Title: this is one of the posts that started it all - could be a good refresher for the newer apes doubting the options strategy
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Url: https://reddit.com/r/wallstreetbets/comments/ip6jnv/the_real_greatest_short_burn_of_the_century/

Linked Post Content:
>Disclaimer from Quora: A true short squeeze is a fairly rare event. There are probably 100 predicted for every 1 that occurs.*

>There needs to be an unexpected positive event. This could be a huge earnings surprise, a takeover offer, new patent, drug approval, etc.

>Unscrupulous stock promoters (PUMPERS) often dangle a potential short squeeze as a carrot to entice inexperienced investors to buy a bad stock. For instance, you will find predictions of a “massive short squeeze” on virtually every message board for every penny biotech stock. If you point out that there is insufficient short interest for a squeeze, the promoters just add lies about “naked short selling”.*

There, nobody sue me for the pennies I have. The following is all for entertainment purposes only:

The intro:

Sup gamblers. Feel bad about missing the gain train on TSLA? Fear not - something much greater and stupider is here.

You know Citadel? The MM that took all our money today? Well now we finally won’t be at the mercy of the MMs. Instead, we’re going to temporarily join forces with the Galactic Empire and hijack the death star.

Our choice of weapon... $GME.

The setup:

Huh?? Isn’t GME an absolute piece of trash stock? NO (will explain below), and even if it is, it's not entirely relevant. The this turn around is going to make TSLA's short burn look like warm afternoon tea.

Why? Well, most short squeezes are mostly math. This one is special because we have math AND great underlying news.

To be clear, this will happen whether or not we participate. I prefer us idiots to be a part of history. Here’s what’s up:

Short interest:

GME currently has between 85% - 99.8% short interest, depending on what site you use. For context, 20% is already considered high as the moon. TSLA and NFLX were around 30-40% at their peak. But GME’S ACTUAL SHORT INTEREST IS OVER 110%. In case you think I’ve gone nuts, look below:

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Shares Outstanding (June 2) = 64.8M

- Insider Shares (June 30) = 8.9M

Total = Public Float = SO - IS = 55.8 M

- Ryan Cohen Shares (8/31) = 6.2M

Total = Adjusted Public Float - Ryan Cohen = 49.6M

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Shares Shorted (9/2) = 55.7M

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% Shorted (Total Shares) = 86%

% Shorted (Float) = 99.8%

% Shorted (Adj. Float) = 112.3%

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This is unheard of. Also, the short interest ratio/days to cover is 16 DAYS right now. Shorts are beyond trapped in their position.
And the insiders? They won't sell. In fact.. they've been BUYING.

Fine, what if the shorts are correct? They've been printing for 5 years. Ok fellow gamblers, here's where the real DD comes in.
The reversal:

3 big things will cause this reversal. Ryan Cohen, retail option buying, and Kenny G (Citadel) himself.

Who's Ryan Cohen?

Ryan Cohen sold Chewy in 2017 for $3.3 billion. He poured most of his money into Apple and Wells Fargo, saying he hates diversification and only goes all in into things he has high conviction in. Cohen is a Buffet-like investor. He is the largest individual owner of AAPL, and has sat on his hands doing nothing for 3 years.

Until last week… he went long on $GME.

Who cares right? He's just another gambler like us willing to lose money. Not in this case… RC is special due to his expertise in e-commerce. He understands how a smaller company can compete against Amazon and Walmart despite heavy competition. THAT, combined with his hatred against diworsification makes his interest in GME a bit special.

RC can spin this into an e-commerce/tech company, which would make Wall Street drool from their mouths. He's already caught the attention of a few people, hence the recent 75% run up since the RC announcement.

RC only needs to disclose his investments every 10 days. If he's been buying since 8/31, we won't know until this week.

Add to that, the original contrarian Michael Burry found that 90% of stores were free cash flow positive before COVID. GME's balance sheet is healthy with $100M in net cash (around $500M cash and $400M debt), so they aren't going bankrupt anytime soon. They also added 2 more activist investors, Kurtis Wolf and Paul Evans, who were nominated by Hestia Capital Partners and Permit Capital Enterprise Fund, to turn the ship around.

All this meaning, prominent figures have sKiN iN tHe gAmE, and if needed (unlikely) they have more cash to see it through.

Second and third, degenerate gambling retail robinhooders + CITADEL. Told you we're going to work with him this time.

Thanks to MMs literally not using their brain and relying on ze maths to configure their entire business, we can take advantage of them sleeping at the wheel for a few seconds, and cause them to ram into GME for us.

It looks like this: RH Call Option buying -> MM Delta hedging/share purchase -> short squeezing -> Greater retail/RHers price action chasing/call option buying -> MM Delta hedging/share purchase -> short squeezing -> Institutional and new channels flip the script -> GME to $400+ -> cash out.

By the way. This is NOT a pump and dump. This is a kick in the shorts' teeth. The stock will STAY HIGH.

For reference: if $GME was trading at the same P/S multiple as $CHWY, the share price would be $420.

Maths:

On being delta neutral - quick refresher from a WSB classic:

>“Part of the reason we see outsized moves is when a stock starts moving the dealers who are short the calls need to buy more stock to hedge. This can easily double the amount of buying pressure out there and lead to very exaggerated moves.

>As the stock goes up, so does the delta of the stocks calls and dealers who were originally perfectly delta hedged before the move effectively become short the stock as it moves higher so they need to buy more stock to “hedge up” or flatten their exposure/risk."

Remember, since GME is literally 99.8% of float short (ignoring RC’s shares for now) they currently HAVE LESS THAN 50,000 SHARES IN LIQUIDITY.

https://iborrowdesk.com/report/GME

As of writing this, delta on average is around 0.200, give or take. Higher for near dated (0.395) lower for long dated (0.195). Let’s be conservative and call it 0.2 for the time being. So now, for every call option I buy, MMs need to delta hedge with 20 shares.

Here’s where it gets insane:

If $100,000 in calls are bought from RH, Citadel is forced to buy the remaining 50,000 shares. I’m using 10/16 $15C for this example. This is an insanely small amount of money, especially with Ryan Cohen, retail idiots, and the rest of the SeekingAlpha vultures waiting for this play. It’s a ticking time bomb waiting to happen.

Let’s say Burry wakes up and decides to drop $600,000 in call options. This is going to force Kenny to delta hedge 300,000 in GME shares. When there are only under 50,000 shares available in PUBLIC FLOAT. This has NEVER HAPPENED BEFORE IN HISTORY. In an accidental squeeze (KBIO, VW), the shorts can’t buy back and get priced out momentarily. Pump and dump. Not what's happening here.

In a contrarian bet leading to a squeeze, shorts bail their positions and the stock STAYS HIGH (TSLA, PTON). The stock is no longer being artificially suppressed, and the shorts are NOT going short again.

To tell you the truth, I don’t even know how far this is going to blow up, since there is literally no historical precedent for this. I just know things are about to get very very insane.

Now also add in the fact that GME is at a 5 year low, which means shorts can be largely satisfied with their gains, and are comfortable covering their shorts. Which, as a reminder, they have to BUY back.

-Cut to Ryan Gosling toppling the Jenga pieces-

The timing:

Alright, if you've read up to now, I can assume you're in. IV is off the charts right now. That's what happens when a stonk goes up 75% in a week. Sorry, but the Ryan Cohen news is actually big news.

PRE-EARNINGS BET

There's no idea how the call will go. So place your bets if you think it will go well. If $GME absolutely misses the mark, this DD is worthless. BTW GME flopped the last 2 earnings - that's why there have been no big gains. Proceed at your own risk.

Few things I'm betting on:

First, GME beats earnings. All gaming companies, Nintendo, Sony, ATVI beat due to COVID lockdowns. Same store sales should be flat or up, with 300 less total stores. $GME is expected to post a loss of 1.27 EPS. That's way too low.

Second, activist investor activity. Cohen is sharp as a knife and will make sure things get aligned correctly. He's more financially oriented than most founder/CEOs. He can probably recite CHWY's balance sheet to you off the top of his head, and he understands the investing environment (bad IPOs, interest rates, SPACs). Meaning, he's not a gung ho YOLO Masayoshi / Grant Cardone coked out founder. He's disciplined. Yea I did some stalking... Well you know I had to.

Third, positive news cycle due to Console Cycle:
http://charts.stocktwits.com/production/original_240233258.jpg

If you're wondering why fund managers aren't covering and going long, remember that they have a JOB. They can't make contrarian bets at the risk of looking idiotic. Cohen and Burry can because they own their own money.

They can talk about how $GME is going to be Blockbustered. Only one problem - GME's Netflix… is GME itself. By the way, VW was also heavily shorted during a recession because everyone thought they would be bankrupt. Jus sayin.

AFTER EARNINGS

If GME rockets after earnings, the short squeeze has started and we can pile on weekly 10-20% OTM options to force KG to delta hedge by buying shares, ad infinitum: see $TSLA.

If GME tanks, buy cheap options in anticipation of the short burn.

The trade:

In order to capture the biggest upside, the highest strike call option is best. Remember when TSLA was going up so fast they didn't even have existing options to match the parabolic gains? Same will happen here. We only have $30Cs now, so these will have to do.

15 Jan 2021 $30.00 C.

Also, since we don't know when GME will skyrocket, this gives you time to capture any squeeze that happens.

16 Oct $15.00 C.

This lets you capture more asymmetric upside in case the squeeze happens quickly.

LAST, and timing is crucial here. ONLY WHEN I get the confirmed signal that the squeeze is happening, I will pound weeklies 10-20% above strike price. Again forcing Kenny to hedge with shares, causing shorts to cover and BUY back, increasing the delta of the call, getting retail and institutional attention, buying more calls/shares, delta hedge, shorts cover, ad infinitum.

The weeklies have the highest delta, so Citadel will be forced to hedge the most by buying shares. In other words, we'll get the biggest bang for our buck in squeezing these.

There is a chance Citadel/MMs switches to buying puts to delta hedge. Like I said, they're asleep at the wheel for a second, retail will likely ram before they change their algos.

However, once the squeeze takes off, not even Citadel will be able to stop it. In any case, if they do start to buy puts, we can sell the puts as a bonus.

Like /u/dlkdev once said, the only way to beat a rigged game is to rig it even harder.

This is not fraud. There is no manipulation here. We aren't forcing anyone to do anything. It's going to happen with or without us. But I want to ride.

Earnings will light the match, but we can add all sorts of gasoline to the fire.

I stole some data/ideas from a couple of different articles on Seeking Alpha/reddit/google/youtube. I'm not claiming credit for this trade, I don't really care. In fact, I beg you to completely ignore me. I even dare you to short GME. I'll happily take your money.

TL;DR: $GME is vastly oversold.

GME is TSLA one year ago. GME is AAPL in 2017. Add to that the greatest short burn you'll see in history, and you're in for a hell of a show.

Also GME is uncorrelated with the market. It might even be negatively correlated (it was today). It's only worth $500M (3 Bel-Air houses) and fund managers are happy to cut a high risk/low return position. Let your cognitive biases run free.

Ryan Cohen & Michael Burry if you see this - you better buy as much as you can now. When GME gets to fair value of $26B+, you won't be able to take over the company and kick out the backwards exec team. Good luck.

**Edit1: $GME missed and tanked. Not much Cohen can do in 1 week. IV is dead and liquidity is still dry. Get cheap calls while you still can. PLAY IS STILL ON.