Twitter Thread by Kostas on FIRE ■



Kostas on FIRE ■
@itsKostasOnFIRE

The Mother of All Squeezes

How Volkswagen went from being on the brink of bankruptcy to the most valuable company in the world in two days

/THREAD/



1/ At the peak of the 2008 financial crisis, Volkswagen was considered a very likely candidate for bankruptcy.

Heavily indebted and already financially struggling before 2008, with car sales expected to plummet due to the ongoing global crisis.



2/ With GM and Chrysler filing for bankruptcy in 2009, shorting the VW stock would seem a safe bet.

If you are not familiar with stock shorts and short squeezes check my thread below.

https://t.co/ABGshetm9x

> Shorts, Squeezes, and Betting Against Stocks
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> What is short selling, how is it used and why is it risky?
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> — Kostas on FIRE \U0001f525 (@itsKostasOnFIRE) January 27, 2021

3/ On October 26, 2008, Porsche announced it had increased its stake at VW from 30% to 74%.

This was a surprise to many who were led to believe that Porsche wasn't planning a takeover of VW, based on the company's announcements.



4/ Before the announcement, the short interest was approximately 13% of the outstanding shares, a number considered relatively low.

Porsche had a 30% stake, the Lower Saxony government fund held 20% of the shares, and another 5% was held by index funds.



5/ Due to VW's high weighting in the German index (DAX), the VW stock comprised 17% of the total index at the time.

This left 45% of the available shares to cover for the 13% of short shares.

However, with Porsche acquiring an additional 44% the outstanding shares were only 1%.

6/ Porsche in their statement said that they “decided to make this announcement after it became clear that there are by far more short positions in the market than expected.”

7/ They added that “the disclosure should give so-called short-sellers, meaning financial institutions which have betted or are still betting on a falling share price in Volkswagen, the opportunity to settle their relevant positions without rush and without facing major risks.”.

8/ This triggered a panic among short-sellers trying to rush to the exits, after Porsche's announcement on a Sunday with markets closed.

Due to the short squeeze, VW's stock rose 66% on Monday and skyrocketed to more than $1,000 on Tuesday.



9/ At that moment, VW was valued at a market cap exceeding $420 billion, surpassing Exxon Mobil and Microsoft.

In a single day, it became the most valuable company in the world.



10/ However, on Wednesday, Porsche provided 5% of its shares to the short-sellers, bringing the price down by 50%.

By December, it had returned to its normal levels, in the mid-200s.



11/ This trade shouldn't surprise anyone familiar with Porsche's activities.

The company was basically a hedge fund selling luxurious cars on the side.

In 2007, 3/4 of the company's profits were from trading derivatives and the rest from selling cars.

Porsche: A 'Hedge Fund With a Carmaker Attached'

BY RICHARD S. CHANG JANUARY 23, 2009 2:50 PM



12/ From the 2008 VW squeeze, Porsche profited by more than $8 billion, with its CEO, Wendelin Wiedeking, pocketing a $100 million bonus.

The hedge funds that were involved in shorting the VW stock incurred collective losses exceeding $30 billion.

/END/



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