Twitter Thread by I have to wear shoes? ■

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@migbike

A thread about GameStop:

Big hedge funds made big bets that GameStop's stock was overvalued. The way these bets work is the hedge fund borrows shares of the stock and sells those borrowed shares.

When it comes time to give the borrowed shares back, they buy them on the market, hopefully at lower prices. For example, they might sell the borrowed share at $50, hoping to be able to buy the share back at $30, to make a $20 profit. This is called shorting.

The hedge funds were so sure that GameStop was going down, that GameStop was the most shorted stock on the market. 140% of the shares in existence were "borrowed." Imagine Bob borrows from Jane who borrows from Sue who borrows from John.

Shorting is risky, but the hedge funds were so sure that they just didn't even care. People on Reddit realized this and basically thought "what if we all just bought shares and refused to sell them when the hedge funds need to give their borrowed shares back."

The price goes up, the hedge funds are forced to buy back the expensive shares and lose money. Except the hedge funds kept doubling down as the price rode up, expecting that it would eventually fall. The Redditors weren't scared off and with "diamond hands" refused to sell.

It gets to the point where hedge fund isn't even big enough to buy back the shares they borrowed because the price is so high. When that happens, they can be "margin called."

Basically, once they get to the point where they don't have enough money to pay for the shares they borrowed, their accounts can be liquidated and they can be forced to buy, regardless of what the current price is.

So if a big fund gets margin called, it puts a huge amount of buying pressure on the stock, causing the already high stock price to go even higher. As these funds get margin called, prices shoot up, causing more margin calls. A lot of the funds go bankrupt.

Basically, an army of Redditors “yolo’d” their $1000 accounts not really caring if they lost it all, and in the process brought down giant over-leveraged hedge funds that were betting on GameStop to close and lay off all of their employees. "Together ape strong"

There’s more to it than that. GameStop added the founder of https://t.co/2Oj9bvwHTz to their board and he bought a big stake in the company. A lot of people genuinely thought GameStop was a good long-term stock to buy, and that was part of what started the whole thing.

Now if you turn on CNBC or listen to market analysts, they're all villainizing the Redditors and accusing them or market manipulation. Basically their rich buddies lost their shirts and they're pissed about it.

Everything they did was on a wide open public forum, which is more than you can say for the board rooms that these funds operate in.