Title: Some Food For Thought re Options
Author: phadetogray
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This is mostly taken from a comment I made on another post over a month ago. With the discussion regarding options recently, here are a few things to think about.

To me, the below all seem most easily explained by a single, simple hypothesis: the leverage options give to retail present a significant challenge to the elites who run the financial system, and they do not want us using them.

Clearly there are others who think options are a very bad thing. Perhaps a good discussion to have would revolve around this question: Is there any *better* explanation for the data below?

First, the following people and entities all state or imply that it was retail purchasing of call options that triggered the sneeze…

1) Gabe Plotkin, when asked under oath at a congressional hearing, said the price action in January was not due to shorts covering but to retail investors. (Maybe he was lying? Let's continue…)

2) The SEC report confirms that January was neither a short squeeze nor a gamma squeeze. So, what else was it but hedging call options? (Maybe they are lying too?)

3) Thomas Peterffy (about 1:37. "If the longs had repaid their margin loans and exercised their calls, their brokers would have been obligated, by the rules, as they are today, to deliver to them 270 million shares when only 50 million shares existed…") (Was he lying too? Question: what motivation would Peterffy have had to lie? He wasn't part of the congressional hearing or SEC report. He has nothing to gain by lying about this.)

https://youtube.com/watch?v=_TPYuIRVfew

4) Charles Gradante in discussing the Jan. '21 sneeze points out that the hedging of call options leads to the underlying stock price increasing

https://youtube.com/watch?v=OChaTm0To1U

5) Various government busy-bodies (who certainly are privy to more information than we are) have identified retail options activity as the cause of the January sneeze and have suggested limiting in some way — not retail *purchasing and holding shares*, but — retail involvement in **options**. Why?

Some examples:

Exhibit 5A)

"This is certainly on my radar," William Galvin, secretary of the Commonwealth of Massachusetts, told the magazine Barron's. "I'm concerned because it suggests that there is something systemically wrong with **the options** trading on this stock."

https://amp.abc.net.au/article/13097982

Exhibit 5B)

"The Fed warns of social media 'echo chambers' that pump up meme stocks."

By Jeanna Smialek
Nov. 8, 2021

Stocks that experience major volatility as a result of social media attention — often called meme stocks — *have not threatened broader financial stability so far but could open the door to vulnerabilities*, the Federal Reserve said in a report on Monday.

The Fed’s twice-yearly update on America’s financial system included a special section on the meme stock phenomenon…

Still, *internet-inspired pile-ons do not necessarily create conditions that will spur a broad market [“boom-boom”]*, the Fed’s report suggested.

“To date, the broad financial stability implications of changes in retail equity investor characteristics and behaviors have been limited,” the Fed said. *The central bank specifically assessed what happened to shares of [Movie Stock] Entertainment and GameStop in January*, noting that activity and volatility in those stocks came alongside high activity on Twitter.

While the report concluded that “recent episodes of meme stock volatility did not leave a lasting imprint on broader markets,” the Fed said **a few trends “should be monitored.”**

*The report pointed out that young and debt-laden investors may be more vulnerable to stock price swings, **especially since they are now using “options,*”** which allow traders to place bets on whether prices will rise or fall and **which can magnify leverage and potential losses.**

The Fed also warned that…

”More frequent episodes of higher volatility may require further steps to ensure the resilience of the financial system,” it said.

https://www.nytimes.com/2021/11/08/business/fed-meme-stocks-social-media-volatility.html

In other words, “Retail investors piling into a stock is not something we’re worried about destabilizing the financial system. But we *are* worried about the fact that retail traders are using **options**. Of course, we’re only worried about it for their sakes ■, because, you know, they’re a danger to themselves. Not to the financial system, which is what our report is actually about. Wink wink.”

Exhibit 5C)

FINRA is considering tightening regulations against options trading by retail investors.

https://www.wsj.com/amp/articles/investors-are-using-robinhood-other-platforms-to-jump-into-options-trades-worrying-u-s-regulators-11638886109

Investors Are Using Robinhood, Other Platforms to Jump Into **Options Trades, Worrying U.S. Regulators**

Options contracts are swapping at highest level on record, with retail traders making a quarter of all activity

By Paul Kiernan
Updated Dec. 7, 2021 9:43 pm ET

WASHINGTON—The flood of everyday Americans into options trading has drawn a skeptical eye from U.S. regulators, who are considering possible rule changes for the era of smartphone brokerage apps.

Around 39 million options contracts have changed hands on an average day this year, up 35% from last year and the highest level ever, according to Options Clearing Corp. data as of the end of November. Retail traders recently made up around one-quarter of all options activity.

Gaining approval to buy and sell options through some brokerages, such as Robinhood Markets Inc., is significantly easier than at others. Such discrepancies, combined with the recent trading surge, has left U.S. regulators questioning whether the rules governing individual investors' access to the options market need to be revised.

The Financial Industry Regulatory Authority, or Finra—Wall Street's self-regulatory arm—plans to publish a request for comment in coming weeks to solicit feedback from market participants about trading in options and other complex products, a spokesman for the body said. Such requests are often the first step regulators take when considering potential rule changes…

The recent flood of individual investors into equities and options trading has transformed the market. Relatively inexperienced traders can use options to chase bigger returns and take on more risk than they could achieve by simply buying a stock.

"Now, the ability to trade options is just a few clicks away, and investors can easily trade without direct contact with their brokers," Securities and Exchange Commissioner Caroline Crenshaw said in a recent speech. "Given these changes in market access, it may be that the options account approval rules are due for a review."

The SEC reached out to industry participants earlier this year to discuss requiring additional disclosures on how options orders are executed, people familiar with the matter said…

New regulations to limit individuals' ability to trade options could spur pushback from the financial industry, which has worked for decades to expand U.S. investors' access to options and other sophisticated markets.

"If Finra tries to tighten the suitability rules, I think that would be a massive mistake," said Scott Sheridan, chief executive of Tastyworks, an options brokerage. "People should have access to any trading tool in the toolbox, as long as they have the money to meet the capital requirements."

…

Options pricing can give professionals a leg up on individual investors because of the complicated math needed to estimate the probability of turning a profit.

"Retail traders can be lured into options trading because of the leverage, but the winners are almost always the lightning fast computers that are trading against them," said Tyler Gellasch, executive director of Healthy Markets, an advocacy group *that represents **large investors**.*

Representatives from the Securities Industry and Financial Markets Association, **a lobbying group for brokers and asset managers**, have met with officials at Finra and the SEC in recent months to discuss potential changes. The group recommended standardizing the different levels that brokers use when approving customers…

[Robinhood was fined, in part, because of giving people access to options too easily.]

—Gunjan Banerji and Alexander Osipovich contributed to this article.

Last but not least…

6) Cramer.

https://businessglitz.com/us/jim-cramers-advice-to-young-equity-investors-looking-to-build-wealth/

Cramer "begs" us to own stocks long-term [while the market goes to hell… cough… Bear Stearns is fine… cough…]

“Option activity reached record levels in 2021, in part due to their growing popularity among retailers, CNBC reported in December.

In particular, Cramer expressed concern about the possibility that some young traders are primarily trading option.”

Cramer… Need I say more? ■

Ultimately, it just seems to me that the big players and the people who are privy to more information than we are, attribute January to options activity. Also, they seem to be afraid of it continuing.

This is why it seems to me that we’ve been played by the people (Wall Street) who are terrified by **leveraged** retail buying power.

If that’s all wrong… what’s the better explanation for all of the facts mentioned above?

P.S.
Despite my being pro-options, I don’t advocate anybody play options who doesn’t understand them, can’t afford to lose the money, or just doesn’t feel comfortable with them. I firmly believe in Buy & Hold as the backbone that makes everything else work. That’s primary. But I suspect options are the secret sauce that the big boys don’t want anybody (else) to play with.