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Gamestonk. Gamestop. GME. My thoughts are on Reddit, under my u/martinshkreli & subreddit r/martinshkreli. Those are authentic and discuss why GME is one of the most unprecedented events in market history. Here, I'm going to discuss the populist attitude that is creeping into this odd situation and add some thoughts on short-selling in general.

Let's cover my own unique angle on the concept of a 'short squeeze'. Most would define it as an erratic upward change in price driven by short-covering. I believe short-squeezes defined this way are usually a fictitious idee fixe that aggregates a number of discrete market behaviors and dynamics into a convenient and pithy moniker. The image of python-like buyer constricting some hapless speculator into a higher stock price is evocative but misleading. Many knew me as a short-selling specialist on Wall Street, focused on 'binary events' of biotech stocks. I think I've seen it all: I was once short more than 75% of a company's shares outstanding (I do not recommend this). I bought 75% of a company on the open market, etc.

Short-sellers are governed by the same market dynamics as longs. They get nervous when positions go against them and consider exiting. Like longs, they can double down if they wish. The only difference is that, of course, short positions grow when stocks rise. And they can rise infinitely, while long positions fall asymptotically to zero. But both get, theoretically and assuming no fundamental changes have occurred, more attractive as they move against the trader.

Short sellers have to pay borrow fees to longs (typically tiny, but sometimes massive). They have to locate stock to short, again usually easy, but sometimes difficult. Both are perilous when those rare adverse times arise. Why? Despite the possibility of a growing cost of renting stock, the ultimate fear of a short-seller is a "buy-in". It is nightmarish and has only happened to me once or twice, excluding options-related activity. A buy-in occurs when a broker decides to forcibly exit the short position on behalf of the trader because the broker and trader cannot secure the 'locate' which is supposed to underlie the short sale. The buy-in order is typically violently disruptive: a market order for the whole position near the closing hours of the market! The SEC published a list of stocks at risk of buy-in: the fail to deliver list.

My point is that a 'short squeeze' can only practically affect the trader for two reasons. The first is that the trader digs in, doubles down and doesn't exit as his position grows. That's bad trading, and will eventually blow the trader up. But, if the stock is a 'good short', that short will be replaced by more traders with stronger hands/a better entry price/smaller position. What's more is the average investor can't tell if this is happening! The second is the buy-in. I haven't heard GME shorts being bought in, but again, how would you know, other than the grapevine? My point is most of the disruptive, exciting trading here is simply long speculators banging away at the stock.

New longs are sometimes attracted to rising prices, speculating they'll increase further: that's called momentum. Those buyers are typically offset by the existing longs who are excited to exit at higher prices. But, if there is a large short position in the stock, a speculator may feel that those covering (buying to get out) short-sellers will provide additional fuel to the momentum. That's sometimes the case, but higher prices should lead to more supply from both long and short sellers. My feeling is the actions of large long holders probably have more influence on the stock price than shorts who dart in and out, and typically in smaller size. Remember that shorts who capitulate are often just replaced by new shorts who are attracted at the new lunar prices.

In essence, 'short squeezes' become a self-fulfilling prophecy as new long investors pile in trying to 'squeeze' this sometimes phantom of a short seller, and existing long investors may hold off selling for the same reason. With some Popperian skepticism you will easily see that the same dynamic can exist without the short boogeyman, or with a short boogeyman of any size. Speaking of which, where is Chanos and his slavish groupie, Carson Block?

Speculative momentum can occur for any reason. Let's not forget that the 'trapping shorty' strategy is an awkward idea for a few reasons. Short sellers are often sophisticated market participants who are betting on the decline of a stock. You usually don't want these type of traders sniffing around your favorite longs: I recall writing a 'short report' on a stock to watch it fall 50% that day. If you do a study of stock returns of highly shorted stocks, they are pretty awful. The reason there is 'no arbitrage' is the borrow rate.

But even if you got this poor short to capitulate and squeeze, the amount of buyers who are now holding stock at absurdly high prices put way more energy (and money) into the stock than the short seller's white towel ever could. A sledgehammer killed the fly: now what? Alternatively, are you the host or the parasite?

On populism. I don't really think most investors or speculators should go into any investment thinking that there is 'an enemy'. Concentrated (big) investments (bets) give rise to emotional behavior, typically the enemy in trading and investing as it clouds rational thinking. It's a lot better to be Socratic with your 'opponent' and understand what they're thinking. If your position were to be half the size it currently is, would you be as emotionally interested? Try it! You'll lower your risk and feel better.

Some of the behavior going on at WSB sounds more jihadist than speculative. The idea that there are some investors who are 'good' and others who are 'bad', or that there is an 'establishment' is BS. Everyone has the same goal: I have a pile of money, I'm trying to make it bigger, fuck your pile--I don't care about it. Anything other goal is contrived, foolish and won't help you win. You can't 'fight the rich' by trying to become one of them. Don't you see the irony? A related thought experiment: what if this trade continued to work really well? And another, and another? Then some WSBers are billionaires. Aren't they the new 'enemy/establishment?'

Who do you think hedge fund managers are? They're typically the anti-establishment. Things have changed a bit, but the most successful HFMs are actually the WSBers of the past. These are guys who didn't fit in well at i-banks, often got kicked out for having big mouths or not wearing the right ties, or just wanting to wear jeans at work and not fill out TPS reports. When they started their firms, people like Soros, Icahn, Steinhardt, Robertson, Cohen, Griffin, Loeb (who has posted anonymously on boards), Samberg, even Cramer were fish out of water and had very tiny amounts of capital, often begging for investors.

The need for an enemy. To sustain increasingly insane behavior, it isn't uncommon to use a straw man or a scapegoat. Oppressive regimes used this technique in the past, and the media uses it today. Retail investors don't have much power individually. With your $5k RH account, you can't day trade or even qualify for margin. It's pitiful. So, it's understandably quite exciting to finally feel like a 'player' that you read about. To be a part of 'something'. The problem is the media is goading you to be somewhere between a lemming and a life-agnostic but impotent jihadist. Blowing yourself up won't impress anyone, and there is no afterlife here, other than a minimum wage career and mom's sofa. GME and shorting in general is small potatos in the scheme of the Wall St. machine. Don't worry about getting 'even' with the rich. That's jousting at a windmill that will waste your energy.

No one here, hopefully, wants to be a lemming. Those willing to 'die on this hill' have to realize something: Wall Street doesn't care about its speculators. The new traders who vanquish the old simply replace them. Nothing changes. When LTCM blew up, or Amaranth, Visium, Galleon, or anyone else, it is 'out with the old and in with the new'. So, perhaps WSB can blow up 1 hedge fund or maybe 5, but so what? Eventually, the tables will turn and it will blow up. The leveraged, fast-money trading markets are a violent place and the only people who care one whit are the brokers charging fees (directly or indirectly). They only care to make sure the sorry carcasses can pay their bills. They know there will always be another speculator lined up, ready to shove his money into the lotto machine. There is no pride here. There is no credit for being a good solider. You either survive or you don't. Your job is to survive and thrive. Becoming a lemming will guarantee failure as per the statistical truism of gambler's ruin (enjoy the proof in measure theory). With enough time, anyone playing a game with <50% success rate (equal payouts), will lose all their money. Get that number above 50%. Add the Kelly Criterion to your trading strategy.

You might ask, "(that's all well and good OR we'll agree to disagree) but, Mr. Shrek, isn't this a good trading strategy? (ganging up on shorted stocks)?" As long as you're not a lemming/jihadist (willing to walk over the cliff, whether or not you have a "cause"), and you ignore a somewhat slimy ethical/market manipulation question, I don't see anything wrong with it. There are better ways to make money, since you're asking. Stoking (or worse, participating in) a buying frenzy that is akin to a forced musical chairs game is a little crazy. Once a stock is absurdly valued, you're just hoping the sell-off doesn't happen while you're holding it. If you have enough lemmings or jihadists 'helping you', that's a good thing. They will hold your bag--someone needs to.

Of course, if you've found the "next" Microsoft or Apple, no one needs to hold any bags. But, no company can increase its objective (aka fair) value quickly enough for this... phenomenon? situation? absurdity?... to make it reasonable. Those things take years, go slow and steady, and this frenzied buying/"short squeeze" phenomenon won't let value play a factor. That's why WSB GME longs have shifted theses from "well, Gamestop was/is cheap" to "the gaming cycle" to "Ryan Cohen will save us" to "...jihad?!"

Each member of the herd has its own financial parameters, too. Some may have $500, some $50,000,000 or more. Some may be willing to lose their entire stake (and even more) on an out-of-the-money or levered trade. Some are not. Some were in the latter and somehow end up in the former. Some are in one column at one price and another column at another--some are switched from column to column by force. Today's lemmings/jihadists are tomorrow's sellers. When you're hanging off the mountain, pay attention to the guy holding the rope.

Loosely 'coordinated' buying can certainly affect stocks. Heavily shorted stocks and small cap stocks are the kind that require less capital than typical to 'move' a stock. The irony here is when putting on a position, the trader's goal is typically NOT to move the stock with his actions!

I still think GME is wildly overvalued, but that doesn't exactly mean I'm 'bearish'. One funny idea here is reflexivity: GME stockholders may become serious GME customers and the company's fundamentals improve that way! Excluding some such miracle, eventually GME stock will trade at <50 again. I still think it will trade at 1,000 or more BEFORE that happens, and that the decline process will take a long, long time (several years). Keep in mind, anything can change. GME can do serial secondaries that destroy its stock. Management's job is to create value for their shareholders--but perhaps they will avoid pissing them off. There's a strange loop! Finally, the stock could be halted by the SEC or completely banned by brokers. Don't overdo it. Watch the borrow rate. Keep your positions at less than 25% of your capital--live to play another day.

Disclosure: I've never traded GME stock and do not intend to.

(From martin, posted by mo)