

Twitter Thread by Josh Gross



Josh Gross

@endtwist



So many folks (esp. the media) are missing the complete backstory on \$GME and how we got here.

This has been simmering for over a year and the story behind it is great. I've been tracking this since September and devoured all of the details from the origin through today.

So back in September 2019 (!) some guy named DeepFuckingValue posted this on r/wallstreetbets: <https://t.co/SPaQvI9O7i>

It was just a post about his LEAPS (aka, Long-Term Equity Anticipation Securities — tl;dr long-dated calls) on GME.

At the time, nobody understood his position at all. The top comment on that post?

"Bid-ask spread on these are ridiculous, good luck getting rid of them" lol.

For the next year, every month about once a month, he posted his "YOLO GME" position. Every month for a year he got made fun of.

I caught wind of this trade back in September 2020, a FULL YEAR after this guy was already holding. I also thought it was weird—the dying retailer?

So I dug into the public quarterly reports of GameStop. Every quarter, public companies are required to release what's called a "10-Q" which is a quarterly report of their financials. You can find them here: <https://t.co/ad8lpEo7br>

And what did I find? GameStop was actually in a great financial position; they weren't going broke! In fact, they had a lot of cash-in-hand, enough to pay off all their debts.

So why was it trading at like ... \$2-4/share?

Next, I looked at their short interest. "Shorting", for those who don't know, is when you borrow a stock (from someone) and sell it on the market expecting the price to go down. You eventually buy back the stock at a lower price, return the borrowed shares, and pocket the diff.

So, the short interest was over 100% of total shares. In fact, it was 140%. Which makes no sense—how can you sell more shares than there are shares?

Keep in mind, not all shares are actively traded. In fact, over 75% of \$GME is locked up in passive funds and GME board & C-suite.

So really, short interest was like 300-500% of *float* (float is how many shares are actively traded, basically).

Which is insane. Basically, the shorts (which are hedge funds like Melvin) were expecting \$GME to go bankrupt and they'd never have to cover (return their shares).

u/DeepFuckingValue had figured this out long before anyone. Even Michael Burry (yes, The Big Short guy) who bought in AFTER u/DeepFuckingValue.

And he bought in, with conviction in his trade, ignoring the haters.

A year later and people start to take notice on reddit. The price has started to inch up, from \$4 to \$8 to \$12 over September and October.

And more people on r/WallStreetBets started buying in.

And then more people.

And then more people.

Which, of course, makes the price go up. So the price keeps going up and more people keep taking notice and so on.

Eventually, the shorts are supposed to cover. But how? They need to purchase more shares than there are in the company. Well, that means purchasing at any price.

So they start to cover, which means buying hundreds of thousands of shares, which pushes the price up more.

And then last Friday, thanks to momentum and growing interest from retail traders, we had what is called a "gamma squeeze." Which isn't the short squeeze!

So, quick aside to explain this: Market Makers (the big banks and funds, like GS, Citadel, etc) write options. When they do, they have to remain "market neutral" by law. So there are what's called "the greeks" on options: theta, gamma, etc. Look 'em up if you'r curious.

Anyway...

"Gamma" is a number between 0-1 that changes on a call as the price of a stock gets closer to the call price. Lets say you buy a \$300 call and the stock is \$290. Gamma would be ~0.98.

Meaning for every call purchased (which rep. 100 shares), MMs buy 98 shares to be neutral.

As gamma changes, they have to buy more or sell more shares.

On Friday, the price was over every available call strike, which meant that MMs had to buy millions of shares—if a call is "in the money" (stock price > call price) they have to deliver the shares.

So on Friday and Monday, the price ran up very quickly as MMs hustled to cover the calls and settle them.

Then the news took notice and everything went wild. More people piled in, larger firms are piling in on the buy side, Elon, Chamath... and the price exploded.

So that's how we're where we are now. Supposedly, a number of shorts have covered. That being said, last I checked, the short interest was still ~138% so either:

- (a) the shorts haven't covered or,
- (b) more people are shorting to replace the shorts that covered

When you short, you pay a borrow fee which can change from day to day. Right now that fee on \$GME is between 20-80%. That's like... credit card interest rates! To borrow a stock!

So the longer you're holding your short position, the more it costs.

Eventually it either costs too much and you have to close your position for a loss, or you go bankrupt. Melvin almost went bankrupt (they got a \$2.75B bailout from 2 other hedge funds).

This is where we are now. Where does it go from here? I'm not sure!

Sorry this was so long, I find it really interesting and have been very invested in the story for months :)

@smalter @thinking_slow @kevinroose enjoy? ■