Title: ETF manipulation and GME
Author: disoriented_llama
Created 2022-07-29 18:22:50 UTC
Permalink: /r/TheGloryHodl/comments/wbc06d/etf_manipulation_and_gme/
Url: /r/DDintoGME/comments/w2gmvm/etf_manipulation_and_gme/

Linked Post Content:
I want to preface this post with the note that I intended to research why the crypto death spiral started with the creation of the BITO ETF back in October, but I kept getting pulled back to GME, so here I am.

Have you ever wondered why there is the saying "The market follows the SPY" and why that saying is usually accurate??

Why do most stocks follow the ETFs that they are contained in almost to a T?

Aren't ETFs just supposed to track the underlying securities that they contain?

Why did a MEME ETF cause such an uproar when it was created with the criticism that it would be used to manipulate the price of GME?

These are questions that I ask myself often and it is very difficult to uncover the true answers, but I believe that everything we need to know is hidden in little nuggets out there and can modeled as a system for maximum profit. My assumption is that if we create this theoretical model, we will get results very similar to what we see in the market today. I obviously won't do that since I am not a fully staffed hedge fund/market maker, but it would be interesting if someone created a model which could be tinkered with to see the profit effects with different kinds of introduced securities violations... but that isn't the point of this post.

The point of this post is all about ETFs.

I will start the post with a few interesting quirks about ETFs and end with an example on how ETFs 'might' be being used to manipulate the price of GME.

ETFs have gained in popularity among large investors and institutions over the past several decades and now account for the majority of all daily trading (don't quote me on this, but it was about 50% back in 2020).

https://preview.redd.it/kj5m797tafc91.png?width=940&format;=png&auto;=webp&s;=ac89f0c6791877aa0b7955967d7133945e3a281c

So what is an ETF???

An ETF is a pooled security that tracks a group of stocks and can be bought or sold in the same way that a regular stock can. The ETFs can be structured to track anything and through various methods.

https://www.investopedia.com/terms/e/etf.asp

If you read the above article, you would have seen that ETF shares are exchanged through the creation/redemption process by someone called an Authorized Participant (not us lowly retail). The creation/redemption process with the inclusion T+6 FTDs allows for a bit of f*ckery by the market makers. It is a pretty intricate process and would probably take a PhD to fully understand, but it basically allows market makers to create or sell shares and not have to deliver them for up to T+6 before they come a FTD. They can then cover that FTD through SEC Rule 204T which allows them to borrow a share, create a new ETF share, then lend them out to someone else doing the same. (Please correct me if I am wrong here)

https://preview.redd.it/qu7vvqdsdfc91.png?width=1129&format;=png&auto;=webp&s;=c4887ed41504ed70c47321d1f672593c6dff8941

https://blog.themistrading.com/2013/08/etf-fail-to-deliversftds-are-an-issue-si-or-no/

ETFs also offer something of a little tax loophole:

[https://www.investopedia.com/news/etf-open-secret-theyre-tax-loophole/#:\~:text=ETFs%20allow%20investors%20to%20circumvent,hook%20for%20those%20capital%20gains](https://www.investopedia.com/news/etf-open-secret-theyre-tax-loophole/#:~:text=ETFs%20allow%20investors%20to%20circumvent,hook%20for%20those%20capital%20gains).

ELI5: ETFs are structured to not incur a taxable event upon sale

This little loophole allows the rich to avoid taxes by trading through ETFs, which increases the volume of ETF trading, which increases the amount of creation/redemption, which ends up driving the market. The end result is the tail wagging the dog.

So the million dollar question: How is GME manipulated through ETFs??

Short answer: I don't know, but I have theories

\-GME is involved in over 100 ETFs, which all behave differently. For example, we have the (in)famous XRT ETF, which is structured as an Equal Weighted ETF. This means that if the fund has 10 stocks and holds 1000$ worth, then it will purchase 100$ worth of each stock when redeemed. Here is XRT. It isn't perfect, but it is pretty close for most stocks.

https://preview.redd.it/pnul5j3agfc91.png?width=1138&format;=png&auto;=webp&s;=9ad69f0f4e00e68281481f3c6e6096c4a8a05a4d

\-Another type of ETF that GME is in is cap-weighted ETFs. For these ETFs, if the total value is to be 1000$ for 9 stocks and one stock is worth twice as much as all the other stocks, then that ETF would purchase 200$ worth of the larger cap stock and 100$ of all the others. A notable cap-weighted ETF that contains GME here is IWR.

https://preview.redd.it/x1ubam04gfc91.png?width=1156&format;=png&auto;=webp&s;=dccf5232b4b653910c9292abbed090deaff2a695

Here is the MEME ETF that popped up last year. Can you guess which kind of ETF it is???

https://preview.redd.it/zgrcuycqjfc91.png?width=937&format;=png&auto;=webp&s;=813a7e2be698a215b6e81e26ea53b8e1e72786ff

So how can you use these two differing ETF structures to influence a stock price given all the information previously talked about?

Let's say I want to lower the stock price of GME. In this example, I will not be using any other method to short the stock outside of pure ETF play.

If the price of GME goes down, XRT is forced to buy more GME shares to keep it's equal weighting and IJR would be forced to sell some of its holdings (kind of since ETFs are weird, so it is is more done through redemption and ETF shorting). I can just FTD the XRT GME shares that it tries to buy, which prevents upwards pressure and let IJR unload the excess GME to pull the stock further down. Now if I short XRT, it sells additional GME shares since the share price is lower and it must maintain equal(ish) weight of all stocks in the portfolio by $ amount, adding even more downwards pressure. These small momentum shifts over a long period of time result in net downward pressure, causing the stock price to spiral downwards. All that, and the market makers can play their arbitrage game for T+6 and roll the FTDs to tilt the game in their favor consistently.

That is just one example that I can concoct of how ETFs are playing a role in GME institutional shorting and I only provided two different kinds of ETFs. There are many more and those types of etfs likely have quirks as well which can be manipulated to influence stock price in a desired direction.

I would love to hear your thoughts or anything else that pertains. If my conclusions/assumptions are off base, please let me know why. I love to hear criticism more than agreeing with my theories :)