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If GameStop stock goes above \$30, 'you could see something parabolic,' S3 CEO says

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S3 Partners CEO & Managing Partner Bob Sloan speaks with Yahoo Finance Live about the main ingredient of a short squeeze, whether GameStop stock could soar again, and short positions against major tech companies like Meta.

Video Transcript

JULIE HYMAN: Let's also talk about some of the stocks that we were talking about a lot more earlier in the year. We're talking about meme stocks. Our next guest was one of the few who saw last year's short squeeze of GameStop coming before it happened. And with this company's data analytics, can help investors avoid surprises from market structure and hopefully find the next Big Short squeeze.

For more, we welcome in Bob Sloan, S3 Partners CEO and managing partner. Bob, thanks for being here. And just because a company has high short interest doesn't mean there's going to be a squeeze. But what are some of the conditions, if you will, that make a company or a sector or collection of companies ripe for action like that?

BOB SLOAN: That's a terrific question. The main ingredient to a short squeeze is not the flawed short interest that you will see published on Google. The main ingredient of a short squeeze is how much are short sellers losing and what's the upward momentum price action of the stock. As they lose more money and you see the price action go higher, that is what causes a short squeeze. That is what S3 calculates, and that's why we're one of the most popular data sets in the world when it comes to measuring short interest float and financing rates.

BRAD SMITH: Is there enough short activity right now or short volume or float that's in the market right now to cause anything near the type of scale that we saw at the beginning of 2021?

BOB SLOAN: If you look at GME, I think there's still a billion 2 short in the stock. If this stock goes past \$30, you could see something parabolic.

BRIAN SOZZI: Bob, one of the-- I would say one of the conditions for the height of the meme stock rally, a lot of people were home during the COVID pandemic. We get a recession next year. Do you think that sets the condition for increased trading activity?

BOB SLOAN: One of the things that I mentioned on the Netflix special that was done on GameStop-- a lot of people have seen that-- is this idea of Kardashian economics. If you think-- if you look at the arc-- the Kardashians are still here. If you look at the arc of that, apply it to socially mobilized investing, and think

that's going to go away, I don't think so.

BRAD SMITH: OK, so for some of the other industries that are kind of further out bets and based on some of the more innovative technology, there has been more of the-- how can we say-- the art trade, if you will. How do you look at some of the sector-based or even the innovation-based trades right now, and considering that there's an alternative trade to even that in the short positions that have flowed in?

BOB SLOAN: So there's also selling along positions, which is-- you could argue the equivalent of a short position. And one of the things that we have as a new product is looking at market structure, and particularly on the long side. And if you look at our new product, you'll see that Meta is the second most popular holding amongst the hedge fund community. What will that do in returns over the next quarter? I think we know the answer already.

So those types of stocks, when you see persistency in holding over time, and you see a downdraft in the marketplace, you're going to see losses. And that will affect where money moves. It affects how different strategies are composed. And one of the things that really caught our attention was when David Einhorn came out and said value investing is dead.

For us, that's like a prophet coming down from the mountain and throwing away the tablets. It's just heresy, right? So but what he's saying is, is that markets evolve. Market structure is very important. And it's not just the short side. It's the long side, too, and our new products solve for that.

JULIE HYMAN: Bob, I want to go back to what you just said about Meta. I see Amazon is also one of the most-- has the most long positions next to Meta. Spell that out for us a little bit more, what you were alluding to, that even after that sharp decline, the 25% drop in Meta on a single day basis, even after the 10% or so drop that we're seeing in Amazon today, is what you're saying, does that imply that we could see more people get caught holding the bag and more selling exacerbated going forward?

BOB SLOAN: Yes, that's exactly what we're saying. Persistency of long positions quarter over quarter are quite high. So it is reasonable to assume that since, if you look at the hedge fund cohort and see what the largest holdings are, it is very reasonable to assume that there are severe losses in portfolios today right now, as we speak.

BRAD SMITH: Bob, thanks so much for taking the time here with us today. We really appreciate breaking it down and looking through some of the data that you're also tracking.

BOB SLOAN: Thank you very much.