Twitter Thread by Ali Velshi



Ali Velshi
@AliVelshi

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By now you have undoubtedly seen the craziness going on in the stock market, with a selection of stocks surging hundreds if not thousands of percent in a matter of days or even hours, along with a whole bunch of financial jargon. So what exactly is going on? #velshi

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One major term you have heard is "shorting" - which is just placing a bet that a stock will go down in price. #velshi

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An investor can make money on this type of gamble by borrowing shares from a broker, w/o initially paying for them, selling them immediately & then later buying the shares at a lower price & returning them to the broker, keeping the difference in price as profit. #velshi

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For example, an investor borrows 1 share of stock XYZ at $200 & sells it. The investor now has $200 at an initial cost of $0. However, the investor stills owes the broker that 1 share. #velshi

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The gamble is that the price of the stock XYZ will go down - let's say to $100 a share. The investor can then buy the 1 share that it owes the broker at that lower $100 price. #velshi

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This means it costs the investor less to buy XYZ than what it has already sold XYZ for & the investor can keep that extra $100 difference from the $200 sale price. #velshi

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Of course, the price of the stock could increase - and the investor still owes the broker the share XYZ, in which case the investor loses money. Potentially a LOT of money. #velshi

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Using our example, let's say stock XYZ increases to $220 dollars. The investor still has to buy the owed share, but it now cost $20 more than it was initially sold for, and the investor loses that money. That's the basis for what has been going on. #velshi

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What basically happened was within the last week or so some people on the Reddit 'WallStreetBets' noticed that some hedge funds were placing massive “short“ bets on several distressed widely known companies. #velshi

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Short bets were placed mainly on Gamestop but also Bed Bath and Beyond, American Airlines, AMC Theaters, Blackberry, and others. #velshi

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These redditers then essentially crowdsourced a whole bunch of people to bet AGAINST the hedge funds, buying shares at increasingly inflated prices in order to prevent the stock prices from going down. #velshi

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As the price kept going up, some of the hedge funds were forced to start buying shares to replace the ones they had borrowed when they initially expected the stocks to drop in value, in order to cut their losses, in what is known as a 'short squeeze'. #velshi

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And all that buying - that new demand - has the effect of dramatically increasing the price of the stocks. #velshi

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There has also been a lot of talk & consternation that some brokerage & trading firms popular with newer traders, including one called 'Robinhood', cut off the average person's ability to trade in some of these volatile companies. #velshi

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That led people to call for investigations into why regulators go after small investors when they move the market, but not big hedge funds which, some people say, manipulate markets as a normal course of their business. #velshi