

Title: ■■■WHALECEST■ - A JOURNEY THROUGH TIME & WHEN THE GAME FINALLY STOPS■■■

Author: choompop

Created 2022-02-23 10:09:32 UTC

Permalink: /r/GME/comments/szdzky/whalecest_a_journey_through_time_when_the_game/

Url:

https://www.reddit.com/r/GME/comments/szdzky/whalecest_a_journey_through_time_when_the_game/

TL;DR: This DD examines historical options data and their relations to fails and the Continuous Net Settlement System. Derivatives don't bet on underlying, but rather drive the underlying. Here is what is coming in the near future.■■■■■■■■■■

2/23/2022 - I'd like to take you on a journey through time. There was a challenge set up only for those who could really take it. There was something hidden in plain sight, and if you saw it, then you were brought to the first challenge. If you fulfilled this challenge, you began participating in the game.

\-----

5/19/1962 – Before we embark on this journey, I wanted to stop by [President Kennedy's birthday gala in Madison Square Garden](<https://www.youtube.com/watch?v=qvoqK6aLE2E&t=1s>). I figured it would be a good ambiance to explain some important tools that the "suits" use to keep us poor. In these days, investing was largely reliant upon fundamentals of the underlying. As financial technology developed, new methods developed to speculate on market trajectory. Derivatives sprang up to bet on the direction of the underlying, which gave opportunity to those seeking more risk and leverage. There was, however, *a shift*. **The derivatives market grew so large and complex into a House of Cards that they began moving the underlying rather than betting on it.**

There are two teams in this fight. Team GameStop■■■ ***& Team Shit Face■■■***

■■■ Team GameStop simply wants to create value for shareholders and build an extraordinary company that delights customers.

■■■ Team Shit Face is a conglomerate of Market Makers, Hedge funds, Banks, and Authorized Participants who have manufactured financial tools in order to suck as much value as they can from U.S. investments. In 2014, Team Shit Face saw an opportunity: Brick-and-mortar video game sellers seemed to be a decaying industry, and GameStop had a debt problem with questionable leadership. *The objective was simple:* Profit from the bankruptcy of GameStop. The method was complex. There are a host of instruments they use which include: Naked short selling, ETF basket creation, variance swaps, high frequency trading, payment for order flow, futures contracts, failures to deliver and more.

Three things I plan to highlight in our journey through time:

1. Naked Short Selling

2. Options Clearing, Hidden Short Interest, & Fails (C+35)

3. Continuous Netting System & Supplementary Liquidity Deposit

\-----

3/7/2004 – In 2004, [we can find confessions from market makers and detailed playbooks](<https://archive.is/KSS6m>) describing the techniques used to bankrupt companies to suck value out of companies:

> In order to participate in "CELLAR BOXING", the MMs first need to pummel the price per share down to these levels. The lower they can force the share price, the larger are the percentage spreads to feed off of. This is easily done via garden variety naked short selling. While the right hand is busy flooding the victim company's market with "counterfeit" shares that can be sold at any instant in time the left hand is nullifying any upward pressure in share price by neutralizing the demand for the securities. The net effect becomes

no demonstrable demand for shares and a huge oversupply of shares which induces a downward spiral in share price.

It is obvious why this is attractive to Team Shit Face. They take a short position on a company then use market making powers to ensure company decreases in value. Naked short selling is supposed to be illegal, but [market makers are legally allowed to naked short sell stock.](<https://www.sec.gov/investor/pubs/regsho.htm>)

> "Naked" short selling is not necessarily a violation of the federal securities laws or the Commission's rules. Indeed, in certain circumstances, "naked" short selling contributes to market liquidity. For example, broker-dealers that make a market in a security[4](https://www.sec.gov/investor/pubs/regsho.htm#_ftn4) generally stand ready to buy and sell the security on a regular and continuous basis at a publicly quoted price, even when there are no other buyers or sellers. Thus, market makers must sell a security to a buyer even when there are temporary shortages of that security available in the market. This may occur, for example, if there is a sudden surge in buying interest in that security, or if few investors are selling the security at that time. Because it may take a market maker considerable time to purchase or arrange to borrow the security, a market maker engaged in bona fide market making, particularly in a fast-moving market, may need to sell the security short without having arranged to borrow shares. This is especially true for market makers in thinly traded, illiquid stocks as there may be few shares available to purchase or borrow at a given time.

>

> Rule 204 provides an extended period of time to close out certain failures to deliver. Specifically, if a failure to deliver position results from the sale of a security that a person is deemed to own and that such person intends to deliver as soon as all restrictions on delivery have been removed, the firm has up to 35 calendar days following the trade date to close out the failure to deliver position by purchasing securities of like kind and quantity.

Market Makers can sell shares that don't exist to provide liquidity, as long as they find shares to deliver within 35 days. This market mechanic makes sense in theory, *but it's easy to see how a MM could abuse this power, especially if they coordinate with Hedge Funds*.

9/23/2010 \- Blockbuster goes bankrupt. They were the victim of creative destruction as streaming services and more technologically advanced companies took their market share. Similar things happened 8 years later to Sears and Toys R Us. With outstanding debt, it was near impossible to raise capital to keep these companies afloat. Short selling funds made unfathomable amounts of money and they barely had to lift a finger. All they did was press a button and they received millions of dollars. It was like heroin. They didn't even have to close their short positions because the companies went out of business, so in some cases they didn't even have to pay tax.

4/2/2013 – Team Shit Face is addicted to these types of profits and looking for their next hit. They don't need to create anything of value or expend any effort, they can literally siphon dollar bills out of investors pockets and use their market power to ensure they win. In 2013, they set their eyes on another target. Studying the movement of this stock can teach us a lot about tactics used to deter investors and manipulate share price. [Here is what an investor noticed in 2013:](<https://teslamotorsclub.com/tmc/threads/the-rolling-naked-tesla-short.15417/>)

> There's a pattern of trading which indicates a large player is using options to hold on to a rolling naked short position. Looks like maybe millions of shares. What he does is pre-arrange a trade with a market maker where he sells a huge number of deep in the money calls at a discount to intrinsic value. The market maker on the other side is happy to buy them because the market maker hedges by shorting tesla above 44 ahead of the trade, and then immediately exercises the calls to neutralize the market maker's position.

>

> The market maker exercises the calls. Now what happens is the shorter goes into the exercise pool and gets assigned on most or all the calls. Tomorrow his position will show that he's short 500,000 tesla shares.

>

> Now he's got 3 days to locate the shares (t+3 settlement). He won't pay carrying charges until settlement. But the trade will never settle because he can't find the shares and again, he doesn't want to

pay the carrying charge.

****This was an average investor who looked at open interest to notice two key ways that Team Shit Face hides short interest and manipulates price.****

1. They sell options to each other at discounted premiums to claim access to millions of shares
2. They exercise and fail these options to roll liability into the future

*****8/9/2013*** **_** [Here](https://www.sec.gov/news/press-release/2013-151) **is a press release from four months later that highlights some of the ways that options are used to hide short positions and evade certain requirements of the short-sale rule.****

> • Continuous failure to deliver positions

>

> • Using buy-writes, married puts, or both, particularly deep in-the-money buy-writes or married puts, to satisfy the close-out requirement

>

> • Multiple large trades with the same trader acting as a contra party in several hard-to-borrow or threshold list securities; often traders assist each other to avoid having to deliver shares

*****7/26/2019*** – When we come back to 2019 it's easy to see what was so attractive about Team Shit Face's position. GameStop had steadily declined over 5 years and they were only months away from GameStop defaulting on debt obligations and granting the ultimate payday.**

****There was a perfect storm. Citadel could legally naked short sell the stock in order to "provide liquidity". Hedge Funds made millions on short selling the stock and selling worthless far dated futures. They sold variance swaps and then hedged those swaps by building a replicating portfolio. They sold far OTM options, hoping that the calls would expire worthless and then exercises the puts to increase downward pressure. This doesn't even take into account the institutional shorting on brick-and-mortar indexes in general, as well as the massive manipulation through ETF creation baskets.****

*****3/4/2020*** – Team Shit Face was inches away from one of the most coordinated and malicious robberies of American finance. [Then the game began. Take a look at the Wayback Machine.](https://web.archive.org/web/20200304172226/https://www.marketbeat.com/stocks/NYSE/GME/options/) Notice the dates highlighted: January 15th 21, April 16th 21, July 16th 21, and Jan 21st 22. These dates had massive open interest on both long and short options. Think about the years of hedging and institutional investing that went into LEAPs at strikes of \$30, \$35. With the dramatic price movement since this date, all of these puts are completely worthless and every call is deep in the money. **This means that basically every long term option purchased before Ryan Cohen's investment is bullish, even the ones written and purchased by Team Shit Face to hedge.****

*****8/31/2020*** – Ryan Cohen sets his eye on the transformation of GameStop. He purchases millions of shares and writes a letter to the board detailing plans for transformation. The stock price went up by 22.26% after his initial investment.**

*****12/02/2020*** – On this day, failures to deliver spike by 1000%. 1,061,397 shares fail on Wednesday and 1,787,191 fails on the following day. These numbers stay high for about a week, then level off. It is indicative of another large insider purchase, and later confirmed by [Ryan Cohen's filing](https://news.gamestop.com/node/18371/html) on December 18th, 2020.**

*****01/13/2021*** – Team Shit Face really begins to sweat. The internalization was getting out of hand. They were attempting to roll fails but there were too many being generated every day. At the same time, millions of retail investors started buying shares and short dated options. The combination of hedging, buying pressure, and lack of liquidity caused GameStop to skyrocket.**

*****01/27/2021*** \- The price of \$GME has thoroughly begun its launch to the moon. It continues to climb and brings more and more calls ITM. There is added intensity because yearly options expired January 15th, which were now heavily skewed long.**

After the 3rd Friday, the Options clearing period begins and each Authorized Participant needs to post a Supplementary Liquidity Deposit. The Continuous Net Settlement (CNS) System works to net trades with calls and puts, effectively cancelling out most pressure. SLD is estimated based on historical averages for clearing, but there are so many calls being exercised to so little puts that the netting system is broken, and Team Shit Face is left with a massive debit. Check out page 74 & 250 in the [NSCC Rules & Procedures](https://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf) for more.

> "CNS is an on-going accounting system which nets today's Settling Trades with yesterday's Closing Positions, producing new short or long positions per security issue for each Member. Each day, Settling Trades shown on the Consolidated Trade Summary are netted with the Closing Positions which have been carried forward from the previous day. The resulting net positions represent the quantity of each security due for settlement by the Member on Settlement Date. A long position represents the quantity owed to the Member by the Corporation (the Member's fail-to-receive). A short position represents the quantity owed to the Corporation by the Member (the Member's fail-to-deliver). The Corporation is the contra side to all long and short positions.

>

> Each member has the ability to elect to deliver all or part of any short position. It controls this process by Exemptions. By indicating a particular quantity as an Exemption, the Member directs the Corporation not to settle certain short positions or portions thereof. Exemptions govern short positions in the CNS Stock Record and not Designated Depository positions. All short positions or positions thereof for which no Exemption is indicated are settled automatically to the extent that the Member has made such securities available in the Member's Designated Depository account or they become available in its Designated Depository account through other depository activity."

Basically, Ryan Cohen's massive stake in the company drove the price up a ton because it was so illiquid. As these fails came due from the early December trade, a snowball turned into an avalanche. Retail investors hopped on the bandwagon and bought a ton of ITM calls with no puts to net against them in the clearing period. All the APs that posted SLD were left with a fat balance owed and panicked.

1/28/2021 \- The Authorized Participant that Robinhood goes through sends Vlad Venmo request for \$3 billion, with the caption "If you make these stocks PCO then you won't need to put up SLD for them".

Robinhood promptly deletes the buy button.

Team Shit Face had no choice but to double down on their position. They shorted it back down as far as they could and cash settled as many call contracts as possible so they didn't need to buy at market. The SEC report shows that they did not close their shorts.

Team Shit Face likely sold options to each other in order to kick the can down the road and account for their short positions with the OCC. This can be seen in the spike in open interest for 1/28/2022 and 1/20/2023. They then likely used exemption claims to elect not to settle short positions for extended periods.

Once these Deep Out of the Money puts expire worthless, the married calls will not be properly netted and it will drive upward pressure on the stock like in Tesla's case. It is very cheap to roll DOOMPs forward, but the lowest strike price is now 20x higher for next year.

2/23/2021 \- Market Maker fails are due for January 15th expiry. January 15rd + 2 trading days = Wednesday Jan 19st + 35 Calendar days = Feb 24rd■■■. Remember the options in the [Wayback Machine?](<https://web.archive.org/web/20200304172226/https://www.marketbeat.com/stocks/NYSE/GME/options/>) Here are the dates that were shown:

01/15/2021 - Options settle the following Wednesday. MM fail + C35 -> Feb 24st.

04/15/2021 - Options settle the following Tuesday. MM fail + C35 -> May 24rd.

07/16/2021 - Options settle the following Tuesday. MM fail + C35 -> August 23st.

01/21/2022 - Options settle the following Tuesday. MM fail + C35 -> ?

\-----

****Now that we have an understanding of how Team Shit Face manipulates price with options and how their failure to net almost led to the collapse of the system due CNS system...****

*****2/14/2022*** \- SC 13G/a is**

[filed](<https://gamestop.gcs-web.com/sec-filings/sec-filing/sc-13ga/0001104659-22-022357>) with the SEC. Susquehanna Securities, LLC reports ownership of 3,056,239 shares of GameStop. *What Is Schedule 13G?* The Securities and Exchange Commission (SEC) Schedule 13G form is an alternative filing for the Schedule 13D form and is ****used to report a party's ownership of stock which exceeds 5% of a company's total stock issue**** (filed within 45 days).

****This is important because we know Susquehanna is on Team Shit Face. No, they didn't switch sides.**** They likely didn't have a choice but to exercise their long-dated contracts that they previously purchased in order to hedge. Another likely scenario is that they purchased these calls from another firm such as Citadel's hedge fund with a discounted premium in order for someone to hide their short position. These calls were not settled at market and the FTDs for these shares + millions more will come due within the next two weeks. These strategies are reminiscent of tactics used to manipulate car stock.

*****Speculation:***** These shares will be used to roll fails then will be married to a put for bookkeeping purposes. At futures rollover they'll likely be sold to satisfy swap agreements, but the married put will stay posted to OCC, yet exempt from short position settlement because the entire system is corrupt.

*****02/16/2022*** \- Finra releases inaccurate data for second half of January 2022 (even with wrong dates). Goes to show just how corrupt our financial system is. The C+35 fail dates include 2/19-3/7, so mark your calendars.**

*****02/22/2022*** \- Ryan Cohen's 69th tweet is the shorts emoji.**

\-----

****TA;DR: Why are you on Reddit? Go outside. DRS your shares and enjoy life. GameStop is going to the moon. You have all the confirmation bias you need now go drink water.****