

The Daily Dispatch

Friday Special Feature

February 05, 2021

GameStop or: Why the Short Sellers Win

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By now, another GameStop-related opinion piece about how retail traders ruined short sellers and cost hedge funds a reported \$23.6 billion is probably the last thing you want to read. Don't worry, this op-ed is a bit different, because I think the short sellers have won and the retail traders lost.

Let me explain why.

Everyone knows the story. GameStop was in trouble for a long time and thus a prime target for hedge funds selling shares short in hopes of profiting off the company's demise. Then, retail traders on the subreddit WallStreetBets talked about how they made money betting on GameStop and an avalanche of small trades came in. On platforms like Robinhood, retail traders pushed the stock ever higher, creating a frenzy that caused both a short squeeze and a gamma squeeze in the options market. Now the retail traders who went into GameStop are celebrating their victory. The stock has risen 1,642% in 2021.

There is just one problem.

A successful trade consists of two actions. First, you have to buy a stock that then increases in price. Then you have to sell that stock at a profit and lock in those gains. The beauty of investing is that it is a race that has no finish line. There is no point at which everyone can assess their profits and

losses and compare themselves to others. Markets go on all the time and while you might be ahead one day, you can easily lose everything the next.

This is a particularly important lesson to heed in a bubble. There is no doubt that GameStop is in one right now. But there are so many different ways to define bubbles. Maureen O'Hara, the 2020 winner of the CFA Institute Research Foundation's Vertin Award, provided an insightful analysis of the various meanings in a recent Washington Post column.

To me, a bubble's most interesting phenomenon is what John Kenneth Galbraith called "the bezzle," or the "period when the embezzler has his gain and the man who has been embezzled, oddly enough, feels no loss. There is a net increase in psychic wealth." We are in the GameStop bezzle now: The short sellers have already won, but the retail traders feel no loss.

Without a doubt, the hedge funds that had short positions in GameStop lost a lot of money. But there's an interesting observation embedded in the trading volume of GameStop shares. Towards the end of last week, it plunged by about two thirds between 26 and 27 January. Then, when Robinhood and other platforms briefly blocked traders from buying GameStop, the stock fell more than 60% before it started to recover. In that time frame, trading volume also dropped significantly.

This is no proof, but it indicates that the short squeeze is over. By now, GameStop shares are entirely the domain of traders and speculators. No short seller or any self-respecting institutional investors is still in the stock. We have entered the phase of the bubble when traders can only make money if they find a greater fool who is willing to buy the shares they are trying to sell in hopes of finding an even greater fool to sell the shares to later.

Forgive the pun, but at some point, this GameStop greater

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fool game will stop. Every bubble in history eventually comes to a point when there just isn't enough fresh money flowing in to sustain it. And no social media hype can stop that.

I started my career as an investor during the tech bubble of the late 1990s. Back then, Reddit didn't exist, so people hyped stocks on Yahoo! Finance boards and other platforms. The mechanism was the same, even if a smaller number of people had access to the internet and so the bubbles were smaller too. We know how that story ended. And we know that it wasn't the short sellers who lost their money. In the end, the losers were the last fools in line, those who owned bubble stocks with no greater fool to sell them to.

If you own GameStop shares today, you've already lost most of your money, you just don't know it yet. The short sellers have left the market. But don't for a minute think they are licking their wounds in defeat. They are regrouping and likely already circling GameStock again, waiting for the right time to sell it short at a much, much higher price than their original short. And when the bubble pops, they will make billions in profits while retail traders will lose billions.

The irony of it all is that to sell GameStop shares short, these traders will have to borrow them from their current owners. And many retail traders don't know that they have signed terms and conditions with their custodians that allows them to lend the securities in their portfolios to other investors for a fee, none of which ends up in the traders' accounts, of course. So these traders are going to lend their shares to the very people who will eventually bankrupt them.

Posted In: Economics, Equity Investments, Investment Topics, Portfolio Management

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TODAY'S TOP NEWS

OECD expects PH economy to grow just 5.9% this year

The Organization for Economic Cooperation and Development (OECD) expects the Philippines to post a slower-than-targeted economic growth of 5.9 percent in 2021 following a record recession last year.

Office space vacancy rising, rental fees falling

Metro Manila's office property space is moving past the 10-percent vacancy rate for the first time in more than a decade and may remain at the double-digit level in the next two years amid a challenging environment brought about by the coronavirus pandemic, property consulting firm KMC Savills Inc. said.

Acen seeking to raise up to P16B in fresh funds

In yet another step forward in its evolution into the Ayala group's integrated platform for domestic and overseas power generation projects, AC Energy Corp. (Acen) plans to raise about P12 billion to P16 billion from a follow-on offering (FOO) of up to two billion primary shares.

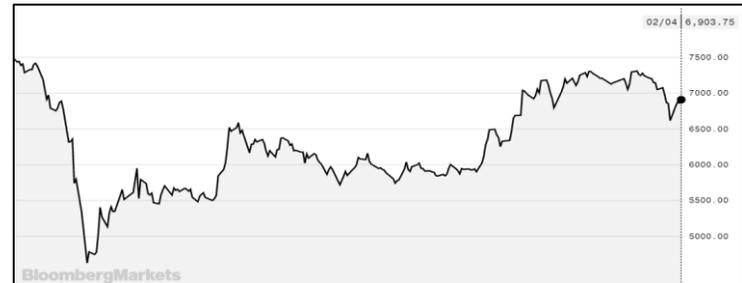
Insurance industry income down 9.85% in end-Q3 2020

MANILA, Philippines — The insurance industry's bottom line declined 9.85 percent year-on-year to P28.62 billion during the first nine months of 2020, no thanks to weaker sales in the midst of a pandemic-induced recession.

Inflation blows past expectations to 2Y high in Jan

Prices of basic goods and services rose by their fastest level in 2 years in January, overshooting government expectations as the surge in food costs remained unabated. Inflation, as measured by the consumer price index, accelerated to 4.2% year-on-year.

Philippine Stock Market Update



Previous Close:

6,903.75

1 Yr Return:

-4.74%

Open:

6,899.15

YTD Return:

-3.66%

52-Week Range:

4,039.15 - 7,510.84

Source:

Bloomberg

Foreign Exchange

As of Feb. 4, 2021

US Dollar	Philippine Peso
1	48.1

BVAL Reference Rates

As of Feb. 4, 2021

Tenor	Rate
1Y	1.464
3Y	2.072
5Y	2.561
7Y	2.821
10Y	3.001
20Y	3.967

Daily Quote

Genius is 1 percent inspiration
and 99 percent perspiration.

--Thomas Edison

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MORE LOCAL NEWS

Job generation picks up as more businesses reopen

Online job portal Jobstreet.com said Thursday the job market is expected to return to pre-COVID level by the end of 2021, as companies are slowly and cautiously resuming normal operations.

BSP expands e-payment platform

The Bangko Sentral ng Pilipinas (BSP) is further expanding the country's digital payment platforms to speed up the transition to a cash-lite and eventually to a coinless and cashless society. BSP Governor Benjamin Diokno said various payment digitalization initiatives would be implemented successively starting April.

PCC clears merger of semiconductor firms

The Philippine Competition Commission (PCC) has approved the merger of US-based semiconductor firms Analog Devices Inc. (ADI) and Maxim Integrated Products Inc., which have operations in the country. The PCC said the transaction is not expected to lead to a reduction in competition given its global nature.

Roxas moves to sell more non-core assets, pay debts

Roxas and Co. Inc. plans to sell more non-core assets and pay debts while expanding the core hospitality and coconut processing businesses to ensure growth. RCI in a disclosure to the stock exchange said it would pursue major sale and joint venture deals in relation to its land holdings.

GMA hopes to sell 500,000 portable TV receiver

GMA NEW MEDIA, Inc., the digital media and technology arm of GMA Network, Inc., on Thursday said that while there had been reduced mobility in the country due to quarantine policies, it could still sell at least 500,000 units of its new digital TV mobile receiver this year.

Digital transactions will drive industry recovery

AutoDeal.com.ph; the Philippines' no.1 online automotive marketplace finished 2020 in high spirits despite a 40% drop in annual vehicle sales as more consumers shift to the platform as a means of facilitating their vehicle purchase online.

UnionBank's private bank books higher AUMs

THE PRIVATE BANKING arm of UnionBank of the Philippines, Inc. saw a climb in its assets under management (AUM) in 2020 despite the coronavirus pandemic.

Palace approves plan to boost pork imports

PRESIDENT Rodrigo R. Duterte has approved a plan to boost pork imports to counter soaring prices amid an African Swine Fever (ASF) outbreak, Cabinet Secretary Karlo Alexei B. Nograles said on Thursday.

SEC reaches settlement with Hoton Retail & Services

THE Securities and Exchange Commission (SEC) said that it had reached a settlement agreement with Hoton Retail and Services, Inc. regarding the latter's franchise partnership program. In an order posted in its website, the corporate regulator said Hoton on Dec. 28, 2020 paid a settlement amounting to P815,000

RC Cola sales soar after viral ad

SALES of RC Cola in the Philippines increased by 67% after its video advertisement gained online viral attention. The video spot from ad agency Gigil was widely seen online, with the video getting 51 million views and 366,000 shares across social media platforms since it was posted online in November.

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TODAY'S TOP ASIAN NEWS

SoftBank Q3 recovery seen driven by IPO boom

SoftBank Group Corp is expected to extend earnings recovery when it reports third quarter results on Monday as frothy markets drive a rally in the value of its tech investment portfolio and offer fertile ground for listings. The Japanese conglomerate is seen posting a net profit of \$1.63 billion in the October-December quarter.

China's Ant to hive off credit data in revamp;

Ant Group Co plans to spin off its consumer-credit data operations, people with knowledge of the matter said, a concession to aggressive regulators that should help the Chinese fintech giant get its massive public share sale back on track.

SWIFT sets up JV with China's central bank

SWIFT, the global system for financial messaging and cross-border payments, has set up a joint venture with the Chinese central bank's digital currency research institute and clearing center, a move some see as a sign that China wants to explore global use of its planned digital yuan.

Chinese FedEx rival eyes stake in Kerry Logistics

SF Holding, one of the largest Chinese package-delivery services, is exploring a potential investment in tycoon Robert Kuok's listed logistics business, people with knowledge of the matter said. The Chinese courier is in talks to acquire a minority stake in Kerry Logistics Network, according to the people.

Foodpanda moves ahead with Myanmar expansion

Delivery Hero's Asia-focused delivery platform Foodpanda on Thursday (Feb 4) said it would stick with plans to expand its grocery offerings in Myanmar, despite the uncertainty from a military coup this week.

TODAY'S TOP GLOBAL NEWS

Ford boosts investment plan for EVs and self driving

Ford Motor Co more than doubled the amount of money it plans to invest on electric and autonomous vehicles, to \$29 billion, even as it posted a fourth-quarter net loss of \$2.8 billion. The No. 2 U.S. automaker also said the global semiconductor chip shortage could lead to a 10% to 20% loss in first-quarter production.

Valero JV to become top US renewable diesel producer

A Valero Energy Corp joint venture will become the largest renewable diesel producer in the United States in 2023 when it opens a second facility at a site in Texas. The 2nd largest crude oil refiner in the United States said it and partner Darling Ingredients Inc approved construction of a 470M-gallon renewable diesel plant in Port Arthur, Texas.

Pinterest beats estimates on ad spending recovery

Pinterest Inc reported better-than-expected quarterly results, benefiting from strong user growth and heavy advertising by e-commerce retailers during the holiday season. Ad spending has rebounded from a slump during the early months of the pandemic as retailers turn to the web to attract home-bound customers.

StanChart gives up space in HK buildings

Standard Chartered is giving up several floors in its main offices in Hong Kong, as global banks accelerate efforts to cut costs and the coronavirus pandemic upends work styles. The British lender is relinquishing the lease on eight floors it occupies in its Standard Chartered Bank Building in Central.

Samsung considers Austin for \$17b chip plant

Samsung Electronics Co Ltd is considering Austin, Texas, as one of the sites for a new \$17 billion chip plant that the South Korean firm said could create 1,800 jobs, according to documents filed with Texas state officials.