

Title: Basket Options - the instrument used to bet against GME and others

Author: nairboon

Created 2021-09-03 08:38:19 UTC

Permalink: /r/DDintoGME/comments/ph15mb/basket_options_the_instrument_used_to_bet_against/

Url: https://www.reddit.com/r/DDintoGME/comments/ph15mb/basket_options_the_instrument_used_to_bet_against/

Renaissance (one of the largest hedge funds) just got [fined \$7B](<https://www.reuters.com/article/renaissance-technologies-llc-irs/update-3-renaissance-executives-agree-to-pay-around-7-bln-to-settle-tax-dispute-with-irs-source-idUSL4N2Q43IN>) for tax fraud related to basket options.

What's a **basket option**??

> It's an **exotic option** whose underlying is a weighted sum or average of different assets that have been grouped together in a basket.

> Like rainbow options **basket options** are most commonly written on a basket of equity indices, though they are **frequently written on a basket of individual equities** as well.

So what if someone bought a large pile of basket options on GME, AMC, KOSS, Sears, etc.?

You would see an increased correlation between all of them due to the hedging behavior of the option counterparty.

Explains the observations as seen in:

https://www.reddit.com/r/DDintoGME/comments/pgnbru/a_deep_dive_into_the_basket_of_meme_stock_swaps/

https://www.reddit.com/r/Superstonk/comments/pgfgjn/did_we_ever_talk_about_blockbusters_january