Title: About All Those Deep OTM $GME Puts
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I made a meme about the funky open interest on GameStop Put options. Apparently, memes are not allowed on r/DDintoGME (not sure I agree with that, but anyhoo) ... but the data presented in the meme raises some interesting questions about the who, what, why, so I thought I'd reveal a little more in some quick, down and dirty DD that might tell us a little more about what happened in late January 2021.

So to start, let's talk about Open Interest (OI) Puts on GameStop.

As of right now, there are exactly 513,216 OI Puts on GameStop across 14 expirees, stretching from tomorrow (9/24) out to January 24, '23. These open Puts represent 51,321,600 shares of potential obligations, as each contract covers 100 shares.

Of these 513K OI Put contracts, exactly 288,614 are held at a strike of $5 or less. This is rather humorous since GameStop is currently sitting on a mountain of cash and has absolutely no debt of any significance. In fact, according to the official Shares Outstanding, GameStop has about $22.76/share in cash. To put this in perspective, Apple (a very cash-rich company) has $3.73/share in cash.

So here are those <$5 strike positions:

https://preview.redd.it/yc3tkpqa19p71.png?width=2230&format;=png&auto;=webp&s;=04e51f91c94bd3677e14e797de34fdc4910d2553

https://preview.redd.it/xvso8qrb19p71.png?width=2230&format;=png&auto;=webp&s;=97e4efc0773ae289aea1916cf8333af9e3a0a2f6

https://preview.redd.it/juxgkpcc19p71.png?width=2230&format;=png&auto;=webp&s;=d82ce78781de8516506e7364a457fddf26e67bb5

https://preview.redd.it/64r59cyc19p71.png?width=2234&format;=png&auto;=webp&s;=2923a326416abb684fb9e6db9568cc9ed34c4401

So what's interesting is this ... in almost every case, these sub-$5 positions were created and sold during the period of January 27-29. Who in their right mind would be spending millions of dollars on sub $5 puts at a time when a stock is squeezing into the hundreds of dollars a share?

Perhaps this takes some explaining for those unfamiliar with how Puts work. An option, whether a Call or a Put, has basically two important components ... a trigger price (called a Strike Price) and an expiry (a date on which the option will automatically be exercised if in the money \[ITM\]). So for a $.50 Strike on the January 21, '22 expiry, if the price of GameStop is below $.50/share, the person who bought the Put will have the option to sell 100 shares of GameStop to the writer of the put (the originator).

These numbers are really ridiculous because I'd be surprised if GameStop ever gets below $150 again, let alone $.50. But as an example, let's say someone buys a Facebook (FB) Put with a strike of $340 for expiration next Friday. And let's say some negative news comes out between now and then and $FB falls to $320 ... so now the person hold the Put can go out and buy 100 shares of FB ($32K total) and the writer of the Put must buy those 100 shares for $340 each ($34K total). So minus the premium paid when the Put was purchased, the Put buyer just pocketed $2K ($20/share X 100). So in a nutshell, that's how Puts work. And if Facebook stayed above $340/share, well the Put buyer just lost 100% of their investment. FYI, $FB $340P for Oct. 1 are selling for about $530 each. So in this scenario, that would be the loss if the contract was held to expiration and FB stayed above $340/share. It should also be noted that options can be traded like stocks up until they expire.

So ... back to GameStop. So who was buying all these shitty-ass Puts? Well, according to the wonderful world of 13F filings, we have a pretty good idea on who was buying these puts ... at least, but a lot of them.

Here are some of the top holders (courtesy of a free account on Whale Wisdom):

https://preview.redd.it/42t46me459p71.png?width=4000&format;=png&auto;=webp&s;=bb91ee35fc2ecaa82eb8c6787b9c19cad5a53548

See any familiar faces? And these are just the large organizations. Family firms (like Archegos and the like) don't even need to report, nor do smaller hedge funds, so they undoubtedly hold thousands of shitty puts too. Furthermore, firms can also file their 13Fs with confidential positions, like our good friends Melvin have done in the past. So while some will say ... oh no, it was retail "gamblers" buying these puts to try and make money on the volatility swings ... that's bullshit. GameStop went for $480 to $40 in less than 3 weeks (which is crazy volatility), and not a single one of these sub-$5 Puts saw a profitable change from the massive stakes opened on the dates of January 27-29.

So we now know the what. And the who. But what about the why? Well, I think this one is simple.

During the January sneeze, millions of shares were being bought on Payment For Order Flow (PFOF). PFOF works like this ... an ape buys a share of $GME on Robinhood for $200. That order gets sent to Citadel and rather than going to a lit exchange and purchasing that share, Citadel pools that order with others and sits on that order until they can find a share for less than $200, pocketing the difference. But during the sneeze, the price was climbing so fast, PFOF was delivering a thick one in every hole. Meanwhile, all the dummies who had spent years shorting $GME (likely naked shorting) were taking it deeper than ever, which is why short hedge fucks like Melvinoptions had to get some zipple from good friends Citadel and Point72.

Not only was PFOF causing a headache, but on January 29, thousands of call option were exercised, many of which had Strike Prices well below market, and I'd bet many of these were totally unhedged meaning the writers of the contract had to go buy very expensive shares of $GME and turn around and sell them for hundreds of dollars less per share than they just bought them for (Calls are basically the opposite of Puts ... a Call buyer has the option to buy 100 shares at a particular Strike Price).

So I think what happened is this ... First, all the brokerages who used PFOF had to stem the bleeding by turning off the buy button. Notice how brokerages like Fidelity and Vanguard never disabled the buy button? Well, it's no coincidence that they also don't use PFOF for stock transactions.

Second, MMs like Citadel need shares or they were going to have an epic FTD shitstorm on their hands. In fact, FTDs were already absurd ... here's the SEC Failure-To-Delive data from then:

https://preview.redd.it/pckf7f2f99p71.png?width=1158&format;=png&auto;=webp&s;=79440e7236c31924557e71e6dc6dc6f9444240f5

As you can see, shit was getting out of control. So I think what happened is this ... Citadel the MM wrote a bunch of these shitty Puts, and their HF friends bought them up (including the Citadel HF). After all, what's a few million between friends? This allowed Citadel the MM to generate a bunch of synthetic shares because hey, I have these Puts so I have actual shares coming my way in the future, right? Makes me think of this guy:

[Is Citadel and PFOF the Wimpy of Wall Street?](https://preview.redd.it/nc89y1akb9p71.jpg?width=1280&format;=pjpg&auto;=webp&s;=caee194435d4882263f09fef6b9bacbddd749dc0)

This provided the market liquidity needed to stem the tide on FTDs, while also flooding the market with shares to tamp down the price. All in a day's work.

So here's what was meant by the meme ... the meme that looked a lot like this:

https://preview.redd.it/mf7mbh23b9p71.png?width=2420&format;=png&auto;=webp&s;=2630bd612e82d821e9cca4a87968871688a0a5bf