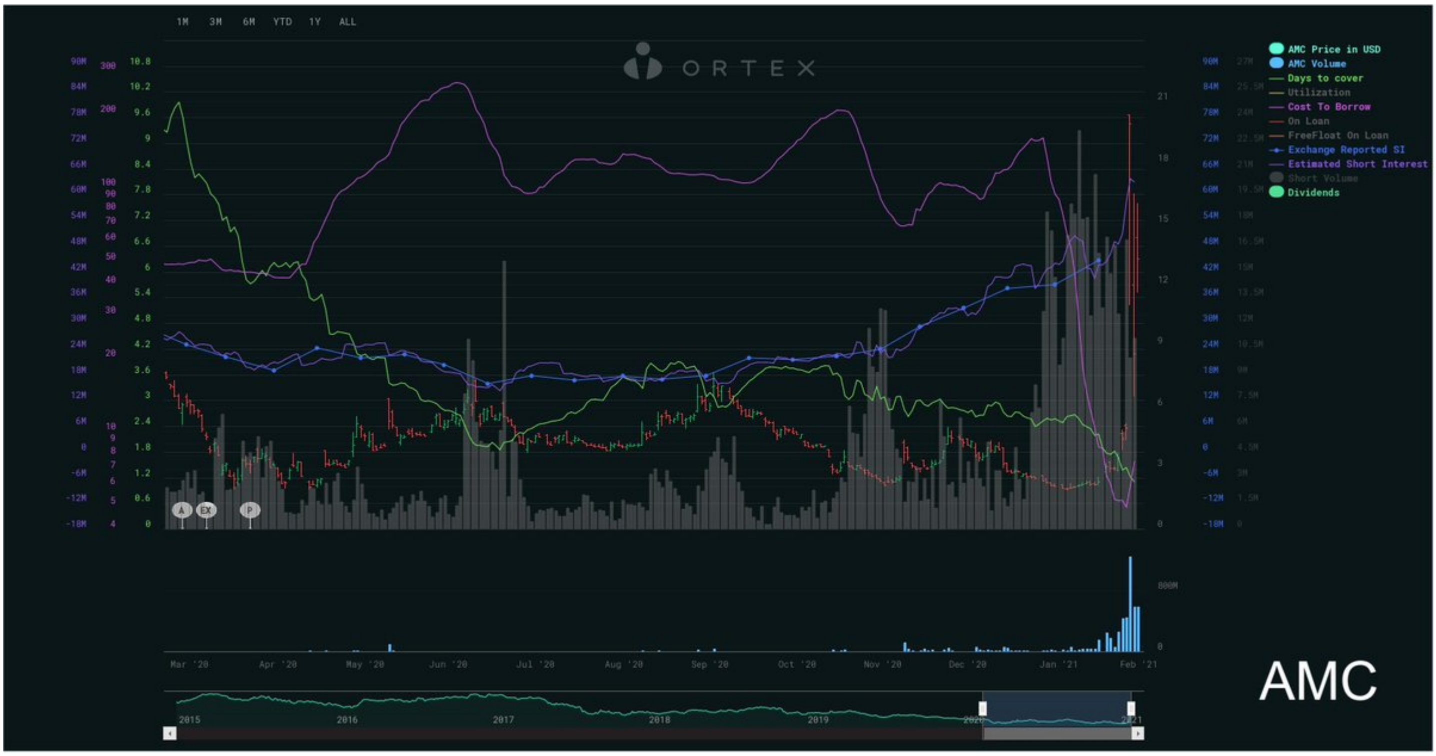
Twitter Thread by Josh Gross

Josh Gross
@endtwist

Want to see two absolutely crazy, shady, frustrating charts? (warning: they're confusing, I'll explain)

These charts, which show stock price, volume, short interest, and short volume, tell the story of what happened over the past few days.

Left: $AMC, Right: $GME



On Wednesday night, Robinhood and several other apps limited trading of a number of tickers to just a few shares & options. You could sell as many as you owned, but you couldn't buy any more than a couple of each ticker. It included $AMC, $GME, and a few others…

They did this because their clearing houses increased liquidity requirements more than a hundred percent. A clearing house, if you're wondering, is what settles all of the trades made during each trading day.

So, when you buy or sell a stock, you might see the cash or the stock in your account immediately. In the background, however, it’s a lot more complex: these clearing houses settle up the books between each other to make sure everyone is squared up properly.

These clearing houses have "liquidity reqs" which are set by regulations and other partners; they literally need to have a certain amount of cash on hand for different securities.

On Wednesday night, the requirements for certain extremely volatile stocks like GME skyrocketed.

Big firms like E*TRADE and Vanguard could handle this without issue, probably in part because they manage billions/trillions of dollars but also because most of their customers weren't in these volatile stocks.

Something like 50% of RH traders were/are holding GME.

So Robinhood, Webull, and others suddenly found themselves with a liquidity crunch and hustled to get short-term loans or funding that would let them stay on the 'right side' of the regulatory requirements/not go belly up.

Even so, they limited trading of these tickers (stocks).

What happens when you can only sell but not really buy? The price plummets. So that’s what happened to basically all the "meme" stonks—GME, AMC, BB, BBBY, etc.

And short sellers took advantage of this. When the prices fell, a ton of them closed out their high-cost GME position.

Probably for a decent loss, too. But then, it seems, a ton of short sellers (possibly the same ones!) shorted the hell out of AMC. So the short interest in AMC skyrocketed. Why? Fees are lower and they're betting on the bear case (AMC failing/stock falling back to like $2).

So now it’s a war of attrition. There’s still a ton of short interest in GME, but with buying still restricted and short interest down, it seems less likely to squeeze.

On the other hand, AMC's short interest is way up. But shorts can hold (at ~5% fees, according to Ortex).

We won’t see shorts closing their AMC positions even if they're underwater on the trade for a while. They moved their trade to a cheaper bear bet while retail had the rug pulled out from under them.

We'll see how this plays out this week but it doesn’t bode super well for retail