

Title: What is going on with GameStop: ELI5

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Is_self: False

Linked Post:

Body:

This post was encouraged by some commenters in a thread by u/CalistaMelissa which has apparently since been removed.

The purpose of this wall o' text is two-fold. One is producing a dialogue as requested above. The second was to have something in plain language that could be understood by those unfamiliar with the market when the inevitable flood gates open. When the shit hits the fan the MSM will be spewing FUD at an epic pace and people will be confused. Traditional investors and soon regular un-involved citizens will want a scapegoat and I'm sure that Reddit will be thrown under the bus. Many will likely come to Reddit to see what's going on and will eventually (if not immediately) find Superstonk. I think it would be best to have a clear, concise post available to make as a sticky for people to read that likely have no idea what has been going on to both inform them and defend apes from being tried and convicted in the court of public opinion from misinformation.

I decided to make this non-DD centric. Links can be added in a different version. I tried to keep it short and didn't go into too many details otherwise I would have written War and Peace. Constructive criticism appreciated.

Since the introduction of electronic trading to the stock market there have been rumors and accusations of people manipulating the system in different ways. One specific type of manipulation, naked short selling, has surfaced time and time again as the probable cause of the devaluation of the stock of thousands of companies each year. Many of those companies are driven into bankruptcy to profit those who hold those short positions regardless of that companies' performance or value to society.

Recently, one of these situations has stood out from the rest – GameStop. During the middle of the pandemic in 2020, shares for GME floated around a paltry 2-3 dollars. The company had been painted as a dying brick-and-mortar retailer that would be swept away by online delivery of products. The private self-regulating organization FINRA tracks many metrics for all stocks as reported by each investment firm per SEC regulations. In June 2019 retail investor Keith Gill and others recognized that GME was undervalued and began investing in it. Shortly thereafter, they discovered FINRA was reporting an extraordinarily high amount of short interest on GameStop (75%.) Although a staggering number of shares had been sold short, GameStop was refusing to die like so many others had before it. He started investing and through his YouTube channel he encouraged others to investigate the stock. By January 2021 FINRA was reporting the SI% of GME to be 140%, or 40% more than the total number of shares that GameStop had ever issued.

Most viewed this as clear evidence of naked short selling or the selling of counterfeit shares. The retail investors, though their individual investments were mostly small were, through sheer numbers, successfully counteracting the continued shorting of GME by hedge funds and other entities that were trying to drive the stock to zero. This ever-growing group of retail investors have held from \$12 up to \$480, down to \$40, back up to \$360, back down to \$120, then up to where it sits today without selling. The short sellers have no answer for this. These retailers who refer to themselves as apes have ignored constant attacks from both televised and online media platforms as well as diversions to other supposedly more fruitful investments believes in a few simple truths: that all shorts must cover and that it is so far mathematically impossible for that to have happened to date.

*Those short positions are paying interest daily. As the price increases, so does their risk and the need for collateral to the clearing house. When the dam breaks and they can no longer afford to keep their positions or the margin calls are made they will be bought in against their will at market price. With debt in excess of the total shares that have been issued these market orders will necessarily buy every share currently in the order book. At that point those market buy orders will be filled by any sell order placed at any price,

allowing those with shares to determine the price at whatever they wish to enter.*

Retail confidence in the solvency of GameStop was boosted considerably by the appointment of Ryan Cohen, previously the CEO of Chewy, to the board of directors in January of 2021. Cohen was expected to rebuild GameStop as an online retailer and has since delivered. Through expanding their products to include PC hardware, gaming accessories, and even consumer electronics like TV's as well as leveraging their existing brick and mortar footprint to enable same-day delivery they are positioned to capture a significant portion of the consumer electronics sector, challenging the likes of Amazon.

They have also shown progress towards capturing the competitive gaming market by building gaming centers with rentable consoles and PC's. Rumors of partnerships with or acquisitions of existing E-Sports companies, supported by their recent announcement of accepting crypto for payment and the pending explosion of E-Sports betting lead investors to believe that they are creating their own new market space with unlimited revenue potential.

Between the market mechanics of cornered hedge funds hemorrhaging billions of dollars maintaining short positions they cannot escape and GameStop's transformation boosting fundamental company value exponentially it is many retail investors' opinion that this is not only a once in a lifetime, but a once: ever. The DTCC, its' subsidiaries, and the SEC are furiously producing new rules and legislation that will prevent this type of market perversion from ever happening again.

For GameStop however, the situation must play out. Intervention at this point, even though there might be systemic risk in the financial markets, would undermine the integrity of the NYSE and endanger the future of the market itself. The large international interest in the stock further underscores this.

I invite you to do your own due diligence on the matter. As for me, I like the stock.

Edit 1: Made a few tweaks as suggested by users.