ZOMBIE STOCKS SPIKING ARE A RESULT OF SHFs COVERING

A Story for Apes

by

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Zombie Stocks Spiking Are a Result of SHFs Covering | [Time to Clear Up the Confusion]

DD

Ok, I continue to see misinformation being spread in this sub that shorts are benefiting from these zombie stocks. It's not true, and if it continues, can intentionally/unintentionally be spreading FUD to Apes, making them think SHFs are somehow in control of this and able to continue dragging it all out.

Let me be clear that this is not the case.

I've received numerous requests to cross-post DD I've been linking in my comments on this matter. Here's an excellent DD on the zombie stocks. This DD is not mine, all credit goes to u/Tripartist1 (https://www.reddit.com/r/amcstock/comments/phm879/lets_clear_some_thing_up_about_zombie_stocks/?utm_source=share&utm_medium=ios_app&utm_name=iossmf)

DD pasted below (edited for compatibility for r/Superstonk):

I have seen a lot of contradicting information today on these stocks and I'd like to spark some real discussion and critical thinking on the matter. I firmly believe there is FUD and narrative pushing going on because we've uncovered some REAL skeletons this time. "they're pumping to increase their books bc they're long these stocks HERR DERRR". Yeah. I call shill.

So, here is what we know:

- So called "Zombie Stocks" have run ups at or prior to periods of high buying pressure on GME
- "Zombie Stocks" are not publicly traded (but this doesn't mean YOU can't buy them. More on this later)
- SHF will short companies they believe to be dying, into oblivion, likely creating many times the float worth of synthetics with complicit MMs
- The lower the share price of a shorted stock, the more money they make on the short
- Taxes do not need to be paid until a gain is realized

Let's start piecing this together with a short timeline scenario...

Blockbuster denies a purchase of Netflix, starts losing market share, streaming starts taking off, things look grim for it's business model. SHF see this as a prime opportunity to make some easy money, they short the company into the pit. The ultimate goal here is to drop the share price to under $1/share. Why? Well, take a look at the requirements for being listed on a public exchange (source):

Distribution Standards[9,10] Rule 102.01A-B	IPOs, Spin-offs, Carve-outs	Transfer or Quotation			All other listings
Shareholders[7]	400 round lot	400 round lot	2,200 total	500 total	400 round lot
Publicly Held Shares[6]	1.1 mm	1.1 mm	1.1 mm	1.1 mm	1.1 mm
Market Value of Publicly Held Shares[6]	$40 mm	$100 mm	$100 mm	$100 mm	$100 mm
Minimum Share Price	$4.00	$4.00	$4.00	$4.00	$4.00
Average Monthly Trading Volume (Shares)		100,000	100,000	1 mm	

NYSE Requirements

As you can see, there are quite a few requirements that need to be met to get listed, and the same goes for STAYING listed. From Investopedia:

> Listing requirements vary from one exchange to the next. For example, on the New York Stock Exchange (NYSE), if a security's price closed below $1.00 for 30 consecutive trading days, that exchange would initiate the delisting process. Furthermore, the major exchanges also impose requirements related to market capitalization, minimum shareholders' equity, and revenue outputs.

Cool. So if they can increase supply and distort a company enough to drop it under $1 for more than 30 days, it gets delisted. What's the point of getting it delisted? Well for one, there is a stigma around delisted stocks. They are much less likely to get investments from institutions, they can't be added to indexes, exposure to buying pressure is greatly reduced.

Are you seeing the benefits yet? Once a stock is delisted it GREATLY reduces risk in the short position. But we still don't have the full picture yet. So let's continue our timeline.

Blockbuster goes bankrupt, SHF succeed in getting them delisted, they hold massive short positions, potentially as much as $30 per share in profit. If they did to this company like we suspect in AMC/GME, then we are talking potentially 100s of billions of $$$, ON JUST BLOCKBUSTER ALONE. This is where taxes come into play. Since you don't pay taxes on unrealized gains, if you don't close your position on these dead stocks you never have to pay Uncle Sam. The question now becomes, how is this position useful/profitable if you never cash out?

Meet leverage. When buying on margin, **UNREALIZED GAINS CAN BE USED AS LEVERAGE** (Fidelity):

> If your portfolio is dominated by a large block of stock from one company, such as a current or former employer, you could be putting too many eggs in one basket. **With a margin account, however, you may be able to use those shares as collateral for a margin loan. You can then use the loan proceeds to diversify your portfolio without having to sell your original shares of stock. This strategy can be particularly helpful if you have a large unrealized capital gain and want to keep it that way.**

If you close your position, you are cutting your collateral for margin into fractions of what it could be by keeping these positions open. Why pay $50b in taxes on a $100b short position when you could use $700b on margin with that same position. Is it starting to make sense yet?

So, this is all bullshit, sure, but how does it tie into GME? That is the question everyone is asking. We know they LOVE trading on ungodly leverage ratios, 7:1 or even more, and we now know that these positions on Zombie Stocks are likely contributing to a YUGE percentage of their margin collateral...

So, what happens when one of their short positions becomes unmanageable, but they can't close that position without fucking themselves? Well, they start getting calls. Yep, *those* calls. And to satisfy those calls, liquidation has to take place. The runups we are seeing on Zombie Stocks are the CLOSING OF THOSE SHORT POSITIONS.

As we have all learned, to close a short position, you must buy the share back and return it to the lender. But wasn't the stock delisted and no longer publicly traded? How do you buy a stock which isn't publicly traded?

Welcome to the OTC Markets (Fidelity):

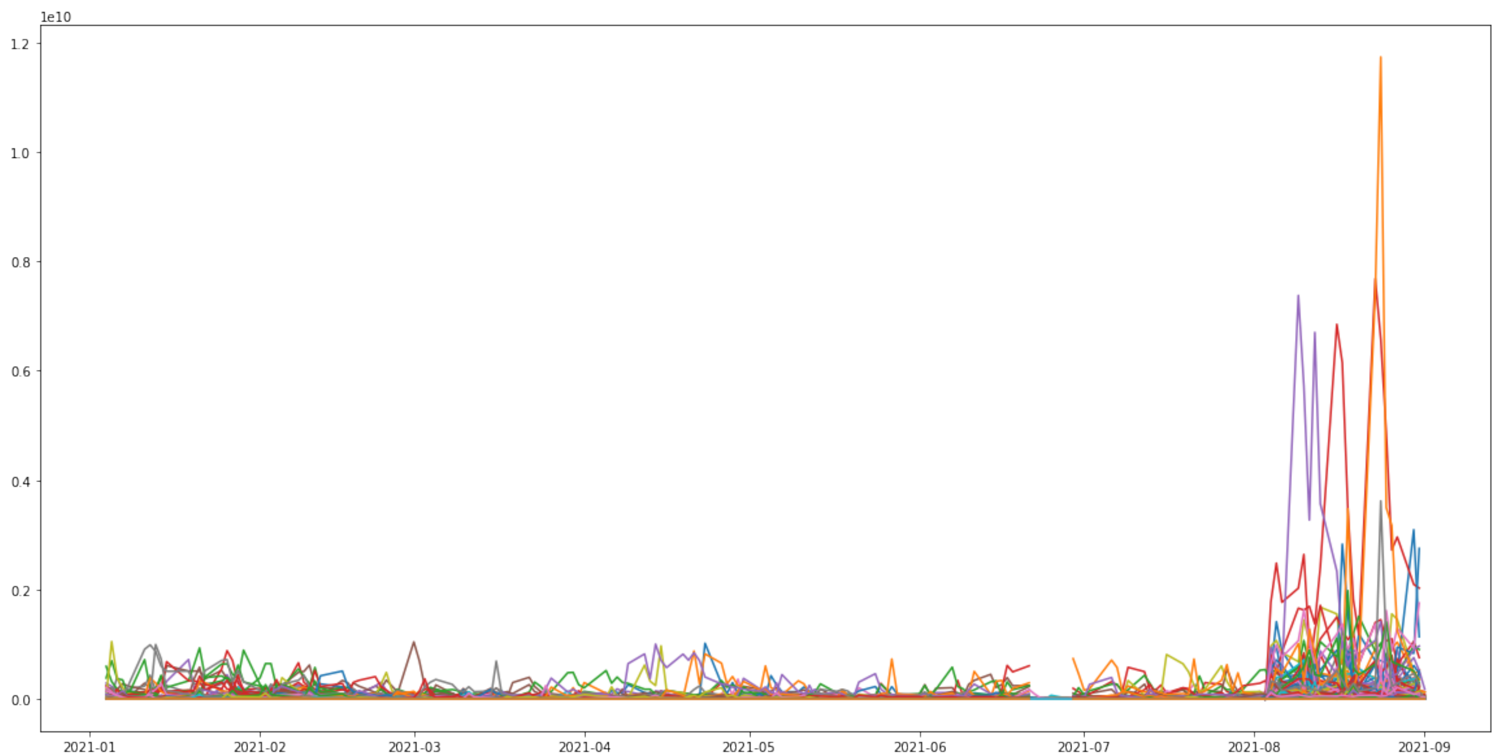
> Over-the-counter (OTC) refers to the process of how securities are traded via a broker-dealer network as opposed to

on a centralized exchange. Over-the-counter trading can involve equities, debt instruments, and derivatives, which are financial contracts that derive their value from an underlying asset such as a commodity.In some cases, securities might not meet the requirements to have a listing on a standard market exchange such as the New York Stock Exchange (NYSE). Instead, these securities can be traded over-the-counter.1However, over-the-counter trading can include equities that are listed on exchanges and stocks that are not listed. Stocks that are not listed on an exchange, and trade via OTC, are typically called over-the-counter equity securities, or OTC equities.2

You see, being delisted doesn't mean you can't trade the stock. It means you need to jump through a few hoops to do so. Most reputable brokers have some way to trade these securities, whether that means calling and talking to someone on the phone, or using their mobile app, or opting into "penny stocks". The important thing here is that **you can buy (and sell) these stocks.**

So SHF start buying from OTC markets to close these short positions on Zombie Stocks to sure up the books, and this causes a small run up of price due to the bid-ask spread in OTC markets being very wide usually. This means when we see runups in zombie stocks, **they are under financial stress.**

So now when you see this image, does it jack your tits (r/Superstonk)?



Zombie Stocks '21

When you realize they have done the same thing to Toys'R'us, RadioShack, Sears, etc... It all starts making sense.

Remember how Jim Cramer compared GME to Blockbuster?

Or how about Ryan Cohen tweeting about Blockbuster and Sears?

RC Sears Tweet

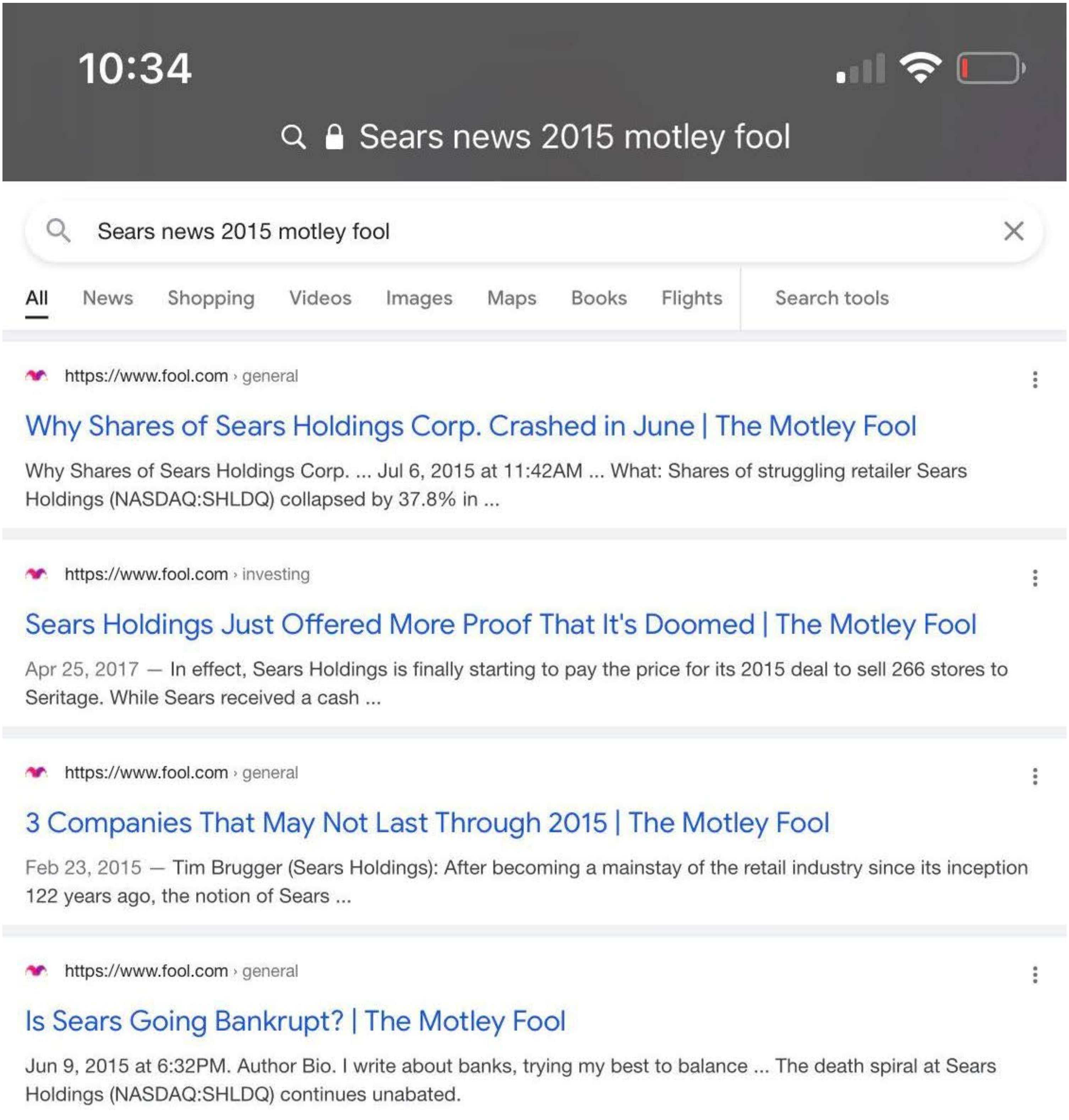
Apes are shedding light on the literal foundation of the SHF business model. And we've been getting hints the whole time...

Bonus: Who remembers the amendments to Rule 15c2-11? Changes to OTC markets to take effect this month? Limit buying of OTC stocks? Prevent brokers from pushing OTC quotes? Now, I'm not saying there's anything here, but it definitely FEELS like preventative measures.. You wouldn't want millions of Apes piling into a stock at $0.005 per share when you have billions of shorts there now would you?

[End]

As u/Tripartist1 notes, "zombie stocks running up could be an early sign of MOASS. Margin calls force them to close these positions to satisfy the call, which causes a price runup on the OTC markets. When we start seeing a lot of action here (which historically happens around price spikes and ATHs in GME) its a good indication that dominoes are starting to fall."

Also, SHFs have been shorting all those stocks for a long time, they played the same game with Sears just like GME: MSM propaganda was rampant on Sears back then...



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For someone to be saying they're long on Sears instead of short, it's like saying that they're long on GME. Yeah, like by a little, but still tons and tons of shorts that they never intended to cover.

It's the same as saying SHFs profit when GME goes up, when the exact inverse is happening. They've got mostly shorts; it's hurting their collateral.

Their intention was for the zombie stock to go to $0 and finally die after bankruptcy court liquidated all their assets for creditors. That way, it's all free money & they pay no tax on profits. As such, these zombie stock spikes hurt their balance sheets.

The price of Sears is about 40 cents right now.

Hypothetical simplistic model:

Let's say a company shorted Sears using synthetics and 10 million shares, helped get it delisted from $70 to few pennies. They don't want to cover. They got free money. But if they have to now cover 10 million shares and it squeezes from $.1 to $.4 they lose 4 million or so. Small SHFs with only maybe 100 million in cash reserves are screwed. Now take Sears and multiply it by hundreds of zombie stocks doing the same thing. This is hurting SHFs heavily.

Now, some have been asking why zombie stocks spiked up in January. I believe I may have an answer.

When GME had its first gamma run spike in January, that caused a giant wave of spikes in other stocks. I was thinking it could be retail hype, but it's more likely that tiny SHFs got margin called and were forced to cover some shorts in the zombie companies. That GME gamma run in January hurt a lot of SHFs (e.g. Melvin Capital), and since many of them had shorts in those bankrupt companies at the brink of liquidation, and a number likely got margin called, they were forced to cover at least some of their zombie stocks. And why not go for those back in January instead of covering GME, as there was much less attention on zombie stocks anyways.

What caused the recent covering?

A number of things. [u/jaloosk] says,

"They're spiking because of forced compliance for a rule change from last year is coming into effect. Many of these HF's with open positions have short positions open, and they have to buy to close, which raises the price.

Until now, they could leave the positions open forever, for untaxed, unrealized gains, using those tax-free gains for more margin leverage. Now they have to close them, realize the gains and (hopefully) pay the taxes."

https://www.securitieslawyer101.com/2021/rule-15c2-11-compliance-deadline-draws-near/

https://www.reddit.com/r/Superstonk/comments/phc10s/posted_for_visibility_ive_tried_3_times_to_award/hbhfmbg/?utm_source=share&utm_medium=ios_app&utm_name=iossmf&context=3

[u/Criand] points out,

"This could also be the result of UMR phase 5 coming into play as of September 1 which tossed in Initial Margin (IM) requirements for **OTC derivatives**. For entities with >=$8B AANA. Note that UMR is not the measly $250k margin bump that happened today. That's a different thing than UMR.

https://www.reddit.com/r/Superstonk/comments/pho33e/shfs_are_being_forced_to_cover_shorts_for_sears/hbjy9ky/?utm_source=share&utm_medium=ios_app&utm_name=iossmf&context=3

UMR Phase 5 makes it so that counterparties must post initial margin for OTC derivative trades which is based on theoretical default of the counterparty.

So, as of September 1, more margin requirements. Potential rug pull on these OTC swaps for many funds."

https://www.finservconsulting.com/2019/12/umr/

I believe it's the combination of all this. These regulations recently in effect put serious pressure on them to cover the zombie stocks immediately. UMR Phase 5 reinforced it, bringing their margin under the threshold requirement, begetting margin calls. All these recent events made it unavoidable for them to ignore and wait it out any longer; and as such, they have been covering the zombie stocks.

TL;DR: SHFs were shorting zombie stocks for years back. They never covered their shorts, nor did they ever intend to. Recently, due to recent regulations and margin problems, they've now been forced to cover their shorts on zombie stocks, which is why you are seeing hundreds of zombie stocks spike at the same time. This could be an early indicator of a domino effect that leaves small cap SHFs collapsing and ultimately forced to cover their GME shorts.

TA;DR: Hedgies = fked

Hope this helps!