Title: Short Squeezes and Call Options
Author: adhering
Created 2022-01-09 12:37:10 UTC
Permalink: /r/GME/comments/rzqsvx/short_squeezes_and_call_options/
Url: https://www.reddit.com/r/GME/comments/rzqsvx/short_squeezes_and_call_options/

I was thinking about short squeeze scenarios. Let's say there is a hedge fund that shorts a stock (e.g. GME) heavily to the point where it makes them vulnerable to a short squeeze. And then other market participants notice this and buy up a bunch of the shares in preparation for a squeeze.

Couldn't the shorting hedge fund buy a bunch of call options to cover their short position? This would effectively transfer the responsibility of buying back the shares at any price from the hedge fund to the options seller (i.e. the market maker). The hedge fund would still need to buy back the shares by executing the options but it would be at a set price.

The squeeze would still happen but it would be the market maker who was screwed not the shorting hedge fund. Is this correct? If not, what am I missing?