

Title: Things explained by a smooth brain for a smooth brain Episode 1: Benefits of shorting an etf rather the stock itself.

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Intro to the series:

When I got into this saga I knew only the basics of the stock market. Most of the things I've learned is from everything I've read on this sub and the previous GME subs. My goal of these posts is to try to explain a lot of the DD written over the past 11 months in a very simple way so those who have not really been able to understand what's happening can hopefully grasp what they are reading a little bit more. I admit I am still a beginner and could be misinterpreted some of these things I'm explaining so for the true wrinkled brains out there please let me know if I misunderstood anything!

Intro:

I will be discussing short selling and why shorting ETF's over the stock itself is beneficial to the hedgies. I'm going to assume everyone knows what short selling is by this point but here's a quick definition from investopedia. "Short selling is the process of selling shares that you don't own, but have instead borrowed, likely from a brokerage. Most people short sell shares for two reasons:" they then give those two reasons but neither are to drive a company into bankruptcy in hope to to never have to return their borrowed shares and that's what I'm going to dive into as why it's advantageous to short an etf rather than the stock itself.

The uptick rule:

When this rule was first put in place it made it so shares could only be sold short at a price higher than the most recent trade. This was to prevent shorts ability to take advantage of a sharp price decline. In Other words to short a share you'd have to sell the borrowed share above the current bid which would create upwards pressure in that stock instead of adding downwards pressure without selling a share you own. (Short sellers want the share price to go down so they sell a bunch of shares They don't own at a lower value than the stock is already trading for, forcing the price to drop. this could lead to other investors holding the stock to get scared and sell their own shares driving the price down even more. Short sellers can now buy the stock for cheaper than they sold it for and return the shares they borrowed. Or just keep driving the price down till nobody thinks the stock has value leading for the company to go bankrupt (The whole thesis to why we are all here). however in 07 the SEC decided to say fuck it we don't need that rule and got rid of it. Their reasoning was The market was becoming more stable so they didn't need a rule that contributed to keeping the markets stable anymore. A year later the 08 crisis happened (not saying it happened because this rule was lifted) but it was enough for the SEC to bring the rule back into effect (with modifications). In 2010 they made the rule effective again but now it's only in effect if the previous day the price dropped by 10%. Which isn't really restricting you from shorting effectively you just have to take every other day off.

Why am I explaining you this uptick rule?

Well to put it simply this rule only pertains if you are shorting the stock directly. If you are shorting the stock through an ETF you are by passing the uptick rule and can drive the price down as much as you want whenever you want

Edit:

An additional benefit shorting through an ETF is it's not included in short interest being reported. Hedge fund will short the ETF causing the underlining stocks in the ETF to fall in price. However they will go long on the other stocks in that ETF to off set shorting them in the ETF so they are only impacting GME when they short.

Conclusion:

Hedgefunds are shorting through ETF's because they have less restrictions when shorting rather than if they shorted the stock directly

Note:

others have posted about this before but everything just started to actually click for me so now I'm trying to reexplain everything I've learned these past 11 months in hopes those who are struggling can get a better grasp on everything and to get confirmation that i actually am starting to understand this shit. If you're a smooth brain that are stuck trying to understand a certain topic send me a message or comment what that topic is And If I can explain it I'll create a post for it!