is not The Economy. The Market looks forward to that brighter future that Economy types just need to wait for. Don't worry--it'll be here sometime before the end of the year. We think. We're making money on that assumption right now, anyway. Oh, by the way, if you're in The Market, you get to get richer as a minor, unearned side-effect of the solutions our governments have come up with to fight the pandemic.

Wow. That sounds amazing. How do I get to part of that world?

Retail fintech, baby. Physical assets like real estate might be a bit out of reach at the moment, but stocks will do. I can even buy fractional shares of BRK/A LOL.

Finally, I can trade for my own slice of heaven, watching that balance go up (and up--go stonks!!). Now I too get to dream the dream. I get to feel connected to that mythical world, The Market, rather than being stuck in the plain old Economy. Sure, I might blow up my account, but that's because it's the jungle. Bare-knuckled, big league capitalism going on right here, and at least I get to show up an put my shares on the table with everyone else. At least I'm playing the same game. Everyone has to start somewhere--at least now I get to start, even if I have to learn my lesson by zeroing my account a few times. I've basically had to deal with what felt like my life zeroing out a few times before. This is number on a screen going to 0 is nothing.

Laugh or cry, right? I'll post my losses on WSB and at least get some laughs.

Geez, some of the people here are making bank. I better learn from them and see if they'll let me in on their trades. Wow... this actually might work. I don't understand yet, but I trust these guys telling me to hold onto this crazy trade. I don't understand it, but all the memes say it's going to be big.

...WOW... I can pay off my credit card with this number. Do I punch out now? No? Hold?... Ok, getting nervous watching the number go down but I trust you freaks. We're still in the jungle, but at least I'm in with with my posse now. Market open tomorrow--we ride the rocket baby! And if it goes down, at least I'm going down with my crew. At least if that happens the memes will be so hilarious I'll forget to cry.

Wow.. I can't believe it... we might actually pull this off. Laugh at us now, "pros"!

We're in The Market now, and Market rules tell us what is going to happen. We're getting all that hedge fund money Right? Right?

Maybe.

First, I say maybe because nothing is ever guaranteed until it clears. Secondly, because the rules of The Market are not as perfectly enforced as we would like to assume. We are also finding out they may not be perfectly fair. The Market most experts are willing to talk about is really more like the ideal The Market is supposed to be. This is the version of the market I make my trading decisions in. However, the Real Market gets strange and unpredictable at the edges, when things are taken to extremes, or rules are pushed beyond the breaking point, or some of the mechanics deep in the guts of the Real Market get stretched. GME ticks basically all of those boxes, which is why so many people are getting nervous (aside from the crazy money they might lose). It's also important to remember that the sheer amount of money flowing through the market has distorting power unto itself. Because it's money, and people really, really, really like their money--especially when they're used to having a lot of it, and rules involving that kind of money tend to look more... flexible, shall we say.

Ok, back to GME. If this situation with GME is allowed to play out to its conclusion in The Market, we'll see what happens. I think all the long-side people get the chance to be paid (what, I'm not sure--and remember, you have to actually sell your position at some point or it's all still just numbers on your screen), but no one knows for certain.

But this might legitimately get so big that it spills out of The Market and back into The Economy.

Geez, and here I thought the point of all of this was so that we all get to make so much money we wouldn't ever have to think and worry about that thing again.

Unfortunately, while he's kind of a buzzkill, Thomas Petterfy has a point. This could be a serious problem.

It might blow out The Market, which will definitely crap on The Economy, which as we all know from hard experience, will seriously crush Main Street.

If it's that big a deal, we may even need Washington to be involved. Once that happens, who knows what to expect.. this kind of scenario being possible is why I've been saying I have no idea how this ends, and no one else does either.

How did we end up in this ridiculous situation? From GAMESTOP?? And it's not Retail's fault the situation is what it is.. why is everyone telling US that we need to back down to save The Market?? What about the short-side hedge funds that slammed that risk into the system to begin with?? We're just playing by the rules of The Market!!

Well, here are my thoughts, opinions, and some even further speculation... This may be total fantasy land stuff here, but since I keep getting asked I'll share anyway. Just keep that disclaimer in mind.

A Study in Big Finance Power Moves: If you owe the bank $10,000, it's your problem...

What happens when you owe money you have no way to pay back? It's a scary question to have to face personally. Still, on balance and on average, if you're fortunate enough to have access to credit the borrowing is a risk that is worth taking (especially if you're reasonably careful). Lenders can take a risk loaning you money, you take a risk by borrowing in order to do something now that you would otherwise have had to wait a long time or maybe would never have realistically been able to do otherwise. Sometimes it doesn't work out. Sometimes it's due to reasons totally beyond your control. In any case, if you find yourself there you have no choice but to dust yourself off, pick yourself up as best as you can, and try to move on and rebuild. A lot of people had to learn that in 2008. Man that year really sucked.

Wall street learned their lessons too. Most learned what I think most of us would consider the right lessons--lessons about risk management, and the need to guard vigilantly against systemic risk, concentration of risk through excess concentration of leverage on common assets, etc. Many suspect that at least a few others may have learned an entirely different set of, shall we say, unhealthy lessons. Also, to try to be completely fair, maybe managing other peoples' money on 10x+ leverage comes with a kind of pressure that just clouds your judgement. I could actually, genuinely buy that. I know I make mistakes under pressure even when I'm trading risk capital I could totally lose with no real consequence. Whatever the motive, here's my read on what's happening:

First, remember that as much fun as WSB are making of the short-side hedge fund guys right now, those guys are smart. Scary smart. Keep that in mind.

Next, let's put ourselves in their shoes.

If you're a high-alpha hedge fund manager slinging trades on a $20bn 10x leveraged to 200bn portfolio, get caught in a bad situation, and are down mark-to-market several hundred million.. what do you do? Do you take your losses and try again next time? Hell no.

You're elite. You don't realize losses--you double down--you can still save this trade no sweat.

But what if that doesn't work out so well and you're in the hole >$2bn? Obvious double down. Need you ask? I'm net up on the rest of my positions (of course), and the momentum when this thing makes its mean reversion move will be so hot you can almost taste the alpha from here. Speaking of momentum, imagine the move if your friends on TV start hyping the story harder! Genius!

Ok, so that still didn't work... this is now a frigging 7 sigma departure from your modeled risk, and you're now locked into a situation that is about as close to mathematically impossible to escape as you can get in the real world, and quickly converging on infinite downside. Holy crap. The fund might be liquidated by your prime broker by tomorrow morning--and man, even the broker is freaking out. F'in Elon Musk and his twitter! You're cancelling your advance booking on his rocket ship to Mars first thing tomorrow... Ok, focus--this might legit impact your total annual return. You need a plan, and you know the smartest people on the planet, right? The masters of the universe! Awesome--they've even seen this kind of thing before and still have the playbook!! Of course! It's obvious now--you borrow a few more billion and double down again first thing in the morning. So simple. Sticky note that Mars trip cancellation so you don't forget.

Ok... so that didn't work? You even cashed in some pretty heavy chits too. Ah well, that was a long shot anyway. So where were you? Oh yeah.. if shenanigans don't work, skip to page 10...

...Which says, of course, to double down again. Anyone even keeping track anymore? Oh, S3 says it's $40bn and we're going parabolic? Man, that chart gives me goosebumps. All according to plan...

So what happens tomorrow? One possible outcome of PURE FANTASTIC SPECULATION...

End of the week--phew. Never though it'd come. Where are you at now?... Over $9000*!!! Wow. You did it boys, and as a bonus the memes will be so sweet.

**side note: add 8 zeros to the end...*

Awesome--your problems have been solved. Because...

..

BOOM

Now it's **EVERYONE's** problem. Come at me, Chamath , **THIS** is **REAL** baller shit.

Now all you gotta do is make all the hysterical retirees watching their IRAs hanging in the balance blame those WSB kids. Hahaha. Boomers, amirite? hate when those kids step on their law--I mean IRAs. GG guys, keep you memes. THAT is how it's done.

Ok, but seriously, I hope that's not how it ends. I guess we just take it day by day at this point.

Apologies for the length. Good luck in the market!

Also, apologies in advance for formatting, spelling, and grammatical errors. I was typing this thing in between doing all kinds of other things for most of the day.

Edit getting a bunch of questions on if it's possible the hedge funds are finding ways to cover in spite of my assumptions. Of course. I'm a retail guy trying to read the charts and price action. I don't have any special tools like the pros may have.

Gamestop Big Picture: Technical Recap 1/25-1/29

January 30, 2021

u/jn_ku

Gamestop Big Picture: Technical Recap - 1/25 - 1/29

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

Wow, what a week. All I'll say on that for now. I'll maybe do a recap of Friday at some point this weekend if I can.

For this post, rather than a narrative recap, I'll go into some very light technical analysis on a couple of screenshots from TD Ameritrade Thinkorswim and Ortex. I don't have a lot of time to go very deep into everything I normally do, but I wanted to give the newer traders an example of how I go about coming to some of my conclusions.

Some of the conclusions I came to in the heat of the moment in my previous posts may also not stand up to more rigorous scrutiny of the data. In my opinion, at least, it's very important to ensure that you go back and review any of your high conviction trades from time to time. Please feel free to use the charts I'll show to challenge some of the assumptions I may have made and written about while watching the live ticker tape action, social media, and other high-frequency sentiment indicators (things I might rely on for a hyper-realtime momentum monster trade like GME has been this past week). Maybe use them to challenge your own thoughts and assumptions as well.

I realized while doing this that writing those prior articles probably cost me ~$300k in momentum trade opportunity LOL, since I used all of my free non-trading hour time to write instead of do an even more in-depth version of what I'm going to show you now. That being said, if that writing helped any of you understand what was going on, and ultimately progress on your way to becoming better traders and investors, that to me is well worth it--maybe one day you too can pay it forward!

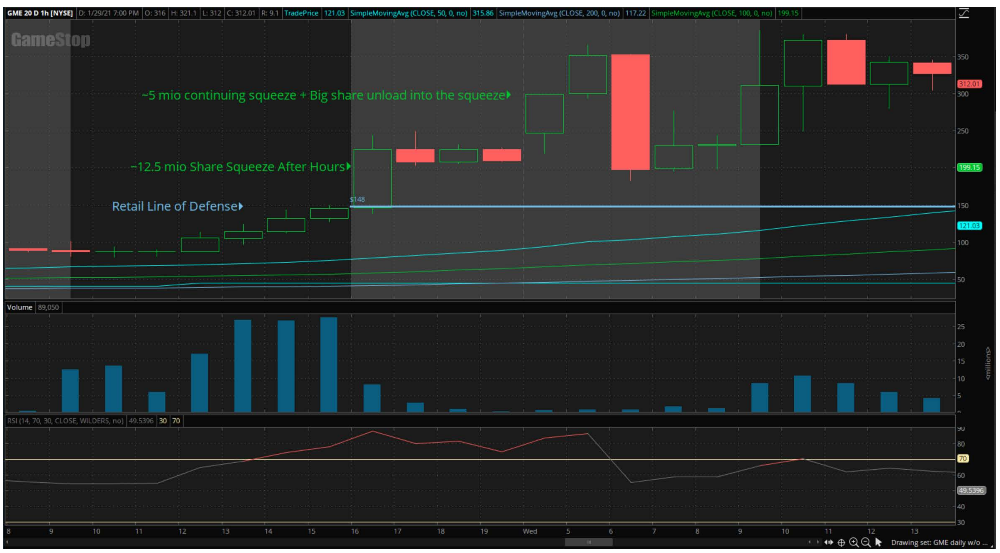
If any of you reading this are chart jockeys, please share some tips if you have them.

First, the charts (links since pics aren't allowed on this sub)

1. [Ortex Short Interest Data]

2. Daily Summary of the Week

3. 1/26/2021 Mini Squeeze Hourly



4. 1/28/2021 to 1/29/2021 Fibonacci Retracement

Fundamentals - Ortex Short Interest

First, lots of questions on the prior post about Short Interest remaining on GME so I'll start with this one. Looks good to me. I think Ortex will update end of trading Friday data just before/around Monday market open. I consider this chart to convey mostly fundamental data, as the underlying value thesis behind the recent push by retail traders has at least recently been about the squeeze. This is the type of data you'd use to try to analyze data about the security being traded. Note that most pro traders would not consider short interest to be a 'fundamental ' attribute, and normally I'd agree, but I think GME and maybe some of the other high SI plays are an exception to that.

If any of you are inclined to feel jumpy about the diving lines on the chart, make sure to look at the axis values on the left. The chart is calibrated to capture the movement over the period, so the bottom of the axes are not 0.

A few things to note:

1. Short interest drops substantially from 1/26 into 1/27
2. Volume is shrinking
3. Remaining free float on loan has gone down, but at 66% as of Thursday, is still quite high

Overview - Daily Chart & Summary of the Week

A few things going on here

1. The big volume days on Friday, Monday, and Tuesday are when it seems to me that the greatest retail momentum would have occurred. The battles were pretty intense at key price points if you take a closer look at those intra-day charts.
2. Big picture here, what it tells me is that many if not most of the retail share volume was acquired at or below $148 on huge volume. That means the core of your retail support, and the majority of shares in WSB diamond hands would have been bought probably between the $30 and $148 price range. My guess is that Only DFV the DFV early acolytes, Dr. Burry, and the institutional holders have meaningful volume below $30.
3. Given points 1 and 2, I'd consider the $148 price level as the critical defense level of your earliest, hardest retail support. You can dive deeper into the 1/26 trading day and possibly make a case for other levels as well, but I'll roll with that for now.
4. Ok, so maybe the Melvin guys weren't really lying. The Ortex data showing short interest drop from 1/26 to 1/27 coinciding with the massive and sudden price dislocation upward on 1/27.
5. If new shorts entered the game it would have been near the highs, possibly selling into the forced buying of what I'll just assume was the overnight Melvin squeeze and into the early market hours on 1/28. Possibly aggressive momentum shorting on top of the Robin Hood BS, the bots, and the networking issues came together in a perfect storm with that HFT ladder attack on the vertical dive. Wow--no wonder that thing was so intense.
6. As you can see on that downside wick on 1/28, the huge momentum briefly pierced the Retail line before being slammed back up. We'll take a closer look in the fibonacci chart.

Analysis - Mini Squeeze Hourly

Just a few notes. I checked and the after hours volume here was sudden, quite unusual, and pretty consistent with a forced liquidation of a substantial position. Rather than slamming it all out at once, the broker spread it out quite a bit. Some takeaways:

1. If you wanted to take money from Melvin, this was the chance, and a lot of people (or a few whales) certainly did. The numbers in my summary were very quick mental math of the hourly volumes in overnight trading
2. The price didn't break away as aggressively as it probably could have, which means there was some carefully calibrated pre-planning to unload a bunch of shares, laddering up to the $350 level.
3. I am genuinely sorry to have to conclude, therefore, that the WSB bros with the $420.00 limit got scooped. Something on the order of 17 million shares worth of Melvin dollars got cashed out under them by a HFT whale with access to firehose shares at Melvin's broker all the way through overnight trading. few retail even have the ability to trade for that entire window, and certainly not on the order of 17 million shares anyway.
4. Another important takeaway: 17 million shares is a lot, but it's nowhere near the entire original SI in GME. The Game hasn't necessarily Stopped yet (heh).

Technical Analysis - 1/28 to 1/29 Fibonacci Retracement

For those of you who are unfamiliar with what traders call "technical analysis", it's really just a fancy set of words to say looking at squiggly lines, bars, etc. on charts to try to figure out what's going on.

One particularly popular tool is called a fibonacci retracement. It sounds a lot fancier than it is, but it is extremely useful, and extremely commonly used by momentum traders (which is partly why it's useful--if everyone is trading off of the same thing, it's a self-reinforcing bias in the market). There is a lot of background reading you can do on the topic--I recommend it. You'll be a better trader and even investor for it, as it tends to be useful even on longer timeframe charts. Kind of uncanny really.

Looking at this chart I realize I probably should have plotted the 'retail line of defense' here too. Oh well, maybe next time.

Takeaways:

1. I figured the relevant trading range going forward was peak euphoria to peak despair in regular trading on relatively good volume. That happened to be the top to bottom move on the Robin Hood news.
2. Using that for the fibonacci retracement, you can see how much of the trading action bounces around between the various levels before settling in scarily accurately into the 50% - 61.8% channel in after hours trading.
3. it's quite possible that short-term equilibrium on this battleground stock is $300 to $350 until either side makes a strong push. Price was trapped in that range toward the end of normal trading on relatively good volume.
4. Probably a bunch of momentum traders drew exactly this retracement (or something very similar) for their rest of day trading after the floor got put in near the retail line of defense. In all honesty it's hard to say if the tool works because of some fundamental reason or because everyone uses it so everyone times their momentum plays off the same playbook, making it self-reinforcing. All that matters in the end is that it works pretty consistently once you get used to working with it.
5. Below the price graph, pay attention to the volume bars below. It's especially critical when trading momentum to understand the relationship between share volume and price, as there are patterns that are more likely to play out depending on the relationship. For example, when price is moving around a lot, is it doing so on high volume or not much volume?
6. Traders tend to overshoot a little on each push, so even if price ultimately drops lower after an upside spike, if the volume on that drop is low compared to the upward push, that actually tells you that it's likely to go higher a little later on. There are many sites that go more in depth into this kind of thing (patterns, volume and price analysis, etc.), and it is incredibly useful to try to understand what to take away from price and volume movement as you watch it unfold live.

Lots more going on here, but this post is getting pretty long already.

Other Takeaways

- The whales in the pond obviously do their homework (that's how they got to be that big, after all), and they were therefore prepared to act decisively to unload 17 million shares at the upper end of the trading range when Melvin got blown up. That's how you make big bank on big volume--do your homework.
- My thesis in the part 2 article that the big early drop before retail pre-market was a short-side scare tactic could very well be totally wrong. You could make a case either way that it was a new short-side player diving in at a higher price point, a long-side whale making bank, or a combo of both. if you check the Ortex data against the numbers here you can probably come up with an order of magnitude educated estimate. If so, apologies to the CNBC Squawk Box crew--probably no factual inaccuracies in your reporting (though the tone did make a lot of retail panic)
- Ironically, it might very well have been the continued unwinding of Melvin's short position that intercepted the panic drop into premarket rather than a long-side heavy hitter. LOL.
- Thursday afternoon and Friday were low volume, low-conviction momentum sloshing around. Dueling HFT algos and momentum traders trying to scalp alpha from each other is my guess.
- Contract expiration may cause a price dislocation into the new trading week, so I'm not sure the fibonacci retracement chart is still useful.
- I'm sure if I go back over my previous articles and compare to the chart data more carefully I'll find all kinds of other inconsistencies with my realtime thoughts. It's key when trading, at least in my opinion, that you are willing, able, and indeed eager to go back and rethink your assumptions, no matter how much you liked them. Challenge and verify with data whenever possible. Not doing that is how Melvin got blown up, after all.
- My worst case scenario thesis in the part 3 article may still be valid depending on the total amount of short interest loading up into GME at these newer highs. I remember hearing some fund manager talking about shorting GME at the $400 as a stabilization mechanism. Wow.. short something with the most hyper volatility of any $1bn+ stock I've ever heard of... for stability. That's not a word I'd ever associate with a WSB meme momentum rollercoaster stock.
- An infinity squeeze is still totally on the table, as long as sufficient short interest remains. The strategy and tactics you'd use to get there may have to be different though, as price ratchets up into higher bands. I'll keep those thoughts to myself--for sure those WSB guys have a plan. They've proven to be scary effective so far after all.

There are other things you can take away, or theses you can come up with from these and other charts you may have access to. Hopefully, for you newer traders I've given you a useful glimpse into how I might try to use readily available data to improve/challenge/refine a working thesis to ensure I'm better prepared for the days ahead. You should find the tools that seem to work best for you.

Hope you all have a good weekend. See you on the field on Monday.

Gamestop Big Picture: Market Mechanics

January 31, 2021
u/jn_ku

Gamestop Big Picture: Market Mechanics

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

Rather than doing a writeup of Friday, I think the time I have at the moment would be better spent going over some conceptual market mechanics. As I mentioned in my previous post that covered some light analysis of the week, my first glance was that Friday was a low conviction, low volume day where momentum traders/and volatility arbitraging HFT algos were skirmishing, and a slightly deeper look tells me that's probably the case for almost the entire day, up to the last minutes before close.

There was a bit of a push toward the end of the day just to extract maximum interest charge pain. Keep in mind also that on Friday many of the retail brokerages still had issues with GME, and GME price was also protected from aggressive short-side attack due to the uptick rule.

Capital Flow, Liquid Float, and Price

Ok, so let's go with a diagram I put together while thinking about how to best answer a ton of questions related to the mechanics behind triggering a squeeze. This is not very formal--just conceptual to help you think about the relationship between price, liquid free float, and capital required to move things around.

[Capital Flow to Price Volatility Leverage Conceptual Diagram]()

As you can see in the diagram, I figured it would be conceptually clearest to model the relationship kind of like a seesaw.

On the left you can see that people selling tends to increase liquid float, moving the fulcrum of our conceptual seesaw to the right, except in the case of selling to people who are planning to buy and hold, which moves the fulcrum to the left.

The lower the liquid free float, or the further to the left the fulcrum goes, the greater the likely impact of any particular capital flow (net selling or buying) on share price. Importantly, as the diagrams on the right half show, it's not a linear relationship. The closer the liquid free float comes to 0%, the faster the price volatility increases... theoretically approaching infinity as liquid free float approaches 0%.

I find it sometimes help to think of the extreme case to help clarify. On the extremely liquid side, if you have all of the tens of millions of GME shares in play, dropping $10,000 in to buy shares probably doesn't even register on the ticker. On the other extreme, if what if there was only 1 share in play? That same $10,000 instantly prices GME at $10,000 a share--if you can even get the person holding it to sell!

Since company value is estimated mark-to-market, GME would instantly become rated one of the most (if not the most) valuable companies in the world. This is in no way true, of course, as you could not subsequently sell all the rest of the shares at that price, but as far as a whole bunch of market mechanics and market participants are concerned, they would have to treat it that way until another transaction took place to re-price the company.

So, in the grand scheme of things, in terms of difficulty of initiating what magnitude of a squeeze, the primary factor is locking up actively traded/liquid free float. Also important to keep in mind, locking up the float is only very gradually noticeable until you get very close to locking it all down, and you reach a point where suddenly each fraction of free float being locked up has parabolically greater impact on price volatility, reaching its limit where going from 2 actively traded shares to 1 actively traded share doubles price volatility sensitivity to capital flow by just locking up a single additional share.

So simple, right? Actually, yes. However, don't mistake simple for easy (absolutely not the same thing in this case).

Market Games

So, GME and other high short interest stocks are looked at in two ways by many market participants. On the one hand, you have normal investors and traders who don't really pay attention to it at all, and, if they do, they see it as a tool for price discovery that is otherwise neutral and dampens volatility (people tend to short stocks as price goes up, and cover shorts as price drops, so normal shorting activity is at least in theory supposed to help keep price stable).

Then you have what I'll call market gamers. These are people who are willing to look through the veil of what various mechanics in the market are theoretically intended to accomplish, and just pay attention to what they actually do. There are a number of market mechanics that get really strange in extreme circumstance, and shorting is one of them, as using it to the extreme can absolutely crush a company's share price and actually harm the company badly. The counter to that is the increasing risk of a squeeze, which gets worse with extreme price volatility.

Imagine it this way. Short interest in a stock is like the stock comes with a very strange feature--a closed wormhole portal into the brokerage account of the short position holder that, if slammed with a high enough day or week end price, blows open and sucks their account capital through, and possibly their broker's capital too, until they've patched it closed again with shares of stock they were short.

That's not how you're supposed to look at it, but that's kind of how it actually works in practice. Most wall street types would find it appalling and wrong to think about it that way, but with Millenials and younger jumping in to the market we're talking about generations of people who grew up watching things like people doing 4 minute speed runs through games intended to take [~100 hrs] to complete, using nothing but the mechanics of the game in ways entirely unintended by the developers. That's kind of what GME is like, from a certain point of view--a speed run through the market, blitzing and confusing everyone watching--throwing a ton of money at hedge funds' short interest until you blow a hole in their account and suck the capital out with the force of a black hole. Of course people are getting jumpy.

Battleground - Strategy and Tactics

In a way, GME has turned into a battleground stock in the minds of many wall street people. Wall Street vs WSB is basically the way it's been depicted in the media, and a number of them seem to be taking it personally.

With a battleground stock I find it helpful to think of it like a literal battleground, but with territory marked out by stock price. It helps you consider the impact on each 'side', what their motives are, and tactical and strategic implications. The reason I think this way is that once a stock becomes a battleground, the issue is no longer about price discovery--it's about proving a point or accomplishing a specific goal, which changes the dynamics of the trade.

In my opinion, the retail strength/defensive line is at the $148 level as mentioned in my previous post analyzing the week. This is based on the majority of volume being in the runup from $30 to $148, which triggered the first squeeze.

My guess is short-side strength hardens at the $350 level, based on that being the level at which the whale plugged the first squeeze. What this means is that you can expect some short-side people to actively short more at that level, possibly following through on momentum, as many of them want to prove a point that GME is a <$20 stock, as stated by a number of them on CNBC. $350 might seem like a low number given Friday's close, but remember that Friday trading was subject to the uptick rule, so the short effectively could not push back, and was instead fighting a rearguard action to bleed the long-side advance as much as possible, and lure them off their strength as much as possible.

Say what? Is there a point to those analogies like that? Why yes, of course, because those analogies are very good mental models for what is going to happen in a short squeeze campaign.

Remember, in the grand scheme of things, the goal of the long side is first and foremost to lock up liquid float. That means buying and holding shares. The question is.. how much will it cost you to move the needle on that, so to speak. the higher the price the short side can force you to pay to lock up float, the longer it'll take and the more expensive it will be. It is also like fighting far from your supply lines in that respect, in that there will be weaker hands mixed in far beyond hard support levels, such that quick pushes by the short side will shake them out, loosening float back up.

How about on the long side? You want the short side to overextend themselves by shorting the price down on momentum, and hopefully get them to keep building up short interest at the lowest price at which they will do so. This means having to have the patience to see the price go as low as you can tolerate before you start losing your key support to despair. Why? Because it means you're buying the shares they throw at you at a lower price (costs less to move the needle on locking up liquid free float) and also that their short position is at a lower average price, lowering the price it will take to trigger a squeeze.

The above is why, in some cases, you will see a sharp dip before the vertical move in a squeeze. You can essentially lure the short side into an ambush by falling back to lower and lower price points, which allows you to continue to lock up free float at ever cheaper prices while the short side thinks it is winning. Once you think you've accumulated enough to prevent covering without a parabolic price move, you spike the price back the other way and it's effectively game over. It can take some time to play out to its conclusion, but that is the essence of it.

Let's make it concrete and put some numbers to it. let's say you need to lock up 10mio more shares for the squeeze (no idea, just using the number for easy math). If you can buy it all skirmishing at the $200 line, you'll pay $2bn to do it. If instead you've extended to the $300 line, you're going to pay $3bn. If you're an alpha-seeking whale, why pay 50% more to accomplish the same thing if you can get away with it? If you recall, I referenced seeing what I thought looked like this type of ticker behavior in my 3rd post.

That being said, you might not mess around with those types of tactics at this point if you think you're already close to blowing up the next short interest holder.

If you think you're close, then you're looking at the most efficient way to make the last tick at trading close as high as possible.

That is very similar to the price action we saw on Friday at the end of the day, as mentioned earlier. If you think about it, if the goal is the have the price at/above a certain point at the end of the day, what is more efficient? Rush in the morning, then have to pay that higher price level for the whole day to maintain it, or wait until later in the day, as late as you think you can manage, and then push to that point at the very last tick?

That, at least, is a very high level view of what you're trying to accomplish, but it gets very complicated in the details. If you're dueling with a good HFT algorithm, you can run into things like the price getting spiked to trigger halts to run out the clock (kind of like fouling someone in basketball), which gets harder in the final minutes of trading due to the wider LU/LD allowances, but still doable, even if you have to do it by sucking price level up (maybe to give you 5 mins to call your buddy at Blackrock to dump shares onto the ticker or something like that).

Another thing to keep in mind. One of the reasons these things can roll on for a long time, is it might not be a one and done blowout (possibly on purpose). Think about it--if you can get people to keep piling short interest in--particularly for emotional reasons, you can ring the register as many times as they are willing to keep doing it to ultimately prove their point. Think of the Citron guy who re-shorted back in around what.. $90 or $100 I think? All because he wanted to make his point when he got blown out at the move off of $30. There are people piling back in right now. Who knows how many times they're willing to reload the short float.

Ok, so this post is much longer than I originally intended anyway, but I think the diagram and some of the descriptions above should provide a good amount of food for thought and discussion. A number of people asked me why I said that price to squeeze was secondary at this point. If you haven't already figured out why, try to think about it, or maybe ask in comments and someone can help with a further discussion.

A couple of final points:

- Assuming the long-side people continue to lock up liquid float, remember that volatility can get greater in BOTH directions. This can mean that you get wiped out if you're somehow still trading GME on margin, as a quick price collapse can get you margin called even if the price quickly rebounds later.
- Greater volatility means you should mentally prepare for big dips as well as swings to the upside. Pre-market and after hours trading don't have circuit breakers, so it could get wild during those times too.
- Also with extreme volatility you end up possibly hitting halts more frequently. After the first frustrating day of this happening with GME I made myself a basic thinkorswim thinkscript study so I'd have a handy reference on whether it looked like this was going to happen. For those of you on ToS, use it on the 1 minute chart. Note that the LULD tolerances are different in first few minutes and toward the end of the day, so you'd have to adjust the parameters (or just keep it in mind). I use it with the step lines vs the default line. If price crosses the guard lines then you're getting close--if it crosses the circuit breaker line then you're about to be or already are getting halted. Here is the code:

```
input TrailingPeriodLength = 5;
input CircuitBreakerPercent = 10.0;
input GuardMultiplePercent = 70.0;

def trlAvg = Average(close, TrailingPeriodLength);

plot trailingAverage = trlAvg;

plot upperStop = trlAvg * (1 + CircuitBreakerPercent / 100);
plot lowerStop = trlAvg * (1 - CircuitBreakerPercent / 100);

plot upperRail = trlAvg * (1 + CircuitBreakerPercent / 100 * GuardMultiplePercent / 100);
plot lowerRail = trlAvg * (1 - CircuitBreakerPercent / 100 * GuardMultiplePercent / 100);
```

Also, I got a comment in another post telling me to get a job lol. Actually I have one, so I'm not sure how much I'll be able to post from Monday forward. As I've mentioned in a few comments on prior posts, I actually am not active on social media normally. I just created this account to try to help people use this probably once-in-a-lifetime event and the intense interest it's generating to help people learn to become better investors and traders. I'll try to keep posting, but maybe not as regularly, and probably shorter (which I know some of you will be happy about :)).

Hope you all have a good rest of the weekend. Good luck in the Market on Monday

Gamestop Big Picture: Theory, Strategy, Reality

February 2, 2021
u/jn_ku

Gamestop Big Picture: Theory, Strategy, Reality

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

Before I get into Monday's action, a couple of things:

I wanted to first give a shout out to /u/piddlesthethug for capturing this screenshot , which shows that moment in time I referenced in my third Gamestop post, where some poor soul got sniped while sweeping the 29 January 115 calls. I added it into the post with an edit, but my guess is most who read the post a while back would have missed it. I guess my mental math in the moment was off as you can see from the image that the cost was actually just shy of $500k rather than $440k as I wrote in the post. Brutal.

People have also asked me where I stand on this trade. I was lucky to get in early, trade some momentum, and retain a sizeable core holding (relative to my play account). As I've mentioned some comments, my core holding, which I will hold until this saga plays itself out, would buy me a new car, all cash. Though after today I'd have to downgrade from a lower end Lexus to a Corolla lol.

Alright, so, today's action.

I have to admit that I was just glancing at the chart between writing emails, working on excel spreadsheets, conference calls, and meetings. Whenever I could, I was listening to CNBC in the background, and taking a closer look whenever I heard anything that might move sentiment, or theoretically telegraph an attack as had happened so many times last week.

In my opinion the price action played out almost by-the-numbers according to a squeeze campaign strategy as I laid out in my previous post. I want to be clear, however, that while it was consistent with what I laid out (liquidity drying up, trying to skirmish at lower and lower price points), you could reasonably interpret it other ways. As I mentioned in at least one comment, seeing things play out in a manner consistent with your expectations is by no means positive confirmation that your thesis is correct. It just happens to be consistent with the evidence you have so far. Always keep that in mind.

I tried responding to a few comments and questions in realtime as I got notifications on my phone. Just as a heads up, I won't always be able to do so, and it seems like there were a number of knowledgeable people commenting in realtime anyway. As I've said in comments on my previous posts, I am definitely not the smartest person in the room, so don't just take my word for it just because I'm the original poster. Please challenge anything I say if you feel I'm mistaken, and don't dismiss out of hand people who may have a different viewpoint.

One thing I thought I noticed in early morning market hours action was that there was no sell order depth above the ticker price, which I interpret as a good sign. Downward pushes into fairly good volume got sucked back up largely in a low-volume vacuum. The most extreme example of this was the first push right at market open. Tons of volume to push the price down, then a tiny fraction of volume as price got sucked back up. This means very little continued panicking and bailing due to the aggressive push, resulting in gaps to the upside on the follow-on buying. There were messages and comments from people concerned that low price would let the short side cover, but, as I explained, low price doesn't help the short side unless they can buy at that low price in meaningful volume. That sort of action where price gaps up as soon as buying (whether by shorts or longs) is driving price tells you that there isn't much meaningful volume to be had at the lower prices. From a higher level view, volume through the day dropped as price dropped, and that seems to have remained consistently true throughout the day.

There was some very strange after-market volume. No idea what that may have been, other than maybe hedge unwinding as T+2 contract settlement outcomes were determined. It seemed, at least to me, to be too much volume in too dense a time window to be retailers bailing out of their accounts en mass. It would make no sense to do so into the vacuum of after hours anyway rather than the firmer price support of market hours.

I got messages that I was both a short side hedge fund shill and a long side pump and dump fraudster trying to somehow take peoples' money. My sentiment analysis KPIs thus indicate I'm likely striking a healthy balance (lol).

The Game (Theory)

Ok, but seriously, is this situation a pump and dump?

Possibly.

I say possibly because, as I stated in a comment, a failed squeeze campaign is effectively identical to a pump and dump in that the only thing that happens is capital is transferred mostly from people who got in later to people who got in earlier. Even worse, in aggregate a good amount of capital may end up being transferred from the campaigners to the short side. Not that it was necessarily intended to be that way from the start--it's just what ends up happening if the campaign fails.

Ok, so failure aside, what are the dynamics of the trade? What kind of game is this?

In simplified terms, I'd describe a squeeze campaign where the short side doubles down as a modified dollar auction where the winning side also takes the losing side's bid money. In other words, at an aggregate level, it's winner take all, go hard or go home, with all the excitement of market action in the middle. Note that I said in aggregate and with market action in the middle, as that basically means even the winning side will have individuals who lose possibly everything if they get washed out before the end. As I mentioned in some comments where I urged people to consider taking profits if they needed the money, this is going to be a white-knuckle trade to the very end.

Power

For most of our lives, most of the time, the saying that 'information is power' and the closely related 'knowledge is power' are abstract, philosophical truisms that people say to try to sound cool and edgy. More tangible and relevant to our daily lives might be 'money is power', or, for the least fortunate, the threat and reality of physical force.

Today, for many in the GME trade, that previously abstract philosophical truism gained intense and urgent relevance. What is current SI? Can you trust numbers from S3? What about Ortex? Are there counterfeit shares in play? What is the significance of Failures to Deliver? Can the short side cover their position off the exchange? etc. etc.

Being in this situation, if nothing else, has lifted the veil for many people. The right information, in the right circumstances, is incredibly powerful. It outlines in stark contrast the power dynamics of information asymmetry.

If you want to exercise more agency in your future as a trader and investor, you have to make a habit of cultivating your critical thinking skills and ensuring you have diverse and often divergent sources of information. Do not let yourself be trapped in an information bubble where you can be easily manipulated. Most of all, try to avoid developing a siege mentality at all costs. If nothing else, in my opinion, it's critical for your long-term financial success.

I don't know the answer to those questions definitively, and my purpose in creating this account and posting is absolutely not to get people to listen and necessarily believe everything I write. In fact, it would make me happier if I see people use some of the tools, techniques, and concepts I've tried to introduce to challenge some of my thinking. Catching my mistakes helps me. Doing it in the open for all to read helps everyone.

Faith, Conviction, Calculated Risk

Many people trade and invest according to wildly divergent strategies.

Some people, including those that most Wall Street types consider to be 'responsible' investors, invest on blind faith. You put your capital is someone else's hands (hopefully a qualified fiduciary), and trust that they will do a good job. The only judgment you exercise really is in choosing the person(s) in which to place your faith. This is not entirely unlike what many WSBettors are doing with respect to DFV. I do this with my retirement accounts, though lately I've been considering transferring about half my retirement capital to a self-directed IRA.

Others trade on conviction. They have, for whatever reason, a very strong belief in an investment thesis that they are willing to put to the test by putting capital at risk, and are willing to lean into the thesis through unfavorable price action so long as no disconfirming evidence comes to light. I consider value investors to fall into this category.

Others are momentum traders and 'technical analysts', who are trying to read the market data to look for asymmetrical calculated risk opportunity. These opportunities need not necessarily be tied to any particular underlying fundamental investment thesis. All that matters is whether you win on a sufficiently frequent basis and carefully manage your downside risk.

I think it's healthy to try to gain an understanding of all three approaches. I personally also find it necessary to be careful if you find yourself switching between those approaches mid-trade. I.e., if you started in the GME trade on faith, it may be deeply disturbing if you find yourself in the no-man's land between faith and conviction, where you have learned enough to understand more of the risks in the trade, but not enough to understand the underlying investment thesis of how it could play out. I'm not saying you shouldn't try to make that transition--just try to maintain self awareness if you choose to do so to avoid making any rash decisions.

Swimming In The Deep

So, the consistent #1 question I always get: what happens next? My consistent answer, which I know frustrates everyone, is I don't know, and no one else does either.

One person in the comments made an astute observation that perhaps the truth, which some may find disturbing, is that our fate really lies in the hands of the whales on the long side rather than retail being in the driver's seat. This may very well be true. I would give it better than even odds at this point. In fact, even if retail collectively represents more shares in this trade, retail is not a well-organized, monolithic entity, and therefore would have more difficulty playing a decisive role at critical times.

Another question I got, which was a very good one to be asking, is what evidence do we have that there really are whales on the long side? For me, there have been critical actions over the past few days that I would have found to be highly unlikely to be achievable by retail investors, such as the sustained HFT duel into the close on Friday. That was very consistent, relatively well controlled, and sustained push on volume of 6-7mio shares traded in the $250 - $330/share price range. Oversimplified math would peg that at just shy of $2bn in capital flow. That is not retail--particularly with so many retail brokerages restricting trading at that time. The 17mio shares sold into the aftermarket action consistent with a squeeze (and Ortex reported reduction in short interest) is also definitely not retail. Others have pointed out massive action in the options today. Tons of block purchases in the millions of dollars and high 6 figures. Not retail.

All of that being said, does that really change very much? Even if you consider yourself to be part of a movement, and have genuine feelings of solidarity with your retail fellows (I do, which is why I'm writing these posts and holding that core position), in the end you are trading as an individual. This is a point that I have made repeatedly. In the end, you need to know yourself, know your trade, and have a plan. Your plan may conceivably be to follow someone else (I know many are following DFV to whatever the end may be), but in the end even that is still your plan as an individual.

If my thesis is correct we will continue to see lower trade volumes, and price grinding down to a floor of harder support, possibly even at the retail line of support (~$148/$150) I outlined in a prior post. There may also be some price dislocation tomorrow depending on options contract T+2 settlement impact. I don't know enough about what to expect there. If the squeeze is to happen, unless RH lifting restrictions or people transferring their accounts causes a surge of retail momentum, it will happen after that type of price movement continues for a while (maybe days, maybe longer), until sufficient liquid float has been locked up.

Right now options action is heavily weighted to puts, so any market maker hedging activity will put more pressure on price.

If the squeeze fails to happen there won't be a siren, ringing of a bell, or anything like that. It might happen gradually and non-obviously until suddenly, as only the market seems to be able to do, it becomes obvious that whoever's still there has been left holding the bag. Hopefully this isn't the case, but if it is I'll be right there with what at that point may only buy me a razor scooter rather than a car lol.

If it succeeds, it should be fairly obvious. Just don't forget to ring the register!

Either way, this is market history in the making. As I said in a previous comment, when you ride the rocket, it's definitely not going to be smooth--but it might just be awesome.

Apologies for the lengthy post again. Good luck in the market!

Gamestop Big Picture: Has the Game Stopped?

February 3, 2021
u/jn_ku

Gamestop Big Picture: Has The Game.. Stopped?

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

So today was rough for those in the GME trade. I, for example, cracked jokes in the comments to my last post about how my remaining GME holdings went from new Lexus money, through Corolla money, and briefly delved to the depths of used golf cart money. At one point I mentioned maybe ending up with a Razor scooter in the end, but luckily ended the day with Polaris RZR type money instead.

I wasn't paying attention to the pre-market action, but right the start of normal market hours it looked like an avalanche of panic selling. Looking back at the chart, seeing the consistent downward march of price, the gap down into early pre-US market, immediate drop at 7am pre-market, it shouldn't have been too surprising. Likely a number of people who are unable to trade pre-market were just watching their numbers move in the wrong direction for hours before they got the chance to bail, and that's what happened immediately once the option was available.

In my previous post I had identified $150/$148 as what I thought might be the "retail line of defense". Given the immediate open below, there was no solid support or consolidation around any level, though some hyper aggressive buying put the floor in at $74.22 at around 10:45. I'm honestly not sure what to make of that remarkable move. Likely it staunched the bleeding somewhat, repairing retail morale temporarily. Once that parabolic arc slammed into the LULD halt, price action reversed and resumed a steady march downward.

So, where does that leave things at this point? With respect to a squeeze, which I've been asked about quite a bit over the past few hours, my concern is the unlocking of so much float, given what I have to interpret as heavy panic selling. As I covered in the Market Mechanics post, locking of liquid float is paramount and today was certainly not a help in that regard. That being said, as I pointed out in that post, locking up the float gets cheaper at lower prices, so we shall see what happens over the next few days.

So what's next? I don't know, and no one else does either. Yes, that tired old answer I give in just about every post. The thing is, it's true. The events over the past couple of weeks have certainly reinforced that fact to me.

As with yesterday, I've been variously accused of being a short side hedge fund shill and a long side pumper and dumper, which again I take as indicating a healthy balance. One thing I promise is that I will call it like I see it, and admit to any mistakes I make.

Knowledge and Responsibility

Watching events unfold today had me thinking quite a bit. About the debates across this sub and others, the media, etc. As I've mentioned previously in comments, my purpose in creating this account was to try to help provide some information, education, and a space for healthy discussion for in particular all of the newer traders that were flocking to this particular trade. I've been very happy to read the numerous comments and messages from various people who have expressed that they feel they've been able to learn quite a bit in a very compressed timeframe due to the intensity of focus on the situation.

I have been told by some that rather than discuss this trade or the mechanics behind it at all, I should simply flat out tell people to stay away because of the risk, and speak of it no more. I have to admit, I was conflicted about this, because the risk is very high, as I've always stated.

That being said, I believe that participation in the market is one of the most important rights people should have, and equal participation in the market requires knowledge, transparency, and information. You are all free to make our own choices. Whatever others may say, You *will* make your own choices. At least we can try to help each other make those choices with the best information we have available.

Hah, I managed to keep this post at least a little shorter! As mentioned previously, I will probably have to keep it that way for a while due to real life responsibility. Thank you all in advance for the great discussion.

Man, rocket rides can sure be bumpy, but it's been the most interesting week in the market I've ever seen. Let's see what the day brings!

Good luck in the market!

GameStop®

Gamestop Big Picture: Evolution of a Trade?

February 4, 2021

u/jn_ku

Gamestop Big Picture: Evolution of a Trade

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

So.. I mentioned possibly doing a 'post mortem' on my GME trade, and apparently that was in high demand. That being said, I'll call it an 'evolution' instead, as we still don't yet know what will happen next.

Rather than going through a full narrative, I made a [crazy annotated chart] to chronicle some of the key points in my trade decisions.

Strangely enough, I think it might better convey how the week went from my perspective a little better than a full narrative. If you catch any inconsistencies between the chart, or my writing below, please point it out. It's very easy to ex post facto ascribe to yourself the benefit of 20/20 foresight and overlook mistakes you made at the time.

I'll walk through my thought process for newer traders. Keep in mind I'm trading my hobby account, not a self-directed IRA, so the stakes are a lot lower and tolerance for risk is much higher:

1. I would probably trace the initial origins of this trade for me back to November. I wasn't a genius like DFV finding GME at that point, but once the Pfizer and Moderna vaccine efficacy data came out, I decided to go rummaging through XRT (retail) and other unloved sectors for value that should rebound on the sector rotation to the 'reopening trade' given the nosebleed multiples in QQQ (the NASDAQ/big tech companies that dominated the market in 2020). Figured I'd mostly ride the SMH (semiconductor index) and a few other favorites while digging around. Looking at unloved sectors is the value/long term investor version of 'buy the dip' (typically the dip might last years, but I figured in this case the evolution would be much faster because it would be driven by progress against COVID).
2. ID'd GME for the short list because of an unusually regular pattern on the daily chart RSI. In hindsight I would probably attribute that to one of the hedge funds trying to stealthily unwind its short position veeeeery slowly, but GME being a dead corner of the market, it shows up in the data like a lighthouse beacon, in a channel upward just bouncing off RSI 70. Someone is gradually accumulating a big long position or covering a big short position. TJX's looks better, but valuation too high already (over-loved).
3. Deep dive DD, including DD from WSB just makes me think this is exactly what I've been looking for. Better buy in before it escapes completely.
4. Ok..it made some massive moves already, but with the bonus of the short interest anomaly this is too good.. and it comes with awesome memes--can't say no to the package deal. $38 (my first buy) is pretty good, but I'll write April $40 cash-secured puts to net me a better entry (or additional profit if they go unexercised). This is a common technique investors can use to get either a better entry than they otherwise could get, or some participation in the upside if the price runs away--I find it easier to do this than setting an aggressively low GTC limit buy and keeping my fingers crossed.
5. Digging deeper into the short squeeze thesis tells me it's practically mathematically guaranteed to go off any moment. I take off some cash-secured puts, liquidate a lot of the rest of my portfolio, etc. because if things get as crazy as I think they might, it's better to have almost nothing else in your portfolio to complicate matters. This is especially true as margin requirements start rising.

6. Volatility starts going crazy. You almost can't see it on the daily chart with the scaling of the 500+ peak, but if you focus on the 1/21 to 1/26 timeframe there were a few brutal Eiffel tower moves (parabolic up then down). All kinds of misinformation about what is going on starts flying. People start FOMOing into those moves only to despair out on the other side for a loss. Few if any seem to be willing to talk about the situation in a way that newer traders can understand. I start posting a bit here and there, just getting a feel for reddit.
7. On 1/25 I see a few heated discussions regarding whether the gap up over the weekend, then crash down that day in fact WAS the squeeze, and I try to jump in and correct the record a bit.. people are panicking out on the downside of that move because they're being told the squeeze is over. That motivates me to write my first article in the series. Don't finish it that evening, decide to finish it in the morning. It drops on this sub essentially as what we now know was the squeeze is achieving liftoff.
8. Looking at my posts from 1/25 to 1/29, I'm probably too tuned in to the hype, but tuning in to sentiment is important in sentiment-driven momentum trading. I do try to consistently try to warn new traders from FOMOing in, but that doesn't stop me from trying to help them understand what is going on.
9. One thing I've learned the hard way--don't carry a sentiment-driven momentum trading position through a weekend. That usually does not end well.
10. The weekend gives me time to step back and resume a more analytical approach and you may notice my writing style reflects that at that point. Looking back, I notice a lot of sloppiness and some outright errors in my realtime read of the situation. I try to point some of those out if I feel they might be material to others' trading decisions.
11. At this point I'm thinking the squeeze has been mostly squoze (but for a few 'technically it's still possible' type scenarios). I figure since so many of the regular readers/commentators on my posts are going to ride it, I'll keep a position on to ride it with them too. We'll see where we go from here!

I actually did really well on the trade overall. Could have done much better had I just stuck to my trades rather than reading and writing on Reddit, but the numerous comments I've seen where I or other commentators in this sub were able to provide good, level-headed feedback and advice helped people make better decisions make it worthwhile to me. I guess it just bothered me too much to see the vacuum of real information and willingness of people to push their trade on others. I didn't see that kind of behavior in WSB even just the week prior when I first joined.

Also, while it turned out very well, I have to be completely intellectually honest and admit that I could have lost it all too. This was a crazy volatile trade with more twists and turns and unexpected developments than I could have imagined, and that's even given that I actually believe it when I say that I don't know what will happen next. This is something anyone knowingly walking into this type of situation should realize and plan for.

Each person has a different tolerance for risk, though I will say that while I was and am willing to take significant risks with my hobby trading account, I try to never take entirely irrational risks. I also actively put at risk a relatively small percent of even my hobby trading capital (~20%). It may not seem like it, as you've seen my writing on a high volatility play, but my overall capital disposition is very conservative and low-risk/low-volatility in aggregate. It's because I know that most of it is safe that I can feel comfortable and controlled making very high risk plays.

I've seen people put it all on the line and totally clutch trade big momentum--I wish I could, but I know that's not me.

There are a few sayings that traders have as almost jokes, but with an undercurrent of dark humor in many cases:

1. **Rule #1: never lose money.** From Warren Buffett, value investing legend. I'm a little more flexible with this for myself, and amend it to "always have a plan that guarantees you can never lose more money than you intended to put at risk." If you are in the red on this trade, realized or unrealized, don't feel bad--I'm very confident that most people are in the same boat. Try to think of it as tuition for one of the most intense, and hopefully intellectually

productive seminars ever, held only once every decade or so.

2. **No one ever went bankrupt taking profit, or pigs get fat, hogs get slaughtered.** (counterpoint: tons of people have gone essentially bankrupt riding profits right back into the ground--particularly in climactic late bubble market action, like the dotcom bubble). To those of you feeling bad that you could have made more, be glad that you were in the green. It's something to celebrate. You traded a black swan event and came out ahead.
3. **Buy low, sell high.** MUCH harder to do consistently than it seems. Particularly if you initiate a trade from FOMO. For those of you who did this, try to remember what that was like, and think of ways you can manage those emotions in the future, or ensure you never put yourself in a similar position if you'd rather not have to. Either approach will be healthier for both you and your wallet in the long run.

Alright, this post is long enough as is. We'll see where the rocket takes us tomorrow.

Good luck in the market!

Gamestop Big Picture: The Bigger Picture

February 7, 2021

u/jn_ku

Gamestop Big Picture: The Bigger Picture

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

I'll cover many things that I think will be generally beneficial for newer traders and investors first, but if you're just looking for my current observations on GME, write about it and the end, so feel free to skip the wall of text in the middle if that's what you're here for :).

One thing I would suggest for newer traders, particularly following the Robin Hood fiasco, is to transition to a more powerful broker/platform. As I've mentioned a few times, I use TD Ameritrade's thinkorswim platform (see very recent review here). They don't pay me to promote it or anything, other than that I can say that my portfolio performance has been greatly enhanced by the capabilities the thinkorswim platform provides.

I've gotten many questions and comments requesting guidance on educational materials. I haven't responded because I am honestly not the best person to ask about that. I will say that the resources listed in this sub (to the right of the list of posts) look to be fairly comprehensive and excellent in quality.

Awareness, Ideas, Thesis, Due Diligence

Most common question I got since my last post about my process for identifying trading and investing opportunities.

At a high level, it all starts with awareness and various ideas about how the world around us is likely to change, and what the market currently anticipates (you will commonly hear phrases like 'X is already priced in', or 'the market is already discounting the fact that', etc.).

Regarding GME, the idea I had was that some struggling retail and other businesses, which had been left for dead by the market, would actually rebound fairly quickly, and perhaps benefit from pent-up demand as the vaccines rolled out.

Ok, that makes sense, but how, in fact, do you take your awareness of the world, take some of those ideas, and actually do something with them?

I tend to start with running a screen (screen as in a sieve, not screen as in what you're staring at right now) in thinkorswim. Other platforms have similar tools. tradingview.com is also excellent for a web-based tool. These allow you to filter stocks by various types of criteria.

As an example, I might start by filtering for:

- Stocks in the retail sector
- Market cap >65mio, <3bn (I find that to be a good range for minimally stable micro cap to smaller mid-cap that is likely insufficiently covered by analysts, and therefore more likely to be substantially mis-rated by the broader market)
- PE < 7 (nothing magic about 7, that's just what I decided to use as a relatively but not ridiculously low PE multiple)
- Fixed Charge Coverage Ratio >1 (i.e. they can cover fixed costs out of earnings, so imminent bankruptcy risk is likely lower). Note that if you're looking ultra deep value you might actually specifically want to find companies at

risk of bankruptcy at first glance, to dig through in detail to find ones that look more likely to turn themselves around from the brink for some reason.

Etc. It takes longer to think about what kinds of filters to use than anything else. Once I've set those criteria up, you just run the scan (click a button in thinkorswim) and out pops a list of stocks that match the criteria in less than second. On 2/6/2021 running the above scan gives me 9 names (of which, funny enough, Express--apparently another meme stock short squeeze play based on just looking at its chart for 2 seconds--is one). For those who are curious, the list I got was: ANF (Abercombie & Fitch), GES (Guess Inc), PLCE (children's Place), DBI (Designer Brands inc), GCO (Genesco), CAL (Caleres Inc), CHS (Chico's FAS INC), CATO (Cato Corp), EXPR (Express Inc)

At that point I might quickly check the charts to see what the daily action has been like for the past year, looking for patterns that might be interesting. I'll pick PLCE for this example, since it is breaking out strongly, and looks to be about to smash through resistance of the price on the eve of the pandemic crash. It also apparently blew out its last earnings estimates, which doesn't hurt.

At this point I might proceed to check their SEC filings (lots of insider buying a few days ago, Blackrock increasing stake, recently new CFO, etc.), whale wisdom, company news etc. I found an interesting article from earlier last year that seems particularly positive--they have apparently been a leader in the retail sector in developing their digital omnichannel, with a large and foresighted investment made over 3 years ago, which made them particularly well-positioned to deal with the challenges of the pandemic (at least as far as bricks and mortar retail goes) and indicates very good things about the strategic vision of their management team and board.

It was a ridiculous bargain in November, but may still have room to run even today. Not an endorsement or telling you to go buy some of the stock, but that's my quick read.

With the above 30 minutes of research done, I might make the decision that it warrants further investigation.

As you dig deeper, you start to build a working thesis or theory on how the company is going to deliver performance, or get enough attention from the investment community to warrant a re-rating outsized gains in share price (the bull case). Then you try to find all the reasons and evidence as to why that isn't going to happen (the bear case).

From that point on you iterate as many times as seems prudent to you, depending on how much of your portfolio you intend to invest. Since we're all here already, summarizing and posting your due diligence to this sub seems like a no-brainer. It is very likely you'll get good feedback to help you refine your thesis even further, or perhaps stop you from making what might be a big mistake.

Even if I decide not to make an investment at the moment, at the very least I might add that stock to a watch list, etc. I can actually set thinkorswim to give me an alert if any new companies pop up that match those criteria from now on. This type of feature is pretty common with screening tools. This might happen if, for example, a struggling retailer gets its cash flow in order and crosses from <1 FCCR to >1 FCCR.

A process very much like the above is how I found GME to begin with, and subsequently found my way to Reddit since there was so much GME-related traffic.

The Market is so much bigger than GME, so I highly encourage you to use the knowledge, tools, and techniques you've learned about or been exposed to to explore that bigger picture.

You, The Market, The Trade

If you've found something that looks interesting enough to warrant actually investing, it's worth spending some time to further think about precisely how you think you should do so before you just hit the buy button.

If your thesis and time horizon are longer-dated, then stocks are likely your best bet.

If instead you have a very specific time window in which you're interested, or have reason to believe the stock will move by a certain date, then options might be much more capital-efficient with a higher return (though a much higher risk of greater or total losses as well).

There are many ways to express your ideas or bet on your thesis. In fact, your thesis about a particular company might lead to trades on an entirely different company. If your due diligence on a key industrial company that primarily supplies parts to a certain car company shows major investment in technology and production efficiency, that might also bode well for their customer, and thus warrant an investment there as well or instead. My DD on oil storage capacity getting full back in April led to me taking some speculative positions in oil tanker stocks, as another example.

You may also modify the way you position your trade based on market conditions. Jon Najarian (a CNBC regular who focuses on options trading) recently described how he is transitioning his portfolio using a stock replacement strategy. This means using various options strategies to try to mimic the performance of stocks, but without holding stocks directly. The reason for this is that he is increasingly concerned that we may have a large market correction in the near term, and would like to have a defined limit to potential losses (a feature of many options strategies). I don't know if he's correct, but his moves make sense as a way to address his concerns.

Another thing I've referenced a few times in my post is writing cash-covered puts to essentially bet against the price falling vs betting that the price is going to rise. This comes with the added wrinkle that 'losing' (i.e. the stock price in fact falls below the strike price of the put) comes with the added feature that you end up owning stock. For this reason I commonly use this as a strategy on high-confidence stocks as a way to gain some revenue if the price goes higher, and effectively buy the dip if it goes down first.

How you express your thesis in terms of the specific trades you make can greatly impact the likelihood and magnitude of your returns, and the profile of your risk. Buying the stock you like, while straightforward and with a very intuitive risk/reward profile, may not be the best way forward.

That being said, it is critical that you do understand the trade before you execute, so I would highly recommend practicing via paper/simulated trading--which, by the way, is a built-in feature of thinkorswim--before you execute a complex multi-leg option play. Ok, I'll stop shilling for the rest of this post at least :).

Back to GME

On Thursday and Friday what I believe we saw was despair-driven selling compounded by the tug of war between shorts that entered at $150+, and shorts still piling into the trade.

Overall short-side sentiment is more cautious at this point than at the highs despite supposed sentiment among short-side players that GME is a $10 ($20 at best) stock. This is reflected in Ortex data showing utilization dropping below 100% for the first time in months (i.e. shorts are no longer borrowing every single share they can get their hands on), and short interest stabilizing over the past few days. As of Thursday utilization was 69.3%, and free float on loan was at 44.1%. Data for Friday should become available just before Monday market open.

The reason for the above, I believe, is that while shorts seem to believe current prices are still a good entry point, they need to be concerned about getting blown up if a short that entered at the squeeze highs decides to cover and lock in profits. The removal of restrictions on GME by Robin Hood adds another element of risk.

The lower the price, the likelier that deeply profitable shorts cover, spiking price while doing so at the expense of the newest shorts, and the easier it is for retail sentiment to move price, so we're in a sort of very fragile equilibrium until the larger shorts that entered at the higher price points have covered.

I'm not sure how to estimate when this would be, other than to say that the lower the price goes, and the more days that pass, the lower the incremental profit potential and higher accumulated interest cost for the short position holders, so I don't expect them to hold those squeeze high short positions for very long. It is possible that the spike on Friday was a push to cover a fair bit of those positions before the weekend. I would also expect that they will move to cover if somehow momentum seems to turn to the long side, which would accentuate and accelerate the the inflection of momentum greatly.

I'm not sure what I'm going to do with my last 130 shares of GME at this point. It's possible I hold them for a while to watch how things play out for the next few weeks, but I wanted to give everyone reading my post fair warning that going forward I may make an intra-day decision to sell part of all of the position. I will, however, keep open the cash-secured put position, as an automatic entry back into GME at an effective $30 price point if the price is <$40 by April. I may open new positions based on developments as well.

On a different note, I took some time to once again review my thoughts and decisions over the course of the trade. While doing so I was reading back through my posts from 12 days ago (only 12!? feels like it's been at least 3 weeks...) reminding me that I had previously begun building a position in AMC as a value play (via a couple of march $3 strike calls) on rumors of imminent rescue/turnaround financing. I was originally planning to build a better position once I had time to study the potential trade structure better, but instead unloaded them at ~1000% profit for a net ~$2000 gain to concentrate further on GME when I was re-positioning my portfolio, not even realizing at the time that AMC was another stock with a legitimate short squeeze momentum thesis (LOL, I really should pay more attention to social media). I just glossed over the profit as about what I was expecting off the bounce from market rerating the stock from "bankruptcy is imminent" to "holy cr*p, the studios need AMC for their movies to make money!". I should have realized when I was getting so many messages from people asking me to do for AMC what I was writing for GME. I didn't even do any DD on the short interest there(!) and ignorantly advised people that they should only pay attention to the value thesis as I channeled my inner Charlie Munger.

I guess it just goes to show that you only have time to look so far into so many things at once. As I've mentioned previously, trading is a hobby of mine, and something I do in my spare time. I'm not sure if I would have been able to coherently manage momentum trading two stocks that were basically printing money in overdrive at the same time to take full advantage of either trade, especially while writing daily posts. Try to keep that in mind if you choose to pay attention to what I write :).

Also, apologies if you've messaged me and haven't gotten a response. I will sometimes try to respond if I have time (and a good answer), but if you have a good question it would probably be better to either post as a comment or your own post so that you can get a broader range of responses, and also so that the responses can be seen by (and therefore benefit) everyone.

Hope you're having a good weekend, and good luck in the market on Monday!

Gamestop Big Picture: Final Thoughts

February 14, 2021

u/jn_ku

GameStop Big Picture: Final Thoughts

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, I hold a net long position in GME, but my cost basis is very low, and I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

For my last r/investing post on GameStop I'll first take a step back to look at GME from a broader perspective before a brief discussion of the past week.

The Biggest Picture?

A comment on one of my prior posts asked if I would ever post 'the biggest picture', so since this is my last post, I guess I had to give it a try . I know that some of you have ISPs that apparently block teknik.io, so perhaps someone else would be kind enough to put it somewhere else and share a link in the comments.

The image is a mash-up of an intra-day chart (ex. pre-market and after-hours) spanning from January 8 through Friday Feb 12, along with some short interest data from FINRA and Ortex, as well as a chart of WSB membership (special thanks to subreddidstats.com for the data behind that one). The short interest data may actually be of active use for those of you still in the trade or considering jumping in, so I will note that the labeled points fall on the correct days for the data (not necessarily when the data were made available) according to the labeled timeline.

A few thoughts to go along with the image:

1. The now-(in)famous DFV began publicly posting about his due diligence and investments in GME back in August 2019. I think we all wish we had seen it and/or grasped the significance sooner. Takeaway: Reddit and other sites have these types of hidden gems scattered throughout the much higher volume of noise. Learning to sift through the noise and identify good information quickly is an incredibly valuable skill to develop. Note that popularity is not a great measure, as DFV was mercilessly mocked (at least mostly in good humor) for the vast majority of the time he was posting about GME, in spite of some of his work being of shockingly good quality.
2. Throughout 2020 there were many other high-quality signals that GME might be worth a closer look. I've highlighted a few, but there were many more. Even the unfortunately titled CNBC piece highlights the console supercycle and how that typically helps GameStop, and Jon Najarian called out the fact that there was some pretty remarkable action in Feb calls back in December (someone obviously knew not only what was going to happen, but almost exactly when it would happen... almost as if they knew because they were going to help make it happen?). These things are easy to highlight in hindsight, and again I'm sure we all wish we'd paid more attention, but to be fair they were also by no means impossible to catch and interpret at the time. I try to make it a habit to spend a bit of time after each trade trying to consider how I might handle this aspect of investing research better/more effectively in the future. Note that while the squeeze ended up being the dominant play with respect to potential returns, most of the signals were high-quality fundamental value investing signals.
3. The likely potential returns on the squeeze play decayed exponentially relative to how widespread the hype got. This is a point people often make anecdotally, so I tried to include some data to illustrate the point, using WSB subscriber numbers as a convenient and surprisingly effective proxy for the level of hype. Once the hype train really got rolling, you can see the sharp inflection in WSB subscriber numbers, which occurred just about precisely on the day the squeeze went critical. Max hype (the steepest rate of climb) was probably about exactly the point

where Jim Cramer emphatically called for retail investors to take the win and sell the high (the timing of which, in retrospect, was almost uncanny). Takeaway: people aren't just trying to be witty/a buzzkill when they say that you should sell when everyone is hyped. At least in momentum trades or market dislocation trades (and GME was a combo), it is seriously treated by many seasoned and battle-scarred veterans as perhaps the most critical indicator of when to get out.

4. Other than qualitative and subjective indicators like hype, there were also very high quality data indicators, such as Ortex SI estimates, that, with the correct interpretation, would also have helped to make reasonably optimal decisions. Note that in the case of Short Interest, the publicly available free data, which would have told you the same thing, was only available after it was far too late to be useful. Premium data sources can easily justify their expense when used properly. If I had not had access to the Ortex data, and left more of my position on for even 1 or 2 days longer as a result, the cost of that could easily have been equivalent to more than 100 years of the current Ortex subscription cost. Note however that mere access to the data is not the same as being able to use it effectively--you have to have both to see the return in value. S3/shortsight were apparently tweeting mostly the same data for free for marketing during the squeeze, and it did most people no good because they had no idea of how to interpret it (or whether they should trust it). Takeaway: whether premium or free, accurate, timely data that you can trust and understand how to interpret is beyond critical in a fast-moving market environment. Consider where you get the information on which you base your investments and trades, and where there is room for improving both the quality and timeliness of your sources, and also your ability to understand and act upon them. Also seriously consider whether you are trading a large enough pool of capital to make it worth paying for access to premium information.
5. The humorously labeled 'Vlad's Valley' on the image is a reminder that no one, and I mean NO ONE can predict what will happen next. I took some flack for writing this on almost every one of my posts, but I doubt any of us would have expected black swans to be nested inside each other like matryoshka dolls as we saw during the last few weeks of the GME trade.
6. Seriously, no one knows what happens next. During the period I labeled as Peak "I told you so", the people who doubted that the squeeze thesis was ever valid to begin with felt vindicated and emboldened to publicly throw out pronouncements of how the price would immediately crash sub $10 and the company would go bankrupt... and while the price certainly did crash from the squeeze highs, it did so.. to >200% its pre-squeeze hype levels, with serious support at $40, and running battles between $50 and $60. And despite talking a big game on CNBC, the GME bears haven't yet put their money where their mouth is, as short interest has been declining (though that looks like it may have changed in the last couple of days--I'll discuss later).
7. The short interest in this stock is still very high. That being said, the situation is much more volatile and dangerous, and less certain than it was pre-squeeze, for obvious reasons.
8. Fundamentals always matter in the end. At this point, as I mentioned in my prior post, the situation with GME is in an unstable equilibrium between short covering (both profit-taking and capitulation) and longs selling (also either capitulation or greatly diminished profit-taking). The best hope for a positive catalyst to the upside is good fundamental news, which will hopefully be coming in the form of an improved strategic vision for the company and continued growth and performance of their digital omnichannel, as well as good earnings results from the console supercycle.

The Past Week in GME

The sharp, parabolic rallies and dropoffs that have been occurring over the past week look to me like a continuation of the dynamic I mentioned again above--primarily short covering vs longs selling, though the past two days have seen a very slight increase in short interest, which would have contributed to the resistance to upside price movement.

I believe this uptick in short interest to be a combination of new shorts entering at these levels, and also older shorts, still underwater, trying to keep price contained. The sharper moves 2 weeks ago, upon further inspection, look like imbalances between the residual margin-called short position liquidations being tested by long whales' HFT algos on top of the possible covering by the shorts that entered near the squeeze highs as I mentioned in my last post. Those sharp moves probably made older surviving shorts nervous, as the lower liquidity environment could easily allow the prices to spike high enough to put them back in the danger zone, so they will now be looking to aggressively cap any moves that look like they have any kind of potential to catalyze momentum back to the squeeze highs. Previously those moves were so powerful that, to a GME bear, trying to cap them would have just increased potential losses to little effect, but the moves this past week probably looked like a more acceptable risk to take.

So What's Next?

No one knows, of course, but I will state that I hope that next week, or at least some time in the near future, we will get to hear some good news about GameStop's new strategy. Expectations are high, but you couldn't have paid for the kind of public attention set-up they now have to make some big, high-impact announcements.

Under the hype around the squeeze, the positive fundamental developments have continued, such as a slew of promising executive hires. For those doubting the Chewy Team's commitment to active involvement with GME, these include Kelli Durkin as VP of Customer Care, previously Chewy's VP of Customer Service. I'll note that a valid criticism of GameStop has been its treatment of customers. Chewy has had one of the highest net promoter scores you can find in any large-scale retail operation, so hopefully she can bring some of that magic to GameStop.

With Reggie Fils-Aimé, the 3 Chewy board members, two Hestia members, and presumable RC ally Carrie Teffner (she came from PetSmart, which bought Chewy from RC), and the other members with strong applicable backgrounds on the proposed slate of board members to be elected at the next annual meeting, it looks like the current board and company are continuing to lean in to the need to pivot under new leadership. The potential for a much brighter future is certainly there.

Thank you everyone for putting up with the long string of very long posts. Hope you have a good rest of the weekend, and good luck in the Market on Tuesday (or Monday for those non-US markets)!

Gamestop MOASS: No Tinfoil Hat Required

March 13, 2021
u/jn_ku

Gamestop MOASS: No Tinfoil Hat Required

Disclaimer: I am not a financial advisor. This entire post represents my personal views and opinions, and should not be taken as financial advice (or advice of any kind whatsoever). I encourage you to do your own research, take anything I write with a grain of salt, and hold me accountable for any mistakes you may catch. Also, full disclosure, at the time of this writing I do not hold stock or options in GME, and may or may not choose to initiate a position in the future. In any case, I'm using money I can absolutely lose. My capital at risk and tolerance for risk generally is likely substantially different than yours.

With the recent resurgence in GME, there have been a lot of questions about what is going on, why, how can it still be the case with SI being below 100% of float, etc.

The bottom line question: is there still a potential MOASS on the table? The answer is yes, there are a few ways it could happen. If you want to skip the wall of text, do a text search for the TL;DR; or just scroll to the last section.

I have actually been getting these questions since the last few of my [r/investing] GME posts. At this point I think we have covered enough of the relevant background topics for this post to make sense to at least those of you who have been following the discussions.

For those of you who have not, or who find parts of this post confusing, I've linked most of the discussions explaining the relevant concepts in more detail in the index post on my profile.

The Set-Up

As mentioned above there are a number of ways that action in GME could trigger the Mother of All Short Squeezes (MOASS).

That being said, there is a particular convergence of circumstances in the near future that would take it to another level entirely, so that is the scenario I will cover in this post.

The first point is the answer to the first question you should be asking:

Why Gamestop?

After all, at this point, there are other stocks with higher Short Interest relative to shares outstanding, right?

The answer is that Gamestop's short interest is structural at this point. By that I mean that more shares are held by institutional and larger long-term holders than have been issued. See this nasdaq page showing institutional holdings at >100%. Note that doesn't even begin to count the shares held by 'diamond handed' retail, and even more critically, does not include the 9mio shares held by RC ventures (Ryan Cohen).

That means there are more shares effectively taken out of active circulation than actually exist. The free float is negative.

Still, while this is strange, there is nothing impermissible or inherently illegal about the situation. Short selling inherently increases the effective number of shares in circulation, after all.

In addition to the above, Gamestop's market cap, being in the low single digit billions *(**edit**: this is in reference to pre-squeeze valuation, as that would have been when the decisions regarding a campaign were being made--thanks* *to* u/mongerdy *for catching this)*, is in the perfect zone for being large enough to make the juice worth the squeeze, and a squeeze having enough impact on even the largest accounts that it can force covering, but simultaneously low enough that a few tactical whales can actually execute a squeeze campaign without needing access to Jay Powell's infinite money printer as long as the float remains locked up in diamond hands.

Market Alchemy: Creating Something From Nothing

If long-term holders hold more shares than exist, that must mean that some shares are 'fake' or counterfeit, right? S3 calls some shares 'synthetic', which seems to have been unfortunate, as many people have read too much into their choice of word. After all, isn't making shares out of thin air illegal?

No, it is a natural consequence of short selling and the fungibility of shares. I.e., any share is for all intents and purposes identical to any other share. They don't come with serial numbers or any uniquely identifiable characteristics of any kind.

When you buy a share on the exchange, does it matter if it was sold to you by a long holder or a short seller? No, from your perspective there is no difference--and there shouldn't be. If you happened to purchase your shares from a short seller, there is no trail or digital string tying your shares back to that short seller in any way meaningful to their market value. The fact that they were sold short has nothing to do with you. The shares in your brokerage account are as real as anyone else's. When the short seller eventually needs to cover their short position, they don't need to track you down and re-purchase the same shares they sold you, they just go to the exchange and buy the shares from anyone.

Because of the above, you can even end up in bizarre scenarios like the following:

- You buy shares (because you just like the stock)
- Your broker loans the shares to a short seller's broker
- The short seller submits a short sell order to the exchange through their broker.
- Because you like the stock so much, you see the offer and buy.
- And because you bought more, that just made even more shares available for your broker to lend.
- So of course the short seller has their broker borrow those newly available shares so they can short sell again.
- And because you really, seriously like the stock, you buy again.
- Etc.

Unbeknownst to you, those 300 shares in your account were conceptually the same 50 shares that made 5 round trips as you DCA'd into your position, but that doesn't matter--those 300 shares are just as good as anyone else's. In fact it's impossible to distinguish between any of them.

And since you're diamond handing, the short seller will just have to buy their shares from someone else when they eventually need to cover. So far so good--strange, but everything working as designed. This is how we ended up with 140% short interest at one point.

Forced Exposure

Ok, so the above is weird, but isn't the short interest still too low to matter?

That may be correct at the moment, but the structural short interest means that, with a negligible exception of retail 'paper hands', every substantial purchase of shares increases the total short interest in the stock. There simply isn't enough (or even any, really) liquid free float of long shares to go around.

Directly or indirectly, at this point, any substantial volume of newly purchased shares will come from legal naked short selling by market makers. Long-side whales can therefore jack short interest exposure up to whatever aggregate level they feel they need to achieve just by buying shares.

Concentration: By the Power of Cohen

Just like concentration improves efficacy of laser beams and high-energy particle flows (like lightning converging on the tip of a magical sword), short squeezes have maximum impact when the short interest is highly concentrated in fewer portfolios.

Normally that wouldn't be something you can in any way influence or predict, but not so in the case of GME. I believe that everyone from WSBettors to institutional investors desperately want to see Ryan Cohen elected to the board in a decisive vote of confidence--particularly after the OG GME board members so stubbornly tried to hang on to power during the run-up to the 2020 annual meeting. This means that an unusually high percent of shareholders will likely recall their shares in order to be able to participate in the vote.

It is even possible (though probably still unlikely), that the RC slate could be elected by shareholders representing >100% of the shares outstanding, which would be epic LOL.

But how can that happen? let's break it down step by step:

1. GME share owners recall loaned shares to be able to vote
2. Short sellers are forced to go to the exchange and buy shares to cover to return the loaned shares
3. With the loaned shares returned, GME shareholders can now successfully register and vote
4. Hopefully shareholders get a hype speech from Reggie Fils-Aimee after election of the slate as a bonus.

But wait.. where do the shares come from in point 2, and wouldn't that trigger the MOASS since more than 100% of the float is being recalled?

Not necessarily, because remember, market makers can legally naked short stock as part of fulfilling their obligations and responsibilities as bona fide market makers. In fact, they have no choice but to do so in this case.

So, as short sellers go to the exchange to buy shares to cover, the market makers will be naked short selling shares to them, absent any other sellers of shares (since substantially everyone is either covering or holding to vote). That is how greater than 100% short interest became a thing.

In effect, this means that short interest will inevitably be concentrated in the accounts of the market makers around the next share registration deadline and vote for the next GME board of directors at the annual meeting.

Note that this has happened before, and that this effect is largely responsible for the insane spike in GME cost to borrow around mid 2020, as the election was widely regarded as highly consequential to the future of the company thanks to the Hestia activists and the GME board's push-back, and almost everyone wanted to vote (and needed to recall their shares) as a result.

So, because everyone wants to vote to elect RC's slate, the market makers will be forced to hold practically all the short interest. Any residual short interest held by non-market makers will be pressured to cover by the extreme spike in cost to borrow (which peaked at a ridiculous 180% in May 2020). MMs only survived this ordeal in 2020 relatively unscathed because their short interest positions are naked rather than borrowed (and thus they have no need to pay borrow fees to a lender).

The Rules Are Changing

One of the challenges conducting a short squeeze has always been figuring out exactly when peak price matters to a short interest holding account's brokers and prime broker.

In addition to MM's ability to naked short sell, a broker or prime broker's willing to accept temporary risk with a highly credible customer is one of the most powerful effects blunting or preventing a short squeeze campaign's success.

That tool may be soon taken away, however, due to the recently proposed NSCC rule changes.

In essence, the NSCC is requesting a change in the rules to allow them to require supplemental collateral based on intra-day risk determinations. Brokers will no longer be able/willing to take on these transient spikes in risk because DTCC will in effect have the ability to issue a margin/collateral call as soon as price spikes on intra-day action, which would be Bad News(tm).

To avoid the above, the brokers will have to be much more proactive in margin calling and probably liquidating at-risk customer accounts to avoid putting their own business at risk.

Part of me believes that this is being driven by DTCC being pissed about being blamed for the RH fiasco as part of what is in my personal opinion a fundamentally misleading argument by Vlad to deflect blame away from his company.

Whatever the rationale, however, the effect is that a squeeze campaigner will only need to spike price as high as possible at any point in the day, not necessarily into the last few minutes before the end of regular trading where MMs close ranks to take a stand like the Spartans at Thermopylae. They are now fighting on the entirely wide-open battlefield of the entire trading day (or weeks--however long the float is locked for shareholder voting at the annual meeting).

Whenever the attacker has wider latitude for freedom of action vs being constrained to have to attack logical 'choke points', the situation is tactically in favor of the attackers. Now that they can target any point during the day rather than just the close, the situation is much more tactically favorable to the long whales.

All that is left at that point is for the long whales to choose a time to Gronk spike the price, and the MOASS will be epic (or, probably more likely, trading will be halted by the SEC and who knows what happens next lol).

Short of a MOASS, the structural short interest could also just result in tactical whales playing yo-yo with GME as an infinite money glitch in the market as long as it's allowed to persist. My guess is that at some point shares would be issued to allow covering (to the great benefit of the company's balance sheet and actual health as a business) or new regulations will put a spanner in the works, so this strategy likely has limited shelf life.

TL;DR; the cliff notes version of the above wall of text:

Non-Conspiracy Theory GME MOASS Outline

For maximum gains in a short squeeze campaign, you need a few ingredients:

1. High short interest--ideally structurally guaranteed.
2. Corollary to the above, a way to forcibly increase short interest if possible
3. A way to concentrate short interest in as few accounts as possible
4. Maximum latitude and predictability in timing to trigger margin calls
5. Enough capital to get it done.

In GME we have:

1. Structurally guaranteed short interest
2. Due to 1 above, every single share purchased and held increases aggregate short interest
3. At share registration time, most lenders will effectively transfer their short interest to market makers when called to return shares so everyone can vote Ryan Cohen & Chew Gang in as Masters of the GME universe.
4. The new NSCC rule alters the tactical landscape in important ways favorable to the long side, and is possibly going to be in effect in time for the share recall.
5. The payout from margin-calling the biggest prey of them all in the market--the market makers themselves, is going to be an epic temptation for long whales. The only question is will they do it. If they do, it will be absolute mayhem, and will go down in the history books as one of those legendary trades talked about for generations. It may also land people in jail or at least back in front of congress to testify, but that doesn't seem to scare big wall street players very much as long as the returns are large enough.