Title: THE COMING HORRORS AWAITING SHORTS.
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Created 2022-04-19 18:43:03 UTC
Permalink: /r/TheGloryHodl/comments/u7cahg/the_coming_horrors_awaiting_shorts/
Url: /r/Superstonk/comments/tuoeaz/the_coming_horrors_awaiting_shorts/

Linked Post Content:
What’s up fellow smooth-brained Apes. OG, day one Superstonk member here dropping my first DD. My brain is pretty smooth when it comes to financial matters, but I’ve grown a few wrinkles over the past 84 years of Hodling my favorite stonk. And I love horror movies. This inspired me to write a spooky DD focusing on the horrors awaiting anyone smooth-brained enough to remain short GameStop.

TL:DR- Shorts are already living a nightmare. But it's about to get a whole lot worse.

How did we get here?

IT FOLLOWS:

Greedy hedge funds and market makers took turns screwing retail investors and companies like GameStop, over and over again, and for decades they’ve gotten away with it.

But then they fucked GameStop and didn’t realize they were about to be cursed by an unholy alliance of Ryan Cohen, devoted fans of the company, and autistic art of war tactics like buying and holding the stock, no matter the price.

Then one day, they woke up, and noticed a strange group of dead-eyed, diamond-handed, retail investors slowly walking towards them. Inch by inch, they moved closer, never deterred, never sleeping, never slowing. They tried to shut off the buy button and managed to get far away from us for a bit…but we just kept walking, until one day, we showed right back up.

Anyone still short GameStop has been living through a never-ending nightmare. They’ve been constantly pursued by an un-killable beast.

Retail investors buying and holding the stock relentlessly for more than a year are now the equivalent of the supernatural force from the awesome horror movie, IT FOLLOWS.

Guess they shouldn’t have fucked us right?

What Just Happened:

In case you’ve been sleeping underneath a rock, a van by the river, or tripping balls since last week, something incredible happened on Thursday March 31st. GameStop announced some tasty plans.

From the Gamestop 8k:

"On March 31, 2022, GameStop Corp. (the “Company” or “GameStop”) announced its plan to request stockholder approval at the upcoming 2022 Annual Meeting of Stockholders (the “Annual Meeting”) for an increase in the number of authorized shares of Class A common stock from 300,000,000 to 1,000,000,000 through an amendment to the Company’s Third Amended and Restated Certificate of Incorporation (the “Charter Amendment”)."

And…

“in order to implement a stock split of the Company’s Class A common stock in the form of a stock dividend and provide flexibility for future corporate needs. GameStop also intends to request stockholder approval at the Annual Meeting for a new incentive plan (the “2022 Equity Plan”) to support future compensatory equity issuances.

So, GameStop wants to issue a stock dividend. And they want to increase the number of authorized shares up to 1,000,000,000.

How is a stock dividend different than a stock split? What are the implications for share price? What happens to you if you are short a stock that issues a share dividend?

Stock Split:

No new shares are issued from shares held in authorized reserve. Existing shares in the market are diluted by the split ratio (2 to 1, 3 to 1, etc.)

Because no new shares are authorized, there is no need to document a split as a journal entry by the company performing the split.

Anyone short the stock during a split has their share obligation multiplied by the dilution ratio:

Generic Cuck Hedge Fund pre-split is short 5,000,000 shares of GameStop.

After a 5 to 1 split, Generic Cuck Hedge Fund is now short 25,000,000 shares of GameStop.

But the share price is also diluted 5 to 1, so their short position obligation is unchanged from a liability stand point.

Share Dividend:

New shares are issued by the company from shares held in authorized reserve. Existing holders that qualify (by certain dates, which we will examine below), will be awarded additional shares as a reward by the company.

Because new shares are issued and awarded to holders, the company must create a journal entry. Let's revisit our favorite fictional hedge fund again…

Generic Cuck Hedge Fund pre dividend is short 5,000,000 shares of GameStop. Anyone short a stock is not entitled to a share dividend…

From Investopedia:

"If an investor is short a stock on the record date, they are not entitled to the dividend. In fact, the investor is instead responsible for paying the dividend owed to the lender of the shorted stock that they borrowed."

After a 5 to 1 share dividend, Generic Cuck Hedge Fund is still short 5,000,000 shares of Gamestop. But now they have to also deliver an additional 25,000,000 shares, for a total liability of 30,000,000 shares.

Uh Oh.

From Investor.gov (https://www.investor.gov/introduction-investing/investing-basics/glossary/ex-dividend-dates)

"Sometimes a company pays a dividend in the form of stock rather than cash. The stock dividend may be additional shares in the company or in a subsidiary being spun off. The procedures for stock dividends may be different from cash dividends. The ex-dividend date is set the first business day after the stock dividend is paid (and is also after the record date).

If you sell your stock before the ex-dividend date, you also are selling away your right to the stock dividend. Your sale includes an obligation to deliver any shares acquired as a result of the dividend to the buyer of your shares, since the seller will receive an I.O.U. or "due bill" from his or her broker for the additional shares."

Smooth-Brained Math Time:

Generic Cuck Hedge Fund is short 5,000,000 shares of GameStop at the market price of $165.

If they had to close this position right now at that price pre-dividend, that’s a cool $825,000,000. But Let’s say Generic Cuck Hedge Fund can’t or won’t close before the stock dividend. Generic Cuck Hedge Fund stays short 5,000,000 shares after a 5 for 1 share dividend (I know, I know, it’s going to be 7 for 1, but just stick with me).

Now Generic Cuck Hedge Fund’s obligation is 30,000,000 shares…25,000,000 of which must be bought and delivered.

Best Case Scenario for Generic Cuck Hedge Fund: The share price dilutes 5 to 1 and they can purchase 25,000,000 shares for roughly $33 a share…which is a cool $825,000,000, just to keep their position open.

But here’s where things get very very very interesting…what if the stonk price isn’t diluted…but instead is exploding upwards leading up to the dividend being paid?

Is there another stock example available?

Oh yeah…Tesla.

Credit to u/Money-Maker111 and Sam and Samgungraven for providing this data in a separate post you should totally check out: https://www.reddit.com/r/Superstonk/comments/tuct86/write_on_dis_with_yorr_crayons/?utm_medium=android_app&utm;_source=share

Tesla, another heavily shorted company (but we all know not in the same stratosphere as GME), issued a 5-1 stock dividend in 2020.

According to the data in the post above: Tesla rose from a 52-week low of $350 pre dividend announcement to $500.

On the Date of Record for receipt of the dividend, the share price was $2,050.

After the Stock dividend hit and shares were diluted 5 to 1, the share price was trading at $442.

Post 5-1 stock dividend the stock then rose back up to $1200.

….. Let’s see what could happen to Generic Cuck Hedge Fund if they are smooth brained enough to not close before the dividend, assuming GME followed a similar pattern.

For this, let’s just assume GME did the same 5-1 stock dividend.

GME 52 week low: $77.58

GME rises at the same ratio as Tesla from the 52-week low as of the date of record for receipt…GME share prices would be approximately $454 per share (5.85 x the 52-week low of $77.58).

After dividend issued (5-1): 454/5 = $90.80 per share.

Then shares rise at the same rate post dividend (2.7x)…90.80 x 2.7 = $245 per share.

SO…. Generic Cuck Hedge Fund can close their 5,000,000 shares short position for a total of $825,000,000 of stock, bought in the market.

Or

They can keep their short position of 5,000,000 open by potentially having to buy 25,000,000 shares (5 to 1 their original position) at a price somewhere between $90.80 and $245…

90.80 x 25,000,000 = 2.27 billion dollars

245 x 25,000,000 = 6.125 billion dollars

Ouch.

Remember, that is just to keep their 5,000,000 short positions open. If they want to completely close, tack on the cost of another 5,000,000 shares:

Best case: 2.27 billion + (5,000,000 x 90.80)= 2.681 billion dollars

Worst Case: 6.125 billion + (5,000,000 x 245) = 7.35 billion dollars

Also, these prices are obviously way underselling reality.

Good luck buying 5,000,000 shares of GameStop and not causing the price to shoot through the stratosphere in the process. But it's just too difficult to accurately model for the purposes of this example.

Good thing the shorts all closed in January 2021 right??

But…what if you were as dumb as a storm trooper and you “accidentally” naked shorted GameStop hundreds of millions of times?

Nobody could be that dumb right?

Right?

Screw it, just for fun, let’s imagine there are 100,000,000 shares short that need to be closed in total (but we all know there’s a very strong possibility there are way way more than that).

And let’s just imagine they want to close out all positions before the share dividend… Best case outcome (for shorts) = 100,000,000 x (90.80 per share) = More than 9 billion dollars.

Worst case outcome (for shorts) = 100,000,000 x (245 per share) = 24.55 billion dollars.

Remember, this is the cheaper option (closing before the dividend).

Yikes!

RIP Dumbass.

Let’s Play a Game

SAW:

A short hedge fund, a market maker, and a large broker lending shares wake up in a dark, dungeon like room.

“Let’s play a game” RC speaking as Jig-Saw over a loud speaker. "In 90 minutes, the room explodes and you all die.”

“How do we get out alive?” asks the large broker lending shares short.

“You can recall your shares immediately and walk out,” says RC.

“Great. Done.” The broker recalls their shares and gets the hell out of there.

“But how do we get out alive??” Shout the market maker and short hedge fund.

“You don’t," says RC, while flipping them the bird via security camera.

Let’s be clear, Ryan Cohen just activated a countdown timer to oblivion. Remember that saying…”all short sellers are future buyers?”, well, RC just made sure that no matter what route they choose, shorts are buying the stock back. And he’s giving them a brutal, bloody choice to make.

Close now if you can and maybe live to see another day (this is the saw equivalent of chopping your own legs off and trying to escape).

Or… Stay in the room until it explodes (this is the dividend date).

Now that we have a rough timeline (shareholder meeting I believe is set for June 2nd per ComputerShare information).

I suspect by mid-summer the dividend would be issued. So shorts have about 3 months to figure out what they’re going to do. Or do they?

Total (share) Recall:

(I know this is a stretch and not actually a horror movie...but it's too good)

Brokers lend shares for borrowing fees all the time.

But one day, they wake up with violent memories of Mars…in fact it’s a bunch of Ape’s revolting in space. And then, their dreams start to become reality when Ryan Cohen and GameStop drop their bombshell 8k on March 31st.

Here’s a fun fact.

Brokers lending shares GameStop are entitled to dividend shares.

For retail investors, shares issued as a dividend are tax free until the investor sells the shares. Cash dividends on the other hand are taxable events up front. Brokers that own shares utilize a huge tax benefit when receiving dividends known as DRD (Dividends Received Deduction). This is a massive tax write off on the order of many tens to hundreds of millions of dollars depending on how many shares are owed and the value of those shares.

But…if shares are lent out to shorts on the ex-date, the subsequent dividend is not eligible for DRD, creating a large avoidable tax liability for brokers lending shares. *(Any wrinkle brained Apes with more experience in tax law please feel free to chime in and add context or correct me if I am mistaken on this).*

Now that the stock dividend has been announced, brokers have considerable downside risk for keeping their shares on loan.

I strongly suspect that sometime between Monday and the shareholder meeting in June, there’s going to be a massive (total) share recall by most brokers lending shares.

Huh…that sounds sort of like an event that could force many many millions of short positions to close.

Interesting.

What I Think Happens:

I think the three most relevant parties at risk between now and dividend ex date are:

1)Brokers lending shares

2)Hedge funds borrowing shares

3)Market makers or hedge funds naked shorting the stock (probably with positions too large too close and survive).

Brokers lending shares have every right and incentive to call back their shares. That's highly likely to happen in large numbers, forcing the hands of funds borrowing those shares to short GameStop.

Anyone borrowing shares that's "fortunate" enough to not have their shares recalled by a broker and that has a short obligation small enough to survive closing…is absolutely going to close.

Once shares begin being recalled or someone begins closing significant positions, it's going to ignite an incredible amount of upwards pressure on the stock price.

Once the chain of recalls and closures ignites, it's going to be nearly impossible to contain.

But I suspect some market makers (Citadel) will not close their positions pre-dividend. Instead, they'll pray to be saved by a miracle that isn't coming. And then they'll be devoured and liquidated.

The Tesla data isn't a perfect comparison for many reasons, but it's the best recent example I know of that demonstrates how incredibly bullish a stock dividend is for holders, and how brutal it is for short positions.

I believe that there are hundreds of millions of naked short positions, and that short interest is astronomically higher than what is listed. There has been so much incredible DD written about this that I don't feel the need to dive into it for the purposes of this post.

So, if we are correct, and short interest is many times greater than Tesla's short interest at the time of their dividend, I think much more violent upwards moves are almost certain (and much higher prices than I listed above).

I think a Tesla like squeeze undersells even our worst case price action scenario.

None of this is financial advice of course. I just like the stonk.

But I do advise you to buckle the fuck up.

Update:

Thanks so much for the engagement and support of the original post. I wanted to create an update that addresses some common questions and expands upon ideas in the original post.

No One Gets Out Alive (Except Brokers lending shares)

Fidelity moves into a dingy transitional apartment in a rundown section of Cleveland, and immediately things go awry. Sure, the rent is cheap (great borrow fees for lending shares), but there are these god damn ghosts that keep stalking poor Fidelity throughout the house. And the landlord (market maker) seems like he's hiding something nefarious.

So, Fidelity asks for their security deposit back (their shares) and unlike in the movie…doesn't ever go back in that building again (I won't spoil what happens for those who haven't seen it). Meanwhile our old friends Market Maker and Generic Cuck Hedge Fund (GCHF), are brutally murdered by ghosts. Oh shucks, that’s too bad.

I’ve received a ton of great comments asking what happens if brokers don’t recall their shares or suggesting that there will be widespread collusion to not do so.

There have also been some interesting prisoner’s dilemma references. Let’s unpack this a bit more.

First, let’s talk about a prisoner’s dilemma.

Per Investopedia again:

KEY TAKEAWAYS

• A prisoner's dilemma describes a situation where, according to game theory, two players acting selfishly will ultimately result in a suboptimal choice for both.

• The prisoner’s dilemma also shows us that mere cooperation is not always in one’s best interests.

• A classic example of the prisoner’s dilemma in the real world is encountered when two competitors are battling it out in the marketplace.

• In business, understanding the structure of certain decisions as prisoner's dilemmas can result in more favorable outcomes.

• This setup allows one to balance both competition and cooperation for mutual benefit.

So, do we have a true prisoner’s dilemma scenario between the three most important parties at risk now that a share dividend is happening?

Party 1: Market Maker, copiously naked shorting the stock for a long time and originally at much cheaper share price levels.

Party 2: GCHF (short hedge fund), borrowing shares from brokers for interest fees to short GameStop, also presumably originally at much cheaper share price levels.

Party 3: Broker lending shares for fees to make extra cash. (We are assuming the broker in this scenario is net long on GME, hence they are lending real shares they own).

When RC started his “game” in the saw scenario above, he set the stakes (the room explodes in 90 minutes = ex-dividend date).

It becomes clear right away that one of the 3 parties involved in the game (the broker who is long GME), has every incentive to bail as fast as possible. That’s the beauty of RC and the board’s plan to crush shorts with a share dividend.

A broker’s ultimate goal is to make money, accumulate assets, and gain market share.

When they are issued a large share dividend (a bunch of new shares of GameStop or a spinoff from within the company), they are gaining valuable assets. But those assets become a substantial tax liability if their shares are on loan by the ex-date (they do not qualify for the DRD tax savings).

If we personify a broker, the scenario looks like this once the announcement was made:

I could keep lending my shares, get wrapped up in a giant mess of a short squeeze, and be on the hook for substantial tax liability.

The only upside for me is to keep collecting borrow fees (which in the grand scheme of things are a very small positive financial win for me).

Or:

I can recall my shares before the dividend ex-date. I get a fat tax deduction, I have no skin in the bloody game that's about to unfold, and I get to watch competitors hang by the rope I sold them. Sounds perfect to me!

I started digging around for evidence that supports my theory that the weak link (and biggest liability facing shorts) are brokers lending shares being highly likely to recall them very soon.

Check this out:

JACOB R. THORNOCK: The Effects of Dividend Taxation on Short Selling

"Using a proprietary dataset of short lending fees and quantities, I ***find evidence that the supply of shortable shares decreases and lending fees increase around the dividend record date. Moreover, I find greater increases in lending fees and decreases in loan supply for lenders that are sensitive to dividend taxation. The loan fee increase and loan supply decrease are consistent with a tax-induced shift in the loan supply curve."***

(If anyone has access to the full paper hit me up and I will dive into it more deeply.)

But the premise is straight forward and tit jacking.

Supply of shortable shares decreases around dividend record date. This is because lenders sensitive to dividend taxation want to qualify for DRD.

From Investopedia again:

When the Broker Wants to Sell Loaned Shares

If the firm is unwilling to continue to lend shares to the short seller, it can require them to close their position. ***The brokerage firm has the right to call any short seller to return the shares at any point. In this case, the short seller will have to return the shares to the brokerage firm by purchasing them on the market, regardless of whether they end up incurring a loss or a profit based on the current market share price.***

If you are the one whose shares are being lent out by your broker to a short seller, your part in the short sale transaction will have no effect on your ability to sell the shares. During the short sale, your shares are the ones currently being designated as lent out by the brokerage firm, but the broker essentially owes you shares. When you want to sell the shares, the broker is required to replace your shares so you may sell them on the market.

Oh boy.

So, let’s put it back together for the smoothest of smooth among us.

Brokers lending shares have the right to call any short seller borrowing their shares at any time. The short seller will have to return the shares by purchasing them on the market.

Brokers historically do recall shares when dividends are announced, this decreases shortable share supply, because brokers are highly motivated to qualify for DRD.

Let’s take it a step further…

Remember, this is just talking about dividends in general, which are often small cash rewards. Even a small dividend motivates shares to be recalled.

A multiple share dividend like GameStop is proposing is a substantial dividend (cash value wise) relative to most.

Let’s say GameStop issues 5 shares as a reward for every 1 share.

That’s easily greater than $100 in value, for every share a broker owns. You know what would suck? Having to pay taxes on hundreds of millions of dollars in dividends (if you owed millions of shares), instead of being able to deduct all of it.

Sounds like great motivation to call back shares before the ex-date.

I am 1000% sure that RC and the GameStop must realize this as well. It’s a brilliant strategy move, to create a large incentive for brokers to sabotage your true enemies for profit.

US:

A timid class-A share of GameStop wanders into a creepy fun house that sits upon a pier in coastal California. Inside, there are mirrors, hundreds, and hundreds of mirrors. Our poor share is so lost and scared, wandering around in the dim halls, staring at its own reflection a thousand times over…thousands of fake shares.

The timid little share approaches a mirror and sees its own reflection…but something is off. The mirror share smiles differently. Then, suddenly, it reaches out through the mirror and chokes the shit out of the timid little share.

Cut to black.

So, GameStop is issuing a share dividend. In the original post I touched on how that’s very different than a stock split.

As a reminder:

\-A stock split divides existing shares into pieces.

\-No new shares are issued. Share value dilutes by the division ratio (2 to 1, 3 to 1, etc.).

\-Because no new shares are issued, anyone short the stock during a split has an unchanged liability (from a cash standpoint).

\-The company approving a split does not need to account for this with a journal entry.

Vs.

\-A stock dividend does nothing to existing shares. No shares are divided.

\-New shares are issued from reserve shares. Shares tend to be diluted in value but the dynamics of price dilution are much more complicated (and bullish).

\-The company approving a share dividend must account for this with a journal entry.

Ok great, new shares, got it. But how do we know which shares are real? What if they all look real (like the fun house)?

From my understanding we have a few things working in our favor.

First of all, GameStop is issuing the shares, which are then distributed. There is no role for a market maker in this process. These shares never hit the open market before distribution (remember market makers are the ones who can legally naked short…for LIQUIDITY!).

But let’s get spicier.

What if GameStop issued shares that look a little different than their original Class A stock? What if these shares smiled creepily and could choke the shit out you (like in our US funhouse of mirrors).

Remember from the original post, I referenced something from Investopedia:

"Sometimes a company pays a dividend in the form of stock rather than cash. The stock dividend may be additional shares in the company ***or in a subsidiary being spun off****."*

Hmmm…

Has there been any solid evidence that GameStop could be planning a subsidiary spinoff from within the company?

Yes.

GameStop Entertainment.

I think it’s highly possible that the share dividend will be new shares for GameStop Entertainment as a subsidiary.

It would be pretty difficult to create phantom shares for something that up until the actual distribution and implementation of the share dividend…never existed on the open market.

To be clear, I believe the share dividend crushes shorts regardless of if it’s for regular GameStop stock or for a spinoff.

But imagine if it is a spinoff…

And suddenly, shorts now have to purchase potentially hundreds of millions of shares of this new spinoff, many of which will not be for sale (Diamond handing holders).

Well…that sounds like a squeeze play to me.

What if we get two squeezes simultaneously? GameStop class A stock and GameStop Entertainment stock…

Hmmm.

Well that would suck if you were short the stock. The shorts must be so relieved they closed all their positions back in January 2021 right?

What about tokenized stock and blockchain?

I still believe this is the future of markets writ-large. It’s possible that GameStop goes this route right away, but I am skeptical it’s the first play they make.

There are significant technical and mass adoption hurdles to clear to deploy a fully tokenized block chain stock market…and I just don’t think we’re at that moment in time…yet.

There are some other downsides in the short-term. Even though Overstock won their case, it created significant legal drama, expense, and if they had lost, it could have derailed their entire plan.

I don’t think GameStop needs to issue an NFT dividend to start this catastrophic chain of events (for shorts).

But…

What if the shorts were crushed once by the GameStop share dividend (or twice simultaneously via the spinoff stock).

And then, in the near-mid-term future, they are crushed again when GameStop tokenizes their stock and deploys a fully blockchain backed market place, removes their stock from the DTCC, and completely unseats standard markets as the place of choice to buy and sell securities.

This is pure speculation on my part, but it could be a possible future arrow in the quiver.

Tesla Related Thoughts:

There have been a number of great questions and thoughts about the numbers in my original post, how accurate is it to compare our situation to Tesla, and how accurate are my prices.

The Tesla example is far from perfect to model what GameStop’s squeeze will look like. To be honest, I don’t think anyone can truly know for sure, this is an absolute black swan event.

The only real purpose of using a Tesla like dividend and squeeze scenario is to create a simplistic model that clearly demonstrates that even under the best-case scenario for shorts, they are about to be wrecked.

That being said, I fully believe that we are looking at a much more volatile (and expensive) squeeze play.

This is because:

\-Short interest for GameStop is higher (as was published and verified by the SEC in their “report”. Unless you believe shorts closed (they didn’t…), then we have every reason to believe this is true and working in our favor.

\-Tesla has devoted fans, but there was not an autistic army of Apes buying and holding it at any price, and removing shares from the DTCC (via DRS).

\-GameStop’s tradable float is tiny.

So…how high can prices go?

I have no idea.

But there’s no good reason to believe that prices like phone numbers are not possible (or even highly probable).

“Your numbers are unrealistic, there’s no way that generic cuck hedge fund (GCHF) could even find 5 million shares to close immediately at $165 without significant price escalation…”

Yep!

Totally agree. That’s what is so incredible for us. Good luck finding millions of shares to buy (for affordable prices) when a huge chunk of the float is locked up already and Apes aren’t selling.

Wrapping Things up:

Thanks again for the awesome engagement around the original post. Let's keep the discussion going and if you think we're onto something juicy here, share it with friends, family, and the world.

As always, if you have something you think compliments what I've written, please let me know, and I'll try to address it. Or if you think I'm way off on something, let me know. I don't care about being right up front, I just want to help elevate the most promising ideas so that everyone can benefit.