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Author: disoriented_llama
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I was away the last few days giving depositions to a different three-letter government agency--sorry about that. GME continues to be a Carollian experience. Through this looking-glass, there is a world where stock prices do not reflect the value of the underlying companies whose partial ownership is traded through common stock. To some, the market is, more or less, broken, for now. That's not a good or a bad thing. The market mechanism is not supposed to make an implicit judgment. There is information in price, but that information is difficult to divine and interpret. Markets aren't good, bad, rational or irrational: they just are.

When one group takes action in a market to alter the playing field, the market is not a pure market anymore. It's lost 'integrity' and loses more with every modification. This typically only happens in moments of crisis or technological change: countries ban short-selling, for instance; exchanges will unwind clear 'fat-finger' trades, etc; speed bumps may make the market more 'fair' for the technologically behind. We're learning more about how markets can have what appear to be 'unintended' consequences (flash crashes, GME-style reverse crashes), or can be 'gamed' (spoofing, quant as a whole), but we're back to square one: markets don't have feelings. The rules are simple: post your price, the amount, and the rest is order-matching. All of the rest are modifications against the spirit of the laws of the jungle.

So, like you, I'm disgusted by what happened the other day. My guess is the DTC and others required incremental collateral for clearing any GME trades--this required RH to raise capital. I actually don't think RH is to blame here! Every broker did the same thing, so there must be a root cause. I mentioned something like this may happen the other day, and I repeat my admonition to not trade on margin. I suspect GME long buying will require 100% margin at virtually any broker. Brokers have to protect themselves, but they can be influenced by the rest of the parties in their food chain, as we saw.

GME is still worthless compared to its current price. Keep that in mind. You're buying a flower, a baseball card, a beanie baby, a photocopy of a Picasso, all for prices that you know are a lot more--not just a lot more, but insanely more--than anything close to what it could be worth. Those are the facts: GME is just a shitty retailer that will struggle to survive, let alone become a business worth 20 or 30 billion dollars. All of the Ryan Cohen transformation stuff is BS relative to the price change. A good team may be able to turn around GME to the point where it is worth $40, MAYBE. It'll never be worth $300, or at least, the probability that GME operations could support a reasonable price like that is about as small as my odds of becoming a MLB starting pitcher.

That doesn't mean the stock can't go up. The world is conflating what a market is by trying to assign it implicit judgment. Traders have the right to buy and sell anything they'd like for any price that they'd like. One man's "bubble" is another man's "deep value." I bought a rap CD for millions of dollars. That's my right. Did I overpay? Well, that's really not a judgment anyone can make, is it? If I paid $10,000,000 for a baseball card which is well-known to trade for $5, then it seems clear I've overpaid, right?

No. Speculators buy assets for many reasons. Sometimes its because they're making a value judgment: this is WORTH more than my purchase price. But what does that imply? What is worth or value? Most speculators (I suppose you can define that as a buyer who has an explicit intention to sell at a later date, probably soon) buy things because they are confident they can sell at a higher price soon. The value judgment is secondary, and sometimes not relevant at all. Speculators are the animating spirit of the market. If you curb the ability for speculators to act, you have a farcical excuse of a market. But, you can't blame a clearing broker for saying, "what happens if your client can't clear this trade?". The stock just went from 300 to 150--what if your client is broke? To me, the simple answer there is to require 100% margin. Limiting the ability for someone to buy a stock for 100% margin (literally the cash to cover the trade is set aside) smells awful. I wouldn't bother with conspiracies--they won't help you trade well.

Many of you are brand new to the world of trading. I've traded my whole life--it is very, very hard. I am not very good at it, to be frank. I do think I'm a very good value investor, and in biotech, an extremely good binary-event trader. 99% of people, including in finance, are not good traders. 99% of people are not good 'value' investors, either. That doesn't mean you shouldn't want to become one or try. But it is inordinately difficult. There's nothing wrong with hobbies or 'side gigs', but I really think you should think about the market like a professional sport, or fighting/boxing league, where you are permitted to 'play with the pros'. It doesn't make too much sense to 'part time' fight Brock Lesnar or take LeBron 1-on-1. But this is what you're doing when you trade. Be careful.

For those newish to trading, here is my advice on some reading materials:

1) Market Wizards series. This is one of the best series on great investors/traders, which takes you into the mind of the successful trader, in their words. It's always by the same author (JS), too, who is very experienced and knowledgable.

2) Trading to Win by Ari Kiev. Read it. Probably the best book on the theory of trading ever written.

3) AVOID most books on trading. Unless there is a reason to read them that you can really digest, they're probably empty wastes of time at best, or at worse, could mislead you into some terrible strategy. You can't go wrong reading the books by or about people who have made fortunes in the market. But always take everything as a grain of salt. AVOID the opinions of others in general. This sounds self-referential, but will make a little bit more sense after reading 1/2.

When you read these books, you'll realize that my life of 'value investing' is basically irrelevant to the near-term of the stock market, especially in situations like GME or TSLA. GME will probably go down over time, as I mentioned, because it is wildly overvalued and, generally, wildly overvalued stocks tend to go down over time. That doesn't have to be true. That's why investors diversify and 'stop-loss' and do other things to protect themselves. You should do all of that, too. My style, and those of others, simply relate the price of something to the amount of cash it can generate. That's value investing in a nutshell, and it is what the entire industry of Private Equity (Blackstone, Apollo, Carlyle, etc.) is all about. Hedge Funds and Mutual Funds do a little of this as well, but to decide whether a stock will go up or down is this dark art called 'trading'. The "next" Steve Cohen might be being born right here, right now, in WallStreetBets. Who knows.

I still think GME will trade at 1,000. Why? I am guessing, like all of you, and every other trader out there. No one knows anything. As I mentioned, the borrow interest rate is what I think is important to watch. You're at a disadvantage to other traders in that respect: hedge funds can pull up that information through phone calls, contacts, etc. which you are hopeless to compete against. It doesn't mean they're going to make money and you won't. It's just something to think about. I like 1,000: it's a big round number that is meaningful in the psychology of the markets, to a very small extent. It may trade there for 5 seconds, or it may trade there and keep going higher. For some reason, I think the stock has a bit of "destiny" to go there. I may be 100% wrong. As I said, to the extent I have any skill at all, it's generally in being able to predict the value of stocks of companies (and other assets) many years from now, and in biopharma, if anywhere.

I hope everyone does well, and even is being entertained, by all of this. Just make sure that if you have a massive gain in GME, that you 'take something off the table'. Don't be greedy. Some of this money is life-changing. Even if it is 10% of your position, book some kind of gain. It will feel good. Be objective. Don't use margin--you may lose more than you can afford. I've been there. It sucks balls worse than you can imagine. Don't do it for GME, even if RH or anyone else lets you. Don't go too crazy with options, even if they let you. I hope you all are able to buy Wu-Tang albums, tendies, autism treatment and whatever else your hearts desire at the 'end' of this, whatever that means.
Good luck WSB, I love you!

(sent from martin, posted by mo)