The return dynamics of MSTR relative to bitcoin might lead some to want to short it, but I'm not addressing that strategy in this book. I personally don't see the value of shorting at all. My case is the clear and enormous returns that are available just from bitcoin that one can gain without the carry costs, risk of borrowing, margin calls, or a supercycle (where bitcoin becomes the primary monetary basis and doesn't have a USD price anymore, ergo no more bear markets). One can just own bitcoin with no cost of carry and never have to play these games. That said, if that's the strategy one wants to pursue, God bless. In this section of the book, I'm addressing investors who are shorting an index, blissfully unaware that these indices contain bitcoin proxies, or worse, a bitcoin proxy financially engineered to have a 3x beta.

A 0.5% position in your short index is probably not going to alarm anyone or gain the attention of any risk manager. But I'm here to raise the alarm. Two things will happen when MSTR experiences a 2x increase in value: 1) The short will lose 100%, meaning it will incur a dollar loss equal to the entire short position. A hedge fund with a $1B short on the NDX will lose 0.5% of that, which is $5,000,000. While not the end of the world, larger hedge funds likely have tens of billions in short NDX strategies. This would put the risk of a 2x at $50 million for a $10 billion short. Losing $50 million on a stock you didn't know you were short is unacceptable and fireable, and could even expose a firm to fiduciary litigation; 2) MSTR will gain ground relative to the rest of the portfolio. Again, it might not be visible, but a 2x would take the 0.5% to 1.0%. This means that the next 2x will cost the 10b portfolio $100 million, causing a grand total of $150 million. Starting to get it? Since 2022, up to the time of writing, MSTR stock has 2x'd a grand total of seven times. By way of comparison, the FAANG stocks (Meta, Apple, Amazon, Netflix and Google) experienced a grand total of one doubling (Meta) over the same period.

Let's say you're not so bullish about the next five years and you only think MSTR might 2x only five times instead of seven. Our $10 billion short on the NDX will bleed $50m, then $100m, then $200m, then $400m, then $800m for a grand total of $1.55b. I would guess that after the first $50m, the team would be scrambling to figure out where the loss came from, but these 2x's can happen back-to-back, so by the time they figured out that MSTR was the problem, they could already be $300m deep and still not be sure why they're losing. The $10m position could be a lot of smaller positions, and it might not be clear at all why these losses are accumulating. When the portfolio team is under the gun to explain such large unexpected losses, and then ultimately being chastised for not being able to explain such large losses to their senior management, heads are going to roll. It is likely that these teams will look at every other stock in the index besides Strategy to find the losses. They will look at the Apples and Nvidias with their visible 9% and 7% allocations. They likely have robust metrics around the factors that usually drive their losses, but they don't account for a stock like MSTR.