Counter-Hegemonic Finance: The Gamestop Short Squeeze

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Abstract

The events that surrounded the short squeeze of various downtrodden stocks such as Gamestop (GME) allude to a counter-hegemonic financial effort, with small-scale investors pooling in to sabotage the short-positions of large Wall Street players such as hedge funds. This paper frames these events in terms of public reprisal for the 2008 Global Financial Crisis (GFC) and public contempt for insular financial private interest. The discussion suggests that such people-power initiatives, abetted by powerful elite sympathizers, have a powerful signalling effect on the public in terms of highlighting fundamental vulnerabilities in an extractive financial system.

Keywords: short squeeze, gamestop, reddit, wall street, financial democratization

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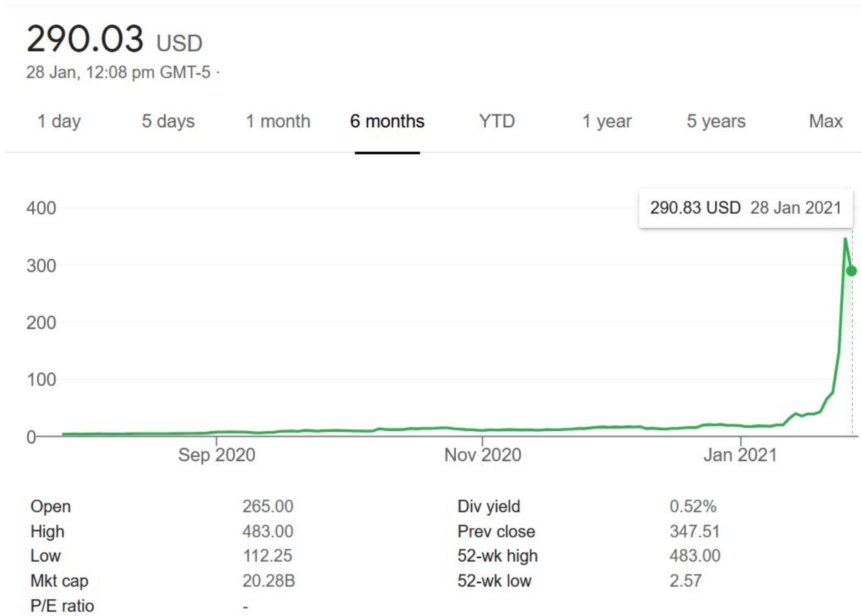
The events that surrounded surrounding the Gamestop (ticker: GME) short squeeze had mesmerized audiences around the world, both in lay-circles as well as in the specialized financial markets. At the root of the issue was an attempt by regular, small-scale investors (mostly members of subreddit r/Wallstreetbets) pooling their financial energies to sabotage the short positions held by powerful hedge funds in downtrodden stocks. While such a counter-coup would normally not create such ripples in the market in and of itself, it was the portrayal of such a move, as evident in the subreddit chats, that there was a David-versus-Goliath struggle of a counter-hegemonic natures underway. This galvanized many small-size investors to join ranks and thwart (or attain the sense of thwarting) large Wall Street giants, at least for a moment.

The specific mechanism of subterfuge used is known commonly as the *short squeeze*, in which large inflows of funds into a stock price make any short position on the stock untenable.[1] The GameStop short squeeze increased the stock price almost 900 times from its record low, hitting a high of $500 per share on January 28, 2021, which did succeed in inflicting hemorrhaging losses for short sellers.

This paper briefly examines the underlying counter-hegemonic element , along other salient factors, that colored the brief tide of the Gamestop short squeeze.



The American public seethed with the wounds of several types, including the misery of death and impoverishment during the Covid-19 pandemic. It also continued to reel, below the surface, from the tremors of the 2008 Global

[1] Shorting a stock involves the anticipation of a future fall in its price. Investors enter short positions on borrowed stock, looking to purchase back the stock at a lower price in the future and netting a profit in the difference between the original price and the compressed later price. However, a short squeeze could lead to a possibly infinite loss for the short seller if the price rises indefinitely. This is why short selling is considered a comparatively risky strategy, with theoretically immense downside risks if the stock in question actually rises..

Financial Crisis (GFC). These wounds had been glossed over with the shallow bandage of federal stimulus that was largely pocketed by "banksters," i.e. the American financial elite. Both in 2008 and 2020, a disproportionate amount of the salvaging stimulus went into the coffers of the 1% rather than into relief for the American masses. Not a single American banker was directly jailed for misconduct during the GFC, and yet a generation of redditors was coming of age with vivid memories of the traumas that their families faced during that time of crisis and thereafter as well.

During the 2020 coronavirus pandemic, many people were forced into lockdown conditions, which allowed them to explore avenues for redeploying their scant capital. Record-low interest rates and constrained ability to spend on discretionary items during the lockdown also fueled surplus capital among small-scale investors. Coupling this confinement and surplus capital with a seething rage against the "machine" of late-stage American capitalism led to the genesis of the Gamestop Short Squeeze movement.

In the run-up to the short squeeze, Gamestop's shares were already sold short in excess, thus putting a downward pressure on the stock that suggested an almost certain conviction in its forecast decline, due to problems of adaptation within the firm to the continued digitalization of gaming and the lockdown restrictions. GME's shares were in fact sold short by over 140% as of 22 January, 2021. This left an opportune moment for r/WallStreetBets to launch a short squeeze on GameStop.

At the time, two major hedge funds, Citron Research and Melvin Capital, were aggressively short-positioned to crush Gamestop's stock. Citron had in fact issued a comment a short time prior to the short squeeze, saying that Gamestop's price would fall. Yet given the galvanization of small-time investors in favor of the short squeeze, GME's price shot up by more than 700% by January 27, and its excessive volatility caused trading to be halted multiple times during that duration. The volatility in options volume also instigated a gamma squeeze, as market makers were being forced to purchase shares to hedge the increasing short exposure.

There was also elite sympathy for the subredditors, as when tech baron Elon Musk tweeted a link to r/WallStreetBets after GME closed trading +92.7% on January 26. Excluding extended-hours trading, GME's price was at $483.00 (which as 190x higher than the stock's historic low of $2.57), which translated into a market capitalization of US$33.7 billion, thus making GME a larger listing than many companies on the S&P 500 index.

GME was not the only company that came in the subreddit's crosshairs. AMC was the next target of a short squeeze,[2] in part because of its similar short position share pressure. Its value also rose astronomically (+480% seven-day rise). Other names included Blackberry, Koss Corporation, Nokia, and Eastman Kodak.

The counter-hegemonic push by the subredditors caused disruptions to trading across the financial system, and multiple brokerages reported restrictions and disruptions (such as TD Ameritrade). It is worth noting that trading volumes on January 27 (in terms of share count) were in fact higher than the peak of October 2008 during the GFC, and was the third-highest in dollar terms over the past twenty years (since counting from the internet dotcom bubble of 2001).

On January 28, 2021, GameStop shares opened even higher in pre-market trading, reaching a high of $500. However, at approximately 8:00 AM EST, Robinhood delisted GameStop, AMC, BlackBerry, and Nokia from its trading platform, thus creating a counter-counter-hegemonic restriction; whereby users could no longer open new positions in the stock, even as they could still close existing positions. A minor panic among subredditors ensued and the share price fell to $300, but this was assuaged by extensive community support on social media sites. There were other ebbs and flows in the price thereafter, which the major broker (Robinhood) sought to control. According to social media websites, many traders were mulling the filing of complaints with the Securities & Exchange Commission.

For its part, the hedge fund Melvin Capital, lost 30% of its value year-to-date (YTD) after the short squeeze. Melvin procured $2.75 billion in emergency funding before closing the position on January 26. Meanwhile, Citron closed its position with a 100% loss.

Several centrist and leftist American leaders condemned the subsequent complaints from hedge funders as largely hypocritical. They accused hedge funds, who have garnered a notorious reputation for market manipulation and cold-blooded financial gimmickry, and yet they had the gall to complain about counter-hegemonic actions from public activism. Senator Elizabeth Warren noted that hedge funds "have treated the stock market like their own personal casino while everyone else pays the price". Representative Alexandria Ocasio-Cortez (AOC), Representative Rashida Tlaib, echoed this sentiment.

Reddit co-founder Alexis Ohanian compared the Gamestop short squeeze to Occupy Wall

[2] AMC Networks (Ticker: AMCX) is a similar sounding company that also saw significant price rises

Street, saying that "it's a chance for Joe and Jane America — the retail buyers of stock — to flex back and push back on these hedge funds." This statement encapsulates much of the resentment that the American public has felt since 2008, and considers its grievances unaddressed. The Covid-19 pandemic has only come to worsen their lot, both in terms of damage to lives and livelihoods under the misgovernance of the Trump administration. To strike out collectively at the hedge funds, who have enjoyed two large giveaways from the government in stimulus in two crises, have continued largely unscathed, even as the scars felt by the American people have failed to heal.

The counter-hegemonic appeal of the Gamestop short squeeze resonated strongly with the American people in this regard, and even as it was curtailed by institutions and agents in power, the sentiment continues to resound. Such people-power initiatives, abetted by powerful elite sympathizers, have a powerful signalling effect on the public in terms of highlighting fundamental vulnerabilities in an extractive financial system. In the future, so long as structural socioeconomic issues persist, such tactics will continue to generate mass appeal.

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