



# TikTok Congressional Hearing

Marco Wang

Wang Capital

[marco060314.github.io/Wang\\_Capital.html](https://marco060314.github.io/Wang_Capital.html)

04/12/23

# Trading Strategy

## Thesis:

The congressional hearing on TikTok will harm Chinese company users in the US, and as a result help grow US social media companies.

## Recommendation:

- Short META Common Stock
- Short BABA and NTES
  - BUY Short Maturity Put Options
- Long SNAP
  - Short Maturity Call Options
- Long BABA Common Stock

## Market Overview

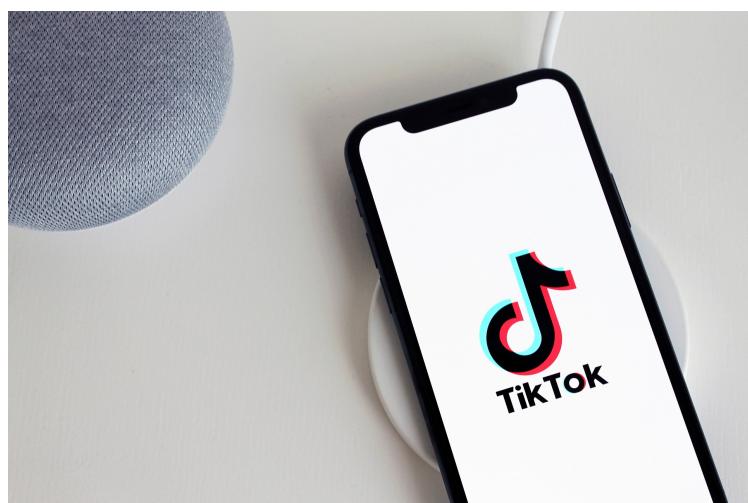
Market conditions have been volatile in the recent weeks as a result of central bank policies and turmoil in the banking sector. Recently, Silicon Valley Bank, a financial institution with around \$177 billion in deposits, filed for bankruptcy after the company suffered a bank run. This was followed by Signature Bank's bankruptcy as well. Despite the FDIC covering the deposits of both banks, the bankruptcies have led to increased tensions and contagion fears at other banks around the world with Credit Suisse as the next domino to fall, as the troubled company was bought by UBS for ~\$3 billion after a \$54 billion emergency loan from Switzerland National Bank failed to slow the large withdrawals made from the bank. These recent developments and uncertainties in the banking industry have led to a volatile stock market as investors worry about a worse than expected recession and as the economy digests a 25 basis point rate hike.

Furthermore, in other news, the CEO of TikTok was called to a congressional hearing over concerns about Chinese influence on the app.



## Trading Strategy

I believe that the congressional hearing on TikTok is targeting Chinese companies with users in the US. As a result, Chinese companies will be hurt by the hearing, which will cause US social media companies to gain users. Therefore, I will be placing put options on Chinese companies and call options on US social media companies. I will also buy and short the stocks to hedge against potential losses. The companies I will focus on are META, SNAP, BABA, and NTES.



Source: TikTok

## Congressional Hearing

The current congressional hearing on TikTok looks to be a very one sided fight. With no senator stepping up to support TikTok, it appears more likely that the app becomes banned in the US. Most of the reasoning behind the movement toward a potential ban stems from the belief that China is allowed to access TikTok's user data, which would be a breach of privacy for US users. I believe that if TikTok were to be banned or is scrutinized further, U.S. traded Chinese companies could also experience similar sanctions or bans which would negatively impact the company and its share price. Our view is that the congressional hearing will begin a series of increasing scrutiny and headwinds on Chinese stocks and I based my strategy on focusing on Chinese companies that have a fair amount of US users, and stand the most to lose if affected. Additionally, users from TikTok would migrate to other US social media apps, and this could cause massive growth as a result.



Shou Zi Chou, CEO of TikTok, testifying at the congressional hearing

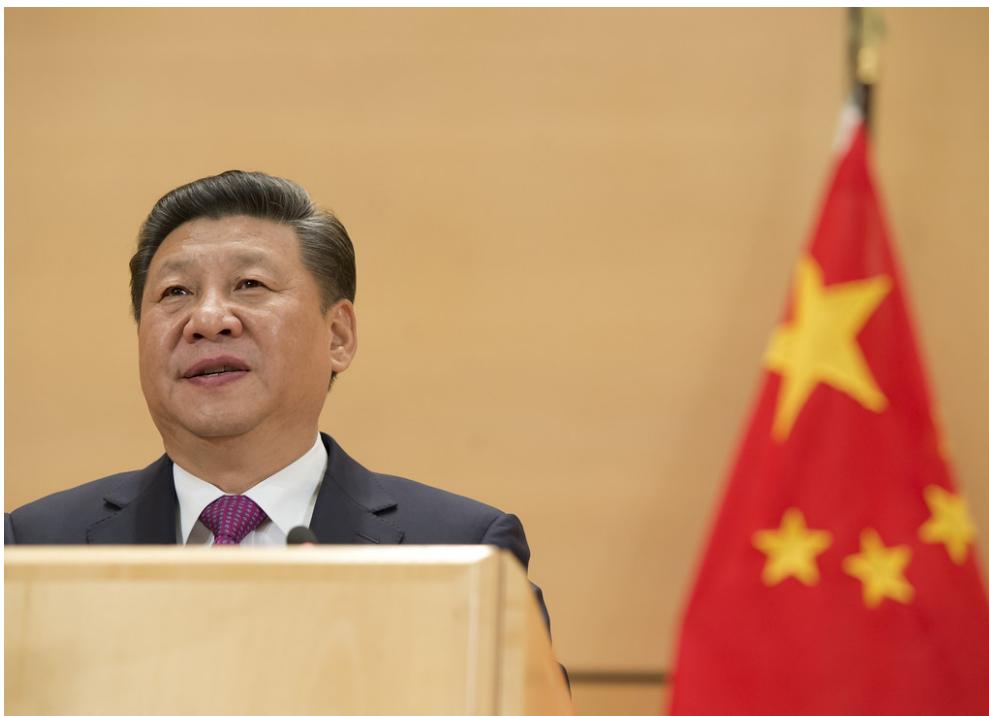
## US Market Instability

Recent bank failures, along with increasing inflation rates has resulted in a very bearish stock market. With reports indicating possible risks in more than 180 US banks, as well as the failures

of SVB, Silvergate Bank, and Signature Bank, the stock market is very unstable, and there could very well be further declines if other banks were to fail as well. This would not only cause problems domestically, but also internationally. As China is heavily dependent on exports, its markets could stand to be harmed as well. Additionally, Chinese companies like Tencent and NetEase all have large userbases outside of China which could be negatively affected by market instability.

## **Xi JinPing's 3rd Term**

Xi JinPing began his 3rd term as China's president on March 10, 2023. This indicates that China's previous policies that have increased tension with its neighbors are unlikely to change in the next 5 years. As the US is close friends with China's neighboring countries like Taiwan and Japan, there could be further economic escalations between the two countries, with increased tensions and a tangible impact in the U.S. and China economic relations. Further sanctions on China by the US could harm economic relations between the two countries, as well as limit the access of Chinese companies in the U.S. market and other markets with closer affinity with the United States.



Xi Jin Ping, Leader of China

## Action Plan

- \$50k to options trade and \$150k to hedge
- 40% Chinese companies
  - Netease
  - Alibaba
- 60% US social media companies
  - Snapchat
  - Meta

Time ▲	Side	Pos Effect	Qty	Symbol	Desc	Price	TIF	Mark	Net Prc	Status
4/11/23, 6:31:02 AM	SELL	TO OPEN	-300	META META	214.50 LIMIT Day	213.85	215.39	FILLED		
4/11/23, 6:31:10 AM	BUY	TO OPEN	+35	.NTES230519P85	May 19 (38d) 85 P	2.90 LIMIT Day	2.625	2.55	FILLED	
4/11/23, 6:33:01 AM	BUY	TO OPEN	+35	.BABA230428P98	Apr 28 (17d) 98 P	3.05 LIMIT Day	2.98	2.87	FILLED	
4/11/23, 6:35:50 AM	BUY	TO OPEN	+300	BABA BABA	101.60 LIMIT Day	99.75	101.25	FILLED		
4/11/23, 6:38:01 AM	BUY	TO OPEN	+15	.META230428C217.5	Apr 28 (17d) 217.5 C	10.70 LIMIT Day	9.85	10.65	FILLED	
4/11/23, 11:05:34 AM	BUY	TO OPEN	+1,400	.SNAP230414C11	Apr 14 (3d) 11 C	0.11 LIMIT Day	0.105	0.11	FILLED	

## Risks

One risk in this trading strategy is that TikTok may not be banned or sanctioned by the US. I am protecting myself against this risk by investing \$150k in stocks to hedge against the lack of a loss.

## Summary

In summary, my belief was that the congressional hearing for TikTok would be harmful for TikTok, and as a result hurt other Chinese companies as well. This would move US users to US social medias, and cause their stocks to rise. Therefore, I used call and put options trading and bought and shorted stocks as a hedge. I bought short term call options for US social media companies including Snapchat and Meta, and I also bought put options for Alibaba and Netease, both Chinese companies. I also bought SNAP and META stock and shorted BABA and NTES as a hedge.

## Disclaimer

I/we have no stock, option or similar derivative position in any of the companies mentioned, and no plans to initiate any such positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.