Twitter Thread by Ted Seides

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Irresistible to leave this moment alone - a thread to share some investment lessons:

1/ Size matters.
Melvin entered 2021 circa $12 billion in AUM and runs a highly levered balance sheet. That’s a lot of short exposure to move around if needed.

2/ WSB/Reddit captured a market inefficiency.

Stocks are not supposed to have over 100% short interest. Naked short selling is illegal. This set-up should never happen. Kudos to those who took advantage.

How it happened and what it means has rampant ramifications, but in this moment the individuals captured the anomaly.

3/ Be careful dismissing “in theory” for those rare moments when it becomes “in practice.”

Keynes said “markets can be irrational longer than you can be solvent.” I suspect this won't take down any significant hedge fund, but it definitely hurts.

3b/ Be careful dismissing “in theory” for those rare moments when it becomes “in practice.”

Academic finance teaches that “a short sale has unlimited downside and limited upside. Those events almost never play out, until they do.

4/ This isn’t the first drive by shooting I watched.

On the short side, VW stock in 2008.

And on the long side (leveraged), CMBX in November 2008

Both traded to completely irrational levels for a time. True left tail events for those in the positions.

5/ We don't know what will happen.

Peter Bernstein’s famous line about risk. A global pandemic leading to a soaring market? Negative interest rates? Online traders crushing monster hedge funds?

Beware those who think in certainties instead of probabilities. @AnnieDuke

6/ Timing is impossible

We know the outcome of this with near certainty (99%+ probability). GME stock will fall back to a fundamental level when the weighing machine takes over from the voting machine. We have absolutely no idea when - a day, week, month, 5 years? No idea.

7/ The short side is just brutal

My understanding is that Gabe Plotkin is one of the very best investors (process, not outcome). I highly doubt #melvincapital missed much in advance. And yet, here we are. No rebates, volatility, untethered trading - shorting is brutal.

8/ Size matters.

Melvin entered 2021 circa $12 billion in AUM and runs a highly levered balance sheet. That’s a lot of short exposure to move around if needed. And obviously, it's not alone in shorting stocks.

9/ 2nd order opportunities

Textbook hedge fund portfolio management is to deleverage amidst losses. Not just Melvin – this likely already cascaded to multi-manager platforms and will continue.

9b/ 2nd order opportunities.

Think about other places where deleveraging could take down stock prices and make attractive risk-rewards. I have my eyes on SPACs – large ownership from event driven funds, sold off yesterday across the board, and could get to cash value in trust.