Title: Understanding Dr.Metzler's LinkedIn Post and The Effect on the Financial Markets
Author: DanishSamsudin
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So I'm pretty sure that we've all seen Dr.Metzler's post on LinkedIn. And if you haven't, here is an image. Courtesy of [u/Antimon3000](https://www.reddit.com/user/Antimon3000/) from Superstonk.

[Dr.Metzler's LinkedIn post regarding the effect of Evergrande's default on memestocks and the financial markets](https://preview.redd.it/fx767by2uk481.png?width=429&format;=png&auto;=webp&s;=07c70a81c79a2077501fba656d932a026a0c77a2)

So what does this post exactly mean and how does it benefit us? Well here is my attempt at an ELIA.

A lot of hedge funds used their investments in companies such as Evergrande as collateral to short meme stocks like GME. This is because bonds have values which make it worth what is is worth. A lot of hedge funds and banks all across the world have invested in bonds in Evergrande and companies like it as it was booming in the earlier times. This was seen as a great investment up until recently, when Evergrande faced financial issues - specifically issues to pay its bondholders.

How does this affect hedge funds?

What this means (in my own words - correct me if I'm wrong) is that hedge funds can basically say that they're not struggling with their finances because these bonds are worth money and as long as they have "money", they're able to continue with their activities without having their investors and the SEC be concerned. Using bonds as collateral means that they are able to approach banks and investment banks to borrow money (normally with leverage) to invest in stocks - whether to go long or short on them. We know that a few hedge funds are using leverage to short stocks like GME and popcorn stocks as well as other meme stocks. These leverage that we have seen are truly absurd.

Moving on, having collateral such as these bonds also means that they can back up their risky investments by saying they have the money to pay for their losses in case their risky investments go wrong. So Citadel can say to one of their banks (from which they borrowed money from) that they can pay for their investments because they can simply sell their bonds for cash and repay the banks what they owe them.

However, as mentioned in Dr. Metzler's post, once companies like Evergrande default (meaning that their bonds aren't worth anything anymore), hedge funds will no longer be able to say they have the "money" (or collateral) to pay for their risky investments. Evergrande is already struggling to repay some of its earlier bonds, not to mention the bonds they have for the upcoming months and years. If they default and the bonds go worthless, it practically means that the face value of the bonds (how much the bonds are worth), go to $0.

This can lead to investors and the SEC being more concerned with Citadel's trading behaviour and activities. Since Evergrande bonds (and other companies like Evergrande bonds) will soon no longer have value in them, they will struggle to prove that they can back up their investments. This means that the leverage which they use from banks and investment banks will be made stricter by the banks themselves. So banks may say that Citadel will have to close some of their riskier positions in order to ensure that banks minimize their losses in the event that hedge funds make huge losses - from risky investments, and may default on their investments.

Hedge funds may also have the preference to close out other positions such as positions in blue chip stocks (such as Tesla, Apple, and Amazon) rather than in their riskier investments. They may choose to use this approach to avoid a short squeeze and make detrimental losses and bankruptcy. All in all, the closed positions will lead to somewhat of a market dip and may create a scare off in the financial markets. This can of course lead to more investors worldwide being concerned with the events going on and investors may pull out of their investments to avoid unnecessary losses. This in turn may reduce value of stocks that hedge funds hold and may cause hedge funds and more investors to keep on closing off their positions to minimize their losses and also to ensure that they don't "hold the bag". Combining all of this, it could lead to a financial crash.

In the end, this can lead to Citadel having to close their GME (and meme stock) positions which means MOON. But of course, we'll have to see how this plays out and if the exposure to hedge funds are as great as they say.