Title: What are SWAPS and why does everyone get them wrong?
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I want to preface this post with an observation I have made recently regarding swaps and perfect hedging between GME and our other favorite 'meme' stock. In these posts, the author attempts to show why GME and popcorn are perfect hedges against each other by showing charts that illustrate positive correlation between market cap, delta change, and suspect runs by one or the other.

On initial read, these posts are quite convincing, but when combined with a bit of logic, they fall apart. It is a great logical fallacy to have a predetermined conclusion and search to find data correlations to support the expected outcome. There will always be data to support any predetermined outcome if you can illustrate it in the correct manner. (This is very present in cults, or extremist groups)

Now for SWAPS... By definition "A swap is an agreement between two parties to exchange sequences of cash flows for a set period of time."

See below for reference:

https://www.investopedia.com/articles/optioninvestor/07/swaps.asp

Now what makes a swap beneficial to be a participant in? "Consider a bank, which pays a floating rate of interest on deposits (e.g., liabilities) and earns a fixed rate of interest on loans (e.g., assets). This mismatch between assets and liabilities can cause tremendous difficulties. The bank could use a fixed-pay swap (pay a fixed rate and receive a floating rate) to convert its fixed-rate assets into floating-rate assets, which would match up well with its floating-rate liabilities."

Well that is for banks, but what about stocks? If one party has risky assets but needs to take a low risk position, they swap their risky assets with a lower risk security or bond with another participant that willing to accept the higher risk.

One critical piece of swaps is that the party accepting the risk of a security does not "own" that security. Short reporting requirements require a shorts to be reported if they are >5% of the float of the stock. If a SHF wants to short a company like GME into the ground, they can go short 4.9% and then swap with 19 other counter parties, each at 4.9% short to be near 100% short on the stock. None of this has to ever be reported. The only reporting required is that a swap between the securities took place, which conveniently has been held from the public.

According to
https://www.sec.gov/swaps-chart/swaps-chart.pdf

'Security based swaps' are reported to the SEC, while the CFTC regulates 'swaps'. One key difference between the reporting is that the SEC does **not** require valuation reporting.

https://www.kaizenreporting.com/sbsr-sec-swap-reporting-the-long-journey/

Now back to GME and popcorn perfect hedge theory.

"A perfect hedge is a position by an investor that eliminates the risk of an existing position, or a position that eliminates all market risk from a portfolio. Rarely achieved, a perfect hedge position needs to have a 100% inverse correlation to the initial position."

For a perfect hedge, the losses in GME would need to be perfectly paired with the gains in popcorn. A simple glance at the chart and this is obviously not the case. In fact, it is the INVERSE of a perfect hedge. The two stocks are most likely involved in something called 'bucket swaps', where a group of securities are lumped together by risk index and swapped with another bucket with a different risk index. Both stocks were likely over shorted (along with several others) by using these bucket swaps for a long time. The benefit of lumping multiple stocks together in a bucket also goes back to reporting requirements. Lumping multiple stocks into a bucket obfuscates the value of each stock in the bucket and reporting for bucket swaps is good as useless. The participants can swap buckets back and forth with nobody besides the participants ever knowing what is contained in the buckets.

I cannot find any stocks with near perfect inverse correlations to our favorite bucket stocks, so they are likely swapped with an alternate form of currency, or are hidden in the much larger and more stable blue chip stocks...

Swap reporting requirements can be found at the link below... but it is written using legal jargon that makes it near impossible for the average person to make any sense out of.

https://www.govinfo.gov/content/pkg/FR-2020-11-25/pdf/2020-21569.pdf

I am completely open to anybody disputing my theory or adding to anything I missed. If you want to argue any points, I would love to go at it. Please give supporting documentation if you disagree with any of my statements.