Twitter Thread by Stephanie Ruhle



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THREAD on Robinhood/Reddit/GME: CONGRESS is calling for action, but no one has clearly articulated what they actually want.

We could look back on this as the biggest “Pump & Dump” in history... with the little guys carrying all the water & then getting it dumped on their heads.

It started with a SMART discovery, Melvin Capital (hedge fund) broke the cardinal rule of short selling. They took on way too big of a short position given the size of their fund, how heavily shorted the stock already was and the amount of shares outstanding.

Technically, they were RIPE to get squeezed, but there was virtually no case for anyone following fundamentals (earnings, growth etc...) to want to buy this sleepy, brick and mortar video game retailer.
Short selling is absolutely legal and adds to efficiency of the market.

More often than not, the short seller gets hurt & not the company. But there are many who believe it’s harmful to American businesses and short sellers to use media and unsavory practices to put struggling companies in further distress.

This week will definitely bring back the debate on banning short selling. This is a huge win for Elon Musk who has been battling & defeating short sellers for years and wants the practice irradicated.
He’s been unsuccessfully trying to get lawmakers to focus on this for a while.

A few VERY savvy and somewhat anonymous investors spotted this Melvin situation and masterminded a way to enlist this never-before seen “Wall St Betts-Reddit Army” and en masse went on a buying frenzy.

BUT HERE’S WHERE DAVID ABSOLUTELY DID NOT BEAT GOLIATH:
Melvin DID get crushed, but they’ve been completely out of the trade for 2 days, which means the Reddit Army’s “STICKING IT TO THE MAN” crusade is currently sticking it to your fellow man & possibly getting yourself stuck.

At this point, GameStop is worth $23b and a lot of retail investors own stock in a company worth a tiny fraction of where its stock is currently trading. They could lose 90% because they didn’t understand how the market actually functions.

And other companies in this bonanza, American Airlines & AMC- they've already sold shares to raise money, which dilutes everyone and will continue to do so.

And AMC is held by Silver Lake Partners (a massive private equity firm). They already sold out of a massive chunk making hundreds of millions of dollars. That was gifted to them by the Reddit Army marching the stock higher.

There are still SOME shorts, but there are lots of players BIG and very small who own these stocks.
When the music stops and the stocks drop, there will be a lot of pain.

CEO's of publicly traded companies are worried. Watching how a group can mobilize & go after a target in such force w/ such little underlying logic is very worrisome. Many are huddled up in virtual boardrooms today wondering "what happens when the mob decides they don't like me?"

As for ROBINHOOD- NO GOOD NEWS to report:
ROBINHOOD proved this week that they are NOT what they promised.
The CEO was happy to announce they have the most popular app, but it's worthless if it cannot execute trades.

Robinhood users learned The PRICE of "free trades" meant your broker was undercapitalized and couldn't support the business when you needed it most.

How did that happen?
Robinhood's model was offering "free trades"
They drew in scores of individual investors & then sold that order flow to Citadel (which is both a broker/dealer AND a hedge fund - confusing).

But when volume was massive and volatile in a few names, they didn't have the $$ to meet capital requirements needed when you can't borrow shares (which is why it only impacted one side of the trade).

They raised $1bn from existing investors Thursday night, so they could fully operate on Friday- but their problems are far from over.