

Title: ETFs, the tax loophole, and why we are paying for it.

Author: TheUltimator5

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Tonight I am in the mood to post a bit of my own tinfoil theories since I have been reading a ton of garbage "dd" posts on the stonk sub that have been getting thousands of likes regarding "swap" theories and want to join the bandwagon.

**\*\*Disclaimer:** I am not in the mood to post all the links to substantiate my post, but if you want to fact check me at any point, you can use google... I will post a couple links though just so it seems official.\*\*

I will be discussing the effects of ETFs on the broad market and why they are VERY VERY BAD. I will also throw in some GME I guess since this is a GME sub...

I am going to start at the beginning. The year is 1969 and President Nixon just passed an obscure law that wouldn't be on anybody's radar for nearly 30 years. This would be known as "in-kind redemption"

[<https://www.investopedia.com/how-heartbeat-trades-are-boosting-etf-returns-4684138#:~:text=So%2Dcalled%20%22heartbeat%20trades%22,ETF%2C%20rather%20than%20in%20cash>](<https://www.investopedia.com/how-heartbeat-trades-are-boosting-etf-returns-4684138#:~:text=So%2Dcalled%20%22heartbeat%20trades%22,ETF%2C%20rather%20than%20in%20cash>).

To save you the reading, an in-kind redemption allows you to trade one asset for another **\*\*without creating a taxable event\*\***. This little loophole works on the ETF creation/redemption process and is used every year to get out of **\*\*hundreds of billions\*\*** of tax dollars. To offset this, the general public is on the hook for higher taxes :(

So basically what happens is a market participant orders a creation basket of the ETF, then exchanges it for other assets of equal value. Since it was traded, it did not cause a taxable event. It is also worth noting that the wash sale rule is exempt since there are multiple identical pairs of nearly every ETF that can be sold the bought back instantly for no loss.

[Source: <https://www.moneycrashers.com/etf-tax-loophole/>](<https://preview.redd.it/wh1f9idrnn891.png?width=853&format=png&auto;=webp&s;=67e3c14da12e628ea78926b4da77e911e0cddda8>)

Because of this little loophole, ETFs are becoming the main source of trading, resulting in the majority of the trade volume coming from ETF creation/redemption, which almost completely removes price discovery for emerging stocks. Have you ever wondered why everything follows the SPY? Well this is why.

On top of the tax free ETF trading, the market makers for the ETFs are given 6 days to deliver the shares before they become FTDs. This allows even more time for them to profit from the trade. ETFs are also granted immunity from the short sale rule, which prevents short sales on down ticks during SSR. Oh, and ETF creation is only accessible to authorized participants (not retail) and they can then sell the underlying assets to retail. They typically don't do this since many of the shares with the ETF baskets are illiquid and they will have a huge problem selling those shares, so they just trade their entire basket to a bank or something in exchange for assets. Something like only 9% of the assets traded in any given day through ETFs make their way to the primary market. The remaining 91%ish stay within the creation-redemption loop cycle. (Feel free to correct me since I closed the tab that had this stat and I can't find it anymore)

Here is a post that someone else did showing what ETFs contain GME

[[https://www.reddit.com/r/DDintoGME/comments/s9mh0k/failurestodeliver\\_of\\_etfs\\_with\\_exposure\\_to\\_gme/](https://www.reddit.com/r/DDintoGME/comments/s9mh0k/failurestodeliver_of_etfs_with_exposure_to_gme/)]([https://www.reddit.com/r/DDintoGME/comments/s9mh0k/failurestodeliver\\_of\\_etfs\\_with\\_exposure\\_to\\_gme/](https://www.reddit.com/r/DDintoGME/comments/s9mh0k/failurestodeliver_of_etfs_with_exposure_to_gme/))

Now for tinfoil time and a fun little theory. Please note that this is 100% speculation and there are 1000 completely different explanations to what is going on in the market, but this is just my quick swag on the matter. I am sure that after I do more research or get told off in the comments because there are so many logical fallacies/holes, I may change my stance. Here goes:

1) I collude with my buddy State Street, who owns XRT. They tell me that GME is a great short option since an insider consulting group was planted and got the dirt and they are willing to work with me to pound this thing into the cellar. They tell me that they have a ton of big banks on board ready to the ETFs for other securities. State street is just as corrupt as me, so they don't care about how many ETF shares are created/redeemed and honestly, nothing has ever been done about it!

2) I borrow then short an XRT basket that doesn't exist and buy all the shares except GME from a bank, then pay them in alternative (in-kind) assets to make up for the GME share that I am not going to buy back from them. I have now effectively shorted 1 basket worth of GME shares. During this process, school taught me to hedge my bet with a call option, but I am greedy so I will open additional put options on GME, but I am greedy so I won't do anything of the sort.

\*Below are several of the banks that are more than willing to purchase then loan back out an XRT basket.\*

<https://preview.redd.it/kcta0osoxn891.png?width=903&format=png&auto=webp&s=6df6af5bd28c4dd67da47aac3003c4e903082889>

\*Note: Remember the posts showing where Mayo force 1 flight went to? We have seen Switzerland and France pretty often - Look up BNP Paribas Arbitrage and UBS Group.\*

3) Now I will make sure my bet makes me a ton of money by getting my Market Maker friends in on it as well (like Citadel), who will route retail buy trades away from GME and send the sell orders through the NASDAQ open market.

4) I will tell my other buddies that this is a sure thing and we all start opening short positions with no hedge in sight.

5) We are about to pay no taxes on the whole ordeal and laugh as the silly American peasants lose another company and have their taxes hiked up as a result....

6) Someone who says he's not a cat starts posting on Reddit...

As always, criticize the crap out of my post and I will reply to you with a counter argument... or I will accept when I am wrong.

I found that low-key insulting the intelligence of those smarter than me by going completely off the rails is a sure fire way to get the information I really wanted to learn about.