

Title: DD - Retail did not cause the Jan '21 sneeze, but were used as the scapegoat

Author: disoriented\_llama

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In tonight's dose of DD, I will provide data that supports the theory that retail was not the cause for the GME January 2021 sneeze and it was likely inevitable whether we were present or not. We simply jumped on at the right time to ensure that the Hedge Funds couldn't reset their exposure levels as they likely intended and ultimately will lead to all of their demises.

I will first explain net exposure and give an example of how it can cause systemic risk. I will then show how swaps and COVID heavily shifted the balance of net exposure, leading to over-levered and under-collateralized SHFs, which came to a head back in Jan'21 with a little help from retail.

**\*\*Net exposure\*\***

Here is what net exposure is according to investopedia:

<https://preview.redd.it/zvnaof8sear91.png?width=925&format;=png&auto;=webp&s;=5e7d74d57f24892564295074f6ecc3fb26dcdf11>

" \*Net exposure is the difference between a hedge fund's short positions and long positions, expressed as a percentage. \*"

This means that hedge funds try to be net neutral with their bets in order to minimize credit risk with their prime brokers. If they have a certain amount of margined long positions, they need to offset them with an equal value in short positions based on the risk requirements set by the prime broker.

In the infamous case of Archegos, they were caught with their pants down when they were VERY heavily long-biased in only a handful of stocks and two or three of those stocks sudden dramatic drops in valuation.

<https://preview.redd.it/uknyvhbghar91.png?width=576&format;=png&auto;=webp&s;=646dd51d1e5725609f11660ee04b20070d61095c>

When HFs pose a risk by breaching the net neutral guidelines set by the prime brokers, they are required to post additional margin, or rebalance their portfolios. Obviously, Archegos didn't do that and got margin called... Here is a nice diagram showing how the assets are tracked by the prime brokers, which dictate whether or not you will be called:

<https://preview.redd.it/v8gu9mfghar91.png?width=870&format;=png&auto;=webp&s;=f462748063e254ec837ecade42a56fa219c62442>

As you can see, when your value depreciates, your equity is reduced while margin stays static. (there is also dynamic margin, but Archegos only had static margin) Their equity went to 0 while Credit Suisse was left holding the entire bag.

Now for swaps and COVID's role in all of this:

I will start here by showing the picture of overnight verse intraday price changes for common indices

<https://preview.redd.it/9xepjzg1iar91.png?width=958&format=png&auto=webp&s=d134a5e78e4b0271232fb10a4cfdd7a5842a52be>

Link to articles can be found here:[\[https://arxiv.org/abs/2201.00223\]](https://arxiv.org/abs/2201.00223)(<https://arxiv.org/abs/2201.00223>)

The graphs I show will use the same calculations as these charts, but I will split day and night onto separate scales for ease of readability.

As stated previously, Long positions and short positions must be netted in order to minimize systemic risk and we *"know"* that GME is and has been part of a short swap basket with a handful of other stocks.*"We don't actually know this for certain, but we are fairly certain"*

Let's Say that a Hedge Fund has 50% long and 50% short, with their shorts being in the form of swaps which heavily contain the GME basket, since until now, it has been the most risk-free type of stock basket since every single stock in it is manipulated into a death spiral.

<https://preview.redd.it/smr5si3ljar91.png?width=1209&format=png&auto=webp&s=ea5593efe7ac3ae2a1bb654731cf1bf72476b230>

As you can see from this chart, intraday prices started rising on/around 9/17/19 and overnight prices started rising dramatically after COVID hit, once the FED started pumping money into the economy.

So what happened on 9/17/19???

[\[https://www.federalreserve.gov/econres/notes/feds-notes/what-happened-in-money-markets-in-september-2019-20200227.html\]](https://www.federalreserve.gov/econres/notes/feds-notes/what-happened-in-money-markets-in-september-2019-20200227.html)(<https://www.federalreserve.gov/econres/notes/feds-notes/what-happened-in-money-markets-in-september-2019-20200227.html>)

On 9/17/2019, SOFR rates spiked around 300 basis points for a single day.

<https://preview.redd.it/dfp003exjar91.png?width=1186&format=png&auto=webp&s=f14af98e7302e6008b4c82af511be52397a7c0ac>

<https://preview.redd.it/0w61tks2kar91.png?width=1158&format=png&auto=webp&s=d74bb2cb7e88e00e8362f079858bcb78b3f8555c>

Look at the wording that is used here for 'why' it happened... "Two widely cited factors"

Yeah...Okay...

So I decided to download swaps data from a repository and found a little interesting nugget

Here is the swaps data for 2/1/2021 (right after the sneeze)

<https://preview.redd.it/gd2kmaq2nkar91.png?width=1618&format;=png&auto;=webp&s;=51cb68ccd338ee19202efbc21037ce1e9fe26562>

All of the effective dates are from 9/16/2019. This was the day before the huge SOFR spike. Also all swaps happen overnight from the looks of it, so the spike didn't appear until the following day once hundreds of billions or even trillions of dollars were rolled into these swaps.

So basically, it appears that the 9/16 swaps started causing the price of GME to steadily increase intraday, but did not effect the overnight price change.

After COVID, the Fed started pumping money into the economy, which increased the valuation of almost all stocks dramatically, which caused the overnight price to start skyrocketing. (overnight price controls the overall direction of the market) If you want to read up on my theory about that, please see the post below: [[https://www.reddit.com/r/Superstonk/comments/xpwce6/dd\\_crime\\_happens\\_overnight/](https://www.reddit.com/r/Superstonk/comments/xpwce6/dd_crime_happens_overnight/)]([https://www.reddit.com/r/Superstonk/comments/xpwce6/dd\\_crime\\_happens\\_overnight/](https://www.reddit.com/r/Superstonk/comments/xpwce6/dd_crime_happens_overnight/))

With the upwards pressure from intraday compounded with the upwards overnight increases, the valuation of GME was rising quickly compared to what it had been doing for years prior.

This same phenomenon is true for all the other stocks in the basket:

<https://preview.redd.it/yw2cu0rrlar91.png?width=1201&format;=png&auto;=webp&s;=2ed1cee6ddce19d66a1a4883ca93041c686e6df0>

<https://preview.redd.it/98g73stslar91.png?width=1318&format;=png&auto;=webp&s;=2385034bb5c384a16971dcf3d497116f0404aa73>

<https://preview.redd.it/l5b3m67ular91.png?width=872&format;=png&auto;=webp&s;=74d0419fe56d54b744a75c0c6a0f5ea7de25a526>

<https://preview.redd.it/sfs6nwjvlar91.png?width=877&format;=png&auto;=webp&s;=4daf82c4bd054c1ca3f5dd9b1f4926b35d8056d9>

<https://preview.redd.it/ac6bf3pwlar91.png?width=1053&format;=png&auto;=webp&s;=a846716519bd95a10b461b5e50152c463ea4054c>

While the other stocks do not all show the same September 2019 correlation, they all do have one thing in common: The overnight price movement increased dramatically after COVID up until the sneeze.

I argue that retail DID NOT cause this price movement with our stimmy checks and increased participation in the marketplace since the vast majority of us do not have access to after hours or pre-market trading, which is where all the big moves took place.

So what does this mean for net exposure?? If the Hedge fund that was 50/50 on Long/short positions initially kept their positions the same, they just lost 50% of the value of their short basket and gained the same for their long basket. The ratio went from 50:50 to 75:25. This disparity in net exposure triggers prime brokers to either require more collateral posted or a rebalancing of portfolios.

Once retail started jumping into GME, we likely tipped the scale just enough to cause a chaotic market event by purchasing a massive number of call options. The options were likely the tipping point that pushed the Hedge Funds to the point of no return.

In conclusion, I believe that Jan '21 was going to happen with or without us, but the scale of the event was exacerbated by retail's involvement and we won't give them a way out.

Please poke holes in my theory since this shouldn't just be an echo chamber.

TL;DRS