

Title: Manufactured Defaults and the Sears Tweet

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Is_self: True

TLDR:

In my last few posts I have discussed a variety of topics all revolving around one central righteous theme - GameStop. In this post I intend to support and expand upon my previous observations, talk about some members of a secret society https://en.m.wikipedia.org/wiki/Skull_and_Bones and provide one potential explanation for a tweet of Ryan Cohen's.

<https://twitter.com/ryancohen/status/1400492465442811904?s=21>

Background:

For those of you unfamiliar with my previous posts, here is a timeline of events that (I think) are important:

1. February 12th, 2015 West Virginia billionaire Jim Justice purchased a company back from the Russian company he sold it to in 2009 <https://www.bloomberg.com/news/articles/2015-02-18/mechel-sells-bluestone-assets-in-u-s-back-to-justice-family>
2. August 28th, 2017 a man named Rick Clay requests Trump-brokered meeting with "low level Russians" at the request of a "friend" in West Virginia
<https://www.cnn.com/2017/08/28/politics/russia-trump-campaign-clay-dearborn-request/index.html>
3. June 1st, 2018 West Virginia Governor Jim Justice, Former President Donald Trump and Energy Secretary Rick Perry announce the "Trump-Justice Coal Plan"
<https://governor.wv.gov/News/press-releases/2018/Pages/Justice-coal-plan-moves-forward.aspx>
4. October 29th, 2020 Bloomberg publishes an article which mentions two important events <https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade>:
 1. A \$50m Credit Suisse Term Loan from 2019 was "novated" (replaced with a new contract) to distressed debt investors King Street Capital, Anchorage Capital and others on October 25th, 2020
 2. An IHS Markit index called LCDX, which specifically tracks Loan-only Credit Default Swaps, recently and "unusually" stopped trading because there "wasn't enough liquidity in the underlying contracts"
5. November 26th, 2020 distressed debt investors complete takeover of Europcar Mobility Group and lay groundwork for a short squeeze in the bond market
<https://www.reuters.com/article/uk-europcar-restructuring-idUKKBN2861US>
6. January 13th, 2021 there was a failed CreditEx auction for Europcar Mobility Group
<https://www.ft.com/content/69accf15-1ab7-426b-aadc-6f594d24dd65>
7. The failed CreditEx auction resulted in a Credit Event involving the \$50m Term Loan made by Credit Suisse in 2019 <https://www.cdsdeterminationscommittees.org/documents/2021/01/emea-dc-issue-202012-0201-europcar-mobility-group-s-a-final-list-11-january-2021.pdf>
8. The underlying loan likely represented a Loan-only Credit Default Swap <https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade>
 1. "The DCs do not manage the credit event settlement process for loan-only CDS (LCDS) events but ISDA does facilitate the process by publishing auction terms on this website. The auctions for LCDS Credit Events are administered by Markit and Creditex."
www.cdsdeterminationscommittees.org/lcds-management/
 2. The Intercontinental Exchange likely assumed risk of the toxic assets as a result of this ISDA policy
9. January 25th, 2021 Citadel and Point72 Capital "invested" \$2.75b in Melvin Capital <https://www.wsj.com/articles/citadel-point72-to-invest-2-75-billion-into-melvin-capital-management-11611604340>
1. Securities lending suspected <https://www.investopedia.com/terms/s/securitieslending.asp>
2. Possibly incentivized by a Stock Loan Rebate
<https://www.investopedia.com/terms/s/stock-loan-rebate.asp>
10. Morning of February 23rd, 2021 the SEC announces a DOJ-related whistleblower
<https://mobile.twitter.com/secgov/status/1364225602493026304>
11. February 23rd, 2021 GameStop sees volume and sharp price increase during after hours trading

12. February 24th, 2021 after GameStop increases +\$46.70 in 24 hours Ryan Cohen tweets ■
<https://mobile.twitter.com/ryancohen/status/1364650709669601289?s=20>
1. Possible reference to The Intercontinental Exchange (owner of CreditEx) auctioning off toxic Greensill Capital LCDS-based positions
13. February 25th, 2021 Michael Burry tweets about GME, the 2008/2009 housing crisis, political lies and COVID being "weaponized" <https://mobile.twitter.com/burryarchive/status/1364982463030771714?s=21>
14. March 1st, 2021 Credit Suisse froze \$10b in Greensill Capital funds <https://www.reuters.com/lifestyle/wealth/greensill-capital-trouble-credit-suisse-suspends-funds-2021-03-01/>
1. Per Wikipedia, "Greensill relied on loans provided by specialised supply-chain investment funds managed by Credit Suisse" https://en.m.wikipedia.org/wiki/Greensill_Capital
15. March 8th, 2021 Greensill Capital files for bankruptcy
<https://www.reuters.com/article/us-britain-greensill-idUSKBN2B01WB>
16. The week of March 8th, 2021, as recognized by u/nayboyer2 on April 22nd, 2021, was an interesting one for Robinhood https://www.reddit.com/r/Superstonk/comments/myf505/probably_the_last_dd_youll_ever_need_to_read_the/
1. Robinhood substantially increases OTC activity on March 8th, 2021. OTC options suspected
<https://www.investopedia.com/terms/o/otcoptions.asp>
17. March 12th - 26th, 2021 Archegos is liquidated <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf>
18. April 1st, 2021 Tokio Marine decides not to renew \$10b policy for Credit Suisse tied to Greensill Capital credit <https://www.reuters.com/article/us-britain-greensill-credit-suisse-insig-idUSKBN2BO4VP>
19. June 1st, 2021 West Virginia Governor Jim Justice confirms personal liability for \$700m in Greensill Capital loans
<https://www.wsj.com/articles/jim-justice-confirms-personal-liability-on-greensill-loans-11622567753>
20. June 30th, 2021 class action lawsuit with CreditEx and Markit as non-dealer defendants <https://wallstreetparade.com/wp-content/uploads/2021/07/New-Mexico-State-Investment-Council-v-Bank-of-America-et-al.pdf>
1. Suspected testimony of Archegos' Bill Hwang cooperating with the DOJ

Context:

These events couldn't possibly be related, right? Too disparate, too political. What about Occam's Razor https://en.m.wikipedia.org/wiki/Occam's_razor? If you can believe it, I believe this is it, the simplest explanation - Manufactured Defaults.

What are Manufactured Defaults? They are effectively the financial maneuver underlying "bankruptcy jackpot"-type scenarios whereby Hedge Funds intentionally saddle a company with debt with the goal of triggering Credit Default Swap payouts. These contracts and their associated payouts are often referred to as "Credit Insurance" because the policies are taken out under the guise of "protecting" businesses during times of uncertainty. 2020 saw the most CDS activity since 2009 <https://ihsmarkit.com/research-analysis/2020--highest-credit-default-events-since-2009--what-about-202.html>. Even members of the Vatican were trying to get in on the fun last year <https://www.ft.com/content/f966e8b4-945a-45d0-8391-a305b3d8f7f5>.

Hypothesis:

My theory is that Cohen's tweet depicting Sears was not only in reference to the bankruptcy of the company but the Chairman of the company Eddie Lampert and his college buddies as well.

Eddie Lampert graduated Yale in 1984, was a member of the famous Skull and Bones society (■) and is the current Chairman of Sears Holding Co. https://en.m.wikipedia.org/wiki/Eddie_Lampert.

Stephen Friedham, founder of distressed debt firm Cyrus Capital <http://www.cyruscapital.com>, also attended Yale between 1982 and 1986. This was around the same time as Eddie Lampert and another well-known Skull and Bones member, former Treasury Secretary Steven Mnuchin, who graduated Yale in 1985. Stephen Friedham does not have a Wikipedia page but you can learn about him from the Council on Foreign Relations website here <https://www.cfr.org/bio/stephen-friedheim> where he is on the Board of Directors.

What's interesting about Eddie and Stephen specifically is not only did they overlap in their time at Yale but also in their investments for, and arguably against, the survival of Sears Holding Co.

<https://mobile.reuters.com/article/amp/idUSKCN1NX2LI>. While some have framed Lampert and Friedham's back-and-forth as a "fight"

<https://www.bloomberg.com/opinion/articles/2018-12-20/hedge-funds-fight-over-sears-swaps> others, including Boaz Weinstein's Saba Capital, seem unconvinced based on the preferential treatment Eddie and Stephen have provided each other with over the years

<https://www.wsj.com/articles/sears-bankruptcy-battle-tests-swaps-market-11545215401>.

Stephen Friedham's Cyrus Capital is no stranger to Manufactured Defaults and they appear to have already been accused of outright market manipulation alongside Blackstone (not BlackRock) dating as far back as 2014 <https://www.wsj.com/articles/SB10001424052702304655304579549421388575600> 2016

<https://www.ft.com/content/3c4b7754-1eee-11e9-b2f7-97e4dbd3580d> and 2018

<https://www.ft.com/content/5e23e516-5cdc-11e8-ad91-e01af256df68>.

I believe this is what has been happening to our favorite stores of yesteryear for quite some time now.

Codere, Norske Skog, Sports Authority, RadioShack, Toys R Us, JCPenney, GameStop - probably companies all tracked by the IHS Markit LCDX index - all targeted by distressed debt investors looking to either hold the unemployment of thousands over the heads of bankruptcy judges in pursuit of preferable liquidation terms <https://www.wsj.com/articles/sears-wins-liquidation-plan-approval-as-lengthy-bankruptcy-nears-end-11570494729> or tempt less-savvy investors into the purchase of CDS that might not be delivered into bonds during Credit Default Swap auctions.

If you paid close attention to my timeline of important events you might now be wondering - ok, what does this have to do with the collapse of Greensill Capital again? My suspicion is Greensill had taken the Manufactured Default model and operationalized it with "collateral" provided by Credit Suisse in the form of a \$10b insurance policy underwritten by Tokio Marine. As the hustle began to unravel and The Intercontinental Exchange assumed risk/ownership of Greensill's underlying toxic LCDS targeting GameStop and other debt-distressed companies, the swaps were converted to risky security-based options positions which Hedge Funds like Melvin Capital could have been paid to take on the risk of via Rebates. I would imagine these Rebates were re-invested and then used to fund pump and dump schemes in effort to offset the risks associated with the toxic securities they could've assumed the risk of. The resultant volatility from such positions appears to have contributed to the Archegos Capital margin call and subsequent DOJ investigation <https://www.reuters.com/business/finance/banks-involved-archegos-meltdown-face-doj-probe-bloomberg-law-2021-06-24/>.

Conclusion:

Wow - that was a lot. Now you might be wondering, why do I care about this so much? Simple - because of what this could mean for our securities markets - the hopeful return of organic price discovery that has been obfuscated by leverage for the past 10+ years by people intentionally extracting value and cannibalizing companies by way of Manufactured Defaults. This is at odds with what I care about - people, their jobs and equal opportunity.

All-in-all, if this story hasn't convinced you of Ryan Cohen's financial genius I'm not sure what else would. He courageously stood up to people in positions of power in ways very few others could. I hope the results of his actions benefit the U.S. and Global economies for years to come with fewer bankruptcies and more jobs. If a President were to award Ryan Cohen a Presidential Medal of Freedom for his efforts I think they would go down as one of the most popular Presidents in modern history.

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I'm just a Retail Investor with a few financial news subscriptions, not a financial advisor. Thanks for reading.