BrainStop

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(ISO date format YYYY:MM:DD)

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Preface

Do we really need to talk about this?

In a continuing effort to leave behind some “record” of events that have transpired, I intend to document the events concerning the rise and decline of GameStop’s stock and the commentary from several mainstream and alternative media sources concerning these events. I believe there has been an unbelievable amount of misinformation and ideologically driven claims made over the facts of these events.

In this document I intend to:

- Provide a very basic explanation of some of the basic and intermediary topics related to trading stocks.
- Give a general overview of what has happened, from DeepFuckingValue’s original post all the way up to the aftermath of the big bubble.
- Cover the most common rumors and misconceptions about what’s happened and explain why most of them are either misleading or incorrect.
- Have a brief discussion about the harm of sensationalist media and sensationalist media consumption.

Stocks 101

- Stocks
  - A stock represents a share of a company. There are different types of stock, some with different contingents on ownership (for instance, some requiring a lock-in period where you cannot sell). Someone that owns 10% of the outstanding stock of a company owns 10% of the company, entitling them to a proportion of the company's assets and profits.
    - *John purchased **5 shares of GameStop**, so he now owns a small percentage of the company.*
- Ticker Symbol
  - A one-to-five character abbreviation that uniquely represents a company listed on any of the major stock exchanges.
    - *GameStop's ticker symbol is **GME**.*
- Brokerage
  - A firm acting as a middleman that serves to connect buyers with sellers.
    - *John created an account with **Robinhood**, a brokerage that will allow him to buy and sell stocks and other financial products.*
- Financial Industry Regulatory Authority (FINRA)
  - FINRA is the largest independent regulatory body that regulates member brokerage firms and exchange markets. It is responsible for regulating equities, bonds, and options.
    - ***FINRA** was formed by a consolidation of member companies regulating the New York Stock Exchange (NYSE) in 2007. It oversees over 3,500 brokerage firms in the US, making it the largest independent regulator for all securities firms in the United States.*
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- Trading on margin
    - The act of borrowing money (usually from a brokerage) to purchase securities. Trading on margin allows one the opportunity to gain or lose greater amounts of money than one would normally be able to using only their own funds.
        - *John wants to purchase $10,000 of shares **on margin** with his Robinhood account. Due to regulation T, John must fund the initial purchase with $5,000 of his own money to meet the 50% initial margin requirement. If the value of the purchased securities goes down, FINRA regulations (4210.c.1) require him to keep a **25% maintenance margin** in his account, meaning he'll need **to add more cash** to keep his cash balance worth at least 25% of the purchased security value (approx. $1700 when the stock purchased has declined 33% to $6700) .*
- Equity
    - Equity is the total amount an asset is worth less money owed on that asset.
        - *John has a mortgage on his $300,000 house that he has paid down to $250,000. He has $50,000 in equity in his house.*
- Collateral
    - Collateral refers to an asset or dollar amount that a lender requires in order to secure a loan. Collateral allows lenders to lend with increased certainty and to provide better rates for secured loans, or loans backed up with collateral.
        - *The **$2,500 that John deposited into his Robinhood account** is the collateral Robinhood holds onto in order to purchase stock in Gamestop.*
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- Margin Call
  - If the equity in your margin account falls below the collateral amount required by your brokerage, your broker will initiate a margin call, demanding that you immediately deposit cash into your account to meet your margin requirement. It's possible that your broker will forcibly close your positions to meet the margin requirements before you even have a chance to deposit.
    - *John deposits $5,000, gaining $10,000 of buying power due to his 50% initial margin requirement. John then purchases $10,000 of GME.*
    - *John's equity is $5,000 ($10,000 in shares less his $5,000 loan)*
    - *If John's $10,000 worth of GME shares were to fall to $6,000, it would bring the equity in his account down from 50% ($5,000/$10,000) to ~16.7% ($1,000/$6,000). (Warning:* ***Even though the price of a security may fluctuate, the loan you take out is a static value.****)* ***This would trigger a margin call as the stock falls in value, meaning John would need to immediately deposit another $500 into his account in order to meet his 25% ($1,500/$6000) maintenance margin requirements (in reality he would be asked for more than that), otherwise Robinhood could potentially liquidate his stock in order to shore up his account.***
    - *If John liquidates his position after meeting the margin call, he will sell $6,000 in stock, pay off the $4,500 of remaining margin debt and then withdraw $1,500, losing $4,000 total ($3,500 of his initial deposit plus the $500 margin call).*
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- Clearinghouse
    - A clearinghouse is an entity that validates and finalizes transactions between buyers and sellers in a market.
    - In the United States, a clearinghouse guarantees both sides of a trade. They are subject to default risk from both buyer and seller. Margins are imposed by clearinghouses in order to mitigate this risk.
    - It takes two days for a clearinghouse to transfer a purchased stock to the buyer and the funds to the seller. This two day settlement period is known as T+2.
        - *When John buys a share of GME from Robinhood, Robinhood sends the trade order to its own clearinghouse, Robinhood Securities LLC, which transacts with the Depository Trust and Clearing Corporation (DTCC) to finalize the trade.*
- Volatility
    - Volatility is a measure of how risky a given investment is. This can be measured using a variety of formulas and over a variety of timeframes, but essentially higher volatility means larger and more frequent swings in prices, and lower volatility means higher price stability.
        - *GME rose by over 100% and fell by over 50% on some days, making it a highly volatile stock.*
- Liquidity
    - Liquidity simply refers to how easily a given asset can be converted into cash for the desired price.
        - *John's pokemon card collection was very illiquid as it was taking him a long time to find a buyer for his mint condition Grade 9 PSA 1st edition Charizard at the price he wanted.*
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- Market Liquidity
    - Market liquidity is a measure of how easy it is to convert a given asset into cash without affecting the market price. Market liquidity is high in things like the stock market, and low in things like collectibles, such as trading cards. Higher market liquidity implies lower volatility and a smaller space between buys and asks for given assets.
        - *Any company's stock listed on any of the major stock market indexes is said to be highly liquid, as there are a large number of traders and dedicated market makers buying and selling stock to each other in very narrow price ranges.*
- Spread
    - In the stock market, the spread refers to the difference between the "ask" (the selling offer) and the "bid" (the buying offer) price. It can be expressed as a percentage of the spread value (ask - bid) divided by the bid price, or as a number.
        - *The ask on ABDCE was $15.00 while the bid was $14.50, meaning the spread was $0.50, or 3.33%. A normal spread on a high liquidity stock will generally be only a few cents apart.*
- Hedge Fund
    - A hedge fund is a private firm that takes the form of a number of investors who hire a specialist to invest their money. Participation in a hedge fund generally requires a high minimum level of investment that is locked in for a certain period of time. They sometimes employ high leverage and target specific investment strategies with higher upsides and potentially greater losses.
        - *Citadel LLC is an American multinational hedge fund and financial services company.* ***The minimum amount required to invest in one of Citadel's funds is $10,000,000****.*
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- Short Selling
    - A short sale is the sale of a stock the seller does not own. This transaction occurs by a short seller borrowing a security, selling it, waiting for some period of time, and then repurchasing the security to return to the lender. This generally takes place under the assumption that the price of the given security will fall while being borrowed. A shorter generally has to pay an interest fee while the position is open (while the shares are borrowed), as well as maintaining a maintenance margin of 150% of the shorted stock due to Regulation T (rules set for regulating cash accounts of investors by the Federal Reserve), or else one may face a margin call. Short selling is an essential part of price discovery in stock markets and rewards market participants for uncovering negative information about a company including, but not limited to, fraud, etc..
        - *After much research and investigation, Jim Chanos in November 2000 decided to short Enron's stock, sounding one of the early alarm bells that the company's reporting did not make sense given market conditions.*
        - ***John borrowed 1,000 shares of ABC stock from Institution X and sold them immediately at $10 each for $10,000.*** *In one month, when the shorts were due back, the price had fallen to $5 each.* ***John repurchased the shares for $5,000 and returned them to Institution X, profiting the difference ($5,000),*** *less the fees and interest incurred during the borrowing period.*
        - ***John borrowed 1,000 shares of ABC stock and sold them immediately at $10 each for $10,000.*** *In one month, when the shorts were due back, the price had risen to $15 each.* ***John repurchased the shares for $15,000 and returned them to Institution X, losing $5,000,*** *plus the fees and interest incurred during the borrowing period.*
        - *Short selling has the effect of* ***majorly amplifying both gains and losses****.*
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- Short Interest
    - Short interest is the number of shares that have been sold short but have yet to be covered. FINRA requires institutions to report short positions at the middle and end of the month. It is possible for the short interest to be over 100% if people are shorting shares that have been sold to them by other short sellers. Allowing short interest to go beyond 100% is important because it allows all owners of shares to gain interest by lending their stock (as to not create lesser value shares that cannot be lent) as well as to allow new participants who believe the shares are worth less to bring that information to the market.
        - *On January 15th, the NYSE reported that GME had 61,780,000 shares sold short. The short interest, then, was 61.8m shares.*
- Shares Outstanding
    - The outstanding shares of a company are all of the stock that a company has issued. This includes restricted stock issued to insiders or employees.
        - *The total outstanding shares of GameStop stock on December 1st, 2020, was 69.75m shares.*
- Float
    - A company's float is the number of outstanding shares less any restricted stock, available for trade on the open market. A company's float will not include stock issued to company insiders and is a closer representation of the actual stock available for the public to purchase for a given company.
        - *The total amount of stock available to purchase for the public is GameStop is ~51m shares, so we would say that GameStop's float is ~51m.*
- Days-to-cover
    - Days-to-cover indicates how many days worth of trading volume it will take to cover all of the currently open short positions. The formula for this is *(Days-to-cover) = (Total Short Shares)/(Average Daily Trading Volume)*.
        - *If the average daily trading volume over the last 30 days of GME on the 15th of January was ~20m shares with ~68m of shares sold short, then the days-to-cover would be ~3.4 days.*
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- Short interest ratio
    - The short interest ratio is the total amount of short positions divided by the total float of a company.
        - *If the short interest for GME is 61,780,000, and the total float is 51,006,000, then the short interest ratio is 121.12%.*
- Naked Short-Selling
    - Naked short-selling refers to selling borrowed stock without finding someone to lend you the shares. This practice was made illegal during the 2008 financial crisis, though some discrepancies, loopholes in electronic systems, and exemptions allow this to happen. The clearest evidence that naked shorting has happened is when sellers fail to settle their trades to buyers within the mandatory three day settlement period after a sale. The majority of these failed trades are commonly believed to be naked sales, but oftentimes is the result of human error or administrative delays, and especially increase when volume and volatility on a stock is high.
        - *Despite repeated investigations by the SEC, there is no evidence for widespread naked short selling. In 2006, an official by the SEC stated that 99% of trades settle on time and without incidence.* ***Of the 1% of FTD's (fail-to-delivers, or stocks that don't clear after a trade has been executed within 3 days) that don't settle on time, 90% were resolved within 20 business days.***
- Short Squeeze
    - A squeeze is when the price of a share begins to rise (sometimes sharply) when short sellers try to cover their position in illiquid markets
        - *If the short interest on a given stock is very high, a run-away effect can be created if* ***investors purchase shares of the stock and drive the prices up****, forcing the* ***short-sellers to close their positions by repurchasing the stock which drives up the price,*** *which causes margin calls for other short sellers who must close their positions, etc..*
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- Market Manipulation
    - Market manipulation occurs when an actor tries to deliberately mislead other investors into believing that the price of a given asset is lower or higher than its true price - the price implied by market fundamentals. A pump-and-dump might lead investors into thinking a stock is worth far more than it is, and a poop-and-scoop might lead investors into thinking a stock is worth far less than it is. Unlike short selling, market manipulation does not intend to profit from a mispricing of a security, but rather seeks to intentionally create a scenario where a security is not priced correctly so as to profit from misleading other investors.
        - *If multiple admins on a forum were* ***curating content ripe with misinformation in an attempt to mislead people*** *about the true value of a security, it could be seen as a form of market manipulation,* ***especially if those admins have positions on those securities that they opened before making those statements.***
- Market Maker
    - A market maker is a firm that is required by an exchange to offer quotes on both the bid and ask of a given security. They are willing to take either side of a trade, making their money not from the trades themselves, but from the bid-ask spread.
        - *Citadel Securities is one of the largest market makers in the world, responsible for approximately 26% of U.S. equities volume.*
        - *If the bid-ask for a stock is given as $10/$11, a market maker would make money on this stock by consistently taking each end of this trade. Investors selling a security would sell for $10 to the market maker, and investors buying from the market maker would pay $11 to the market maker. In a perfect world, the market maker is making $1 off of every two transactions.*
        - *Market makers are required by the SEC to offer price improvement for retail customers, passing along some of their savings to customers who trade with them. Market makers are also essential for ensuring liquidity in the markets.*
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- Payment for Order Flow (PFOF)
    - Payment for Order Flow is the compensation and benefit a brokerage receives for directing orders, such as to market makers, for trade execution.
        - *When you buy or sell a stock on Robinhood, the order is usually sent off to Citadel Securities, Two Sigma, Wolverine, or Virtu, companies that are market makers. Robinhood makes nearly half of its revenue from the payments these companies provide for their orders. Robinhood is required by FINRA to accept the bid which nets their customers the best price after accounting for fees.*
        - *PFOF is often what allows brokerages to offer zero commission, zero fee trades.*
        - *PFOF is standard practice across much of the brokerage industry, with TD Ameritrade, E*TRADE, Charles Schwab and Robinhood all participating for no-commission accounts.*
- Frontrunning
    - Front-running is the act of purchasing or selling a security ahead of a received client order from a client. Front-running is illegal.
        - *Broker ABC receives an order from Client X to buy Security Y. Broker ABC purchases 10,000 shares of Y on the market before executing Client X's order.*
- Painting the Tape
    - Painting the tape is a form of market manipulation where market players trade a security among themselves in an attempt to influence the price, creating the illusion of increased interest or activity. As painting the tape is market manipulation, it is illegal.
        - *Two companies trading shares of a stock between themselves over and over again in an attempt to drive up interest in a stock due to an increase in volume are said to be painting the tape.*

The Events

About a year and a half ago **[GME September 12th, 2019 $4.60 | $4.58]**, r/wallstreetbets/ user u/DeepFuckingValue started posting his opinion on excessive GameStop shorts on Reddit and YouTube. He made these posts quite frequently and received a variety of responses from people on r/wallstreetbets, ranging from humorous to negative responses imploring him to sell early. In January 2021 **[GME January 13th, 2021 $20.42 | $31.40]**, the r/wallstreetbets subreddit began to jump onto this stock, buying shares and encouraging others to do the same, thinking the short interest was high enough that it would cause a short squeeze to occur. After the initial pump into GME, r/wallstreetbets also began to identify other heavily shorted stocks ("meme stocks"), attempting to rally those securities as well.

Melvin Capital and Citron Research were the two largest players in shorting GameStop. Melvin Capital's hedge fund ultimately lost 53% of its value in January, and Citron Research was forced to cover their short positions at a 100% loss. Both firms (1 | 2) claimed to have covered their short positions on the 26th of January, which seems to be supported by the 179 million shares traded that day (almost 300% short interest could theoretically have been covered on the 26th if every purchase was a short cover). On January 25th **[GME January 25th, 2021 $96.73 | $159.18]**, Melvin Capital announced that they would be taking a $2.75b investment from Citadel and Point72.

On January 28th **[GME January 28th, 2021 $265.00 | $193.60]**, Robinhood began restricting customers from opening new positions in AMC, BB, BBBY, EXPR, GME, KOSS, NAKD, and NOK. Webull Financial LLC, E*Trade Financial Corp. and Interactive Brokers Group Inc also began restricting trades as well. Anthony Denier, CEO of Webull, explained on January 28th on the YouTube channel Benzinga that the entities responsible for clearing trades were requiring greater margin due to the volatility surrounding these new hot stocks. Robinhood's CEO Vlad Tenev came out on the 29th and explained essentially the same issues, although his wording could have been better.

Robinhood tapped its available lines of credit (for upwards of $500m) with six banks, and then on the 29th raised over $1b from investors in order to meet its margin requirements to allow customers to resume unrestricted tradings. These brokerages temporarily halted trading in the meme stocks to allow everyone else using the app to continue with their normals trades, rather than shutting down the entire brokerage until capital could be found.

r/wallstreetbets claimed (with no evidence aside from some convoluted, pseudoscientific mathematical formulas and misunderstanding of financial terms) that a short squeeze was still on the way, continuing to goad other retail investors into what was essentially “bag holding” - buying a stock at the top and then holding onto it until the value plummets. Many large figures jumped in on this, including Mark Cuban and Elon Musk, encouraging retailers to hold their stock despite the massive losses they were guaranteed to face.

Misinformation

- **“Naked shorting happened” (1)**
  - There is absolutely no evidence that “naked shorting” happened, despite what people claim. There would need to be a massive number of unaccounted fail-to-delivers, an SEC investigation, or some other evidence pointing to this happening. As we’ve earlier discussed, it is entirely possible for A to lend shares to B, and then for B to sell shares to C, and then C to lend shares to D. In this way, it is entirely possible for the short interest in a given stock to exceed 100% without any illegal behavior going on.
- **“They don’t want you to do what we do!” (1 | 2)**
  - The idea that there was a plot to prevent people from engaging in behavior that hedge funds engage in doesn’t really make sense. People were still able to trade securities, even the “meme stocks”, across other brokerages, and there was no evidence that trading was halted specifically at the behest of any investor, despite Citadel’s investment in Robinhood.
- **“Market manipulation” (1 | 2)**
  - “Market manipulation” requires a deliberate attempt to move a price on a given security away from what fundamental market forces imply it should be in an attempt to mislead other investors. So far, the only party that I’ve seen engaging in this behavior are the r/wallstreetbets mods who were continually curating information encouraging others to buy. Short selling is not market manipulation. Publishing your short positions is not market manipulation. Shorting something heavily is not market manipulation.
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- **“Shorting is evil” (1 | 2 | 3 | 4)**
    - Shorting is an essential part of price discovery. If one believes a stock is going to increase, one can purchase the stock, sending that signal to the market. Shorting allows actors to send signals to the market that they believe the price of a security is too high. The research involved with short selling also plays a vital role in uncovering fraudulent or corrupt business practices. Short selling is often blamed by individuals and governments as causing company failures, but the opposite is often true.
    - “On February 18th BaFin, Germany’s financial regulator, banned investors from taking new net short positions in Wirecard, a German digital-payments firm, after its share price fell by over 40% in under three weeks… The regulator cited Wirecard’s “importance for the economy” and the “serious threat to market confidence” following the collapse in its share price. Wirecard processes payments for 250,000 merchants, including Aldi and Lidl, two of Germany’s biggest retailers, and numerous airlines… The ban may have been a risky move. The regulator is meant to act in the public interest. This is the first time BaFin has used the measure to protect a single company.“ (1) The Wirecard scandal was one of the largest financial scandals of all time, and the German government would later acknowledge its mistakes. “I salute those, let it be journalists, analysts or yes, let it be short sellers, who have been digging out inconsistencies persistently and rigorously.”
    - Jim Chanos was one of the earliest traders to discover odd trading and business practices from Enron, shorting the stock before others had noticed any fraudulent behavior. “Skilling [former president and COO] and Enron chairman Ken Lay were eventually found guilty on multiple counts of fraud, despite their defence that the firm’s demise was a “conspiracy” caused by short- selling “vultures” attempting to “kill a company so that they will make money”.” (1)
    - Michael Burry, who’s story is well known due to the Big Short, discovered in 2005 that the subprime market was also quickly becoming overvalued and correctly predicted the collapse of the housing market
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- **“Doctored CNBC Clip” (1 | 2 | 3 | 4 | 5)**
    - There is a popular CNBC clip with Leon Cooperman that makes it sound as though Leon is saying retail investors are “bullshit”, when his comment was actually about Biden policies. (1)
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- **“Little guys taking out the big guys/Retailers are driving this” (1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33)**
    - Robinhood began to restrict trade on Thursday **[GME January 28th, 2021 $265.00 | $193.60]**, but retail investors were actually net sellers of GME on Tuesday **[GME January 26th, $88.56 | $147.98]** and Wednesday **[GME September 12th, 2019 $354.83 | $347.51]**. To quote the following from Matt Levine of Bloomberg, “What do you make of that? One reading would be: “Retail investors on Reddit might have started the GameStop rally, but they’re not piling into this stock now, and the price action this week is coming from professionals.” Or as one Twitter user put it, “past the retail ignition, the rocket ship was mostly intra-fast money warfare.” This story doesn’t exactly tell you who the professionals are, whether they’re traditional Wall Street (hedge funds, etc.) or algorithmic high-frequency traders or just semiprofessional crews of day-traders who don’t access the market through traditional retail brokers. Someone other than Robinhood traders, anyway.”
    - Other Hedge Funds made massive gains on this stock. Senvest, a hedge fund run by Richard Mashall and Brian Gonick, owned about 5% of GameStop by the end of **[GME October 15th, 2020 $14.03 | $13.86]** October. They made nearly $700m profit on selling their GameStop holdings. Another fund, Mudrick Capital Management LP, made almost $200m on AMC in January.
    - Hedge funds alone owned nearly (archive) 15m shares of the available 51m float for GameStop at the end of 2020.
    - Five huge asset managers, FMR LLC, Blackrock Inc., and Vanguard Group Inc., Morgan Stanley and Dimensional Fund Advisors also owned around (archive) 24.5m shares between the five of them at the end of 2020. The Ontario teacher’s pension fund also scooped up an easy $500m.
    - There is absolutely no evidence to suggest that retailers were the major winners in the majority of these trades, or that the majority of the profits from GME’s explosion has benefited retailers. The majority of the gains have assuredly gone to other hedge funds or asset managers.
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- **“Diamond hands” (1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18)**
    - There is a pervasive idea that “holding long” will yield great gains in the future, implying that retailers can hold enough stock to force Melvin Capital or other short sellers to drive prices up past the $10,000/share range. This rests on two very bad assumptions, the first being that r/wallstreetbets has enough capital to coordinate that kind of hold, and the second being that Melvin and other short sellers haven’t already closed out their positions. There’s no reason to believe that retailers control enough assets to force a short squeeze, and there has been enough volume, combined with statements from fund managers, to believe that most of the short positions have already been covered.
- **“Illegal activity has happened” (1)**
    - Short selling is not market manipulation. Publishing your short positions is not market manipulation. Shorting something heavily is not market manipulation. If illegal activity has happened, it’s most likely been with the r/wallstreetbets mods deliberately misleading their members and curating posts on the front page trying to time a coordinated buy of meme stocks using misleading information in order to manipulate the prices.
- **“The Reddit investigation is wrong!” (1)**
    - The SEC defines market manipulation as “Intentional or willful conduct designed to deceive or defraud investors by controlling or artificially affecting the price of securities.” If the goal of the r/wallstreetbets mods was to actively and deliberately misinform the subreddit about the value of a given stock while they themselves were profiting from the misinformation, there may be a case that securities fraud was committed.
- **“Robinhood sold for people” (1)**
    - It is possible that Robinhood forcibly closed positions of traders who were trading on margin, but there has yet to be any evidence presented that Robinhood was forcibly closing positions of individuals using cash accounts. (1 | 2)
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- **“Robinhood protected the hedge funds” (1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42)**
    - On January 28th, Robinhood began to restrict trades on some stocks, namely GME. People across the internet and alternative media rallied against Robinhood, claiming they’d merely stopped trade to protect hedge funds, namely Melvin Capital. One reason people point to is the conflict of interest that exists as the same company “bailing out” Melvin Capital is also buying trades simultaneously from Robinhood. The company that provided capital to Melvin, however, was Citadel LLC, is not the same company that serves as a market maker to Robinhood, Citadel Securities, and a firewall exists between these two companies, according to the owner of both.
    - The actual reason Robinhood had to halt trading on specific securities was due to a sudden increase in collateral requirements the DTCC was calling for from the brokerage, amounting to $3b, which is 10x more than what Robinhood was used to posting on a weekly basis. (1 | 2 | 3 | 4 | 5 | 6 | 7) Robinhood scrambled over the next few days to secure extra capital to ensure trading could resume.
    - There is absolutely no evidence whatsoever up to this point to suggest that Robinhood stopped trades to protect hedge funds. This is also contradicted by the fact that retailers were net sellers of the GME security prior to Robinhood halting buys.
    - Some people point out that it’s suspicious that Robinhood only prevented people from opening new positions but not closing out old ones. Ignoring the fact that it would be patently ridiculous to prevent customers from closing positions on stocks, the actual reason is because you do not require collateral to be put up to close out a trade, only to open a new position for a customer.
- **“Silver conspiracy” (1 | 2 | 3)**
    - Anyone who has ever listened to any amount of financial reporting knows that reporters are always quick to link events together to explain why stocks are moving up or down. The idea that there was a coordinated conspiracy by the media to falsely claim a group of retail investors from Reddit were investing in silver is conspiratorial. It’s hard to push back against this particular false claim because the evidence for it is non-existent.
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- **“The Hedge Funds shut down the reddit and the discord” (1 | 2 | 3)**
    - The reddit itself was never closed due to admin action, but rather because the moderators of the subreddit itself took it down a bit to catch up on the massive influx of new subscribers.
    - According to The Verge, “Discord says it did not ban the WallStreetBets server for financial fraud — rather, it was banned because it continued to allow “hateful and discriminatory content after repeated warnings.” The Verge gained access to the server and can confirm the claim that users of the channel were spamming hateful language, including racial slurs.” The Discord admin team worked with the moderators of r/wallstreetbets and helped them set up a new server the very next day, and it currently sits at almost 600,000 users.
- **“Google removed bad reviews to rig it for Robinhood!” (1)**
    - Google stepped in to prevent the negative review-bombing of Robinhood, but this is not outside the norm for what Google does when review-bombs happen for apps. (1 | 2 | 3) The Robinhood app fell to a 1-star rating afterwards, regardless. “A Google spokesperson did confirm to The Verge that the current reviews — which were not the ones deleted in last week’s purge — are compliant to Google’s policies, and won’t be removed.” (1 | 2)
- **“Robinhood frontruns/sells orders at your expense” (1 | 2 | 3)**
    - We’ve discussed PFOF earlier in this document, a practice that Robinhood engages in. This is not front-running, and it has nothing to do with front-running. Anyone who claims Robinhood is front-running your orders simply doesn’t understand what PFOF is. PFOF is standard practice across a wide range of retailers including TD Ameritrade, E*TRADE, Charles Schwab.
- **“Bail out for the big companies” (1)**
    - People keep erroneously comparing the “bail out” that Melvin Capital received to the “bail out” the banks received in 2008. These are not even remotely comparable. A loan from the government is not comparable to an investment from one private company to another.
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- **“Short ladder attacks”**
    - Short ladder attacks are not real. This is a fictional term invented on r/wallstreetbets that describe the concept most likely related to painting the tape. Jim Chanos, most known for shorting Enron, even remarked as much on Twitter: “Can anyone explain to me what a “short ladder attack” is? I have seriously never heard the term before this week.”
    - A decent write-up on the r/investing subreddit explains why a short ladder attack isn’t real - in order to list buy/sell orders for stocks artificially driving down the price, a firm would first have to burn through the entire buy (bid) side of the book before they could move the security down to their preferred price.
    - A quick look to Google Trends shows us that this term has basically been fabricated just to explain the GME movements at the end of January because of people’s refusal to engage with reality.
    - A random on Twitter, @ClarityToast, probably gives the best explanation: “A short ladder attack is when a stock goes down for totally valid, normal reasons, but the bagholder realizes a conspiracy theory is preferable to admitting to a dumb trade.”
- **“Volkswagen Squeeze”**
    - One popular narrative is to compare the potential short squeeze of GameStop to the shortsqueeze that occurred with Volkswagen back in 2008. The most important difference between these two situations is that 74% of Volkswagen’s stock was owned by a single company, Porsche. There was and is no such consolidation of share ownership currently with GameStop, so there is absolutely no reason to believe the same conditions exist to make this short squeeze anywhere near comparable to the one that occurred with Volkswagen.

Responsibility in Reporting

My biggest disappointment in this entire ordeal comes from the unbelievably sloppy reporting from so many different sources, especially from both politicians and alternative media. All of the relevant financial terms one needs to understand in order to have a decent grasp of these topics can be learned in a couple of hours, tops, yet it seems that not one, single, alternative media creator took the time to read up on any basic finance. Large creators with millions of followers including Kyle Kulinski, Tim Pool, Hasan Piker, Vaush, TheStockGuy, Steven Crowder, and influential politicians such as Ted Cruz, AOC and Ilhan Omar, and thousands of smaller "political" and "finance" channels on both YouTube and Twitch, and even some people who should know better like Elon Musk, Mark Cuban and Chamath Palihapitiya were so hungry to shove their ideological narrative into this situation that they abdicated the great responsibility they have when it comes to informing their audiences.

Aside from the propagation of misinformation, this is a very rare media frenzy that had the ability to directly and negatively harm audiences because it drove them to throw their money away on a garbage gamble, expecting a massive payout near the end. (1 | 2 | 3 | 4 | 5 | 6 | 7 | 8). Many large content creators including LinusTechTips and H3H3 either spread the "diamond hands" meme or showed themselves buying into the stock, undoubtedly driving their viewers to do so as well. It's impossible to document the myriad of stories of people negatively impacted by this, and r/wallstreetbet deleting a lot of the negative stories continues to misrepresent the narrative as "retail winning big against the hedge funds."

It's unfortunate that so much hate and vitriol is directed towards members of the finance community and mainstream media when the alternative media got this situation ubiquitously incorrect, sometimes in embarrassing ways. It's obvious that there was a political narrative to be spun here, but this was done almost entirely to the benefit of the content creators and politicians spinning the narrative and to the detriment of both the public discourse and the victims who were goaded into buying this stock. It's also unfortunate because there are very real criticisms that could be levied towards the financial industry in regards to this situation (Perhaps no commission trading is irresponsible? Perhaps gamifying investment apps is tantamount to gambling? Perhaps margin requirements should increase as short interest increases?), but we won't hear any of it. Instead, it will be a barrage of baseless claims by uneducated entertainers lamenting about the "unfairness" of the world of finance, despite them not understanding anything they're talking about beyond the basic definition of a short sale.

I am also incredibly disappointed in media consumers. Over and over again, people on both the left and right say they wish they had more factual media, and less sensationalist reporting. And yet, over and over again, you, the consumer, prove yourselves wrong. The majority of consumers are just interested in the most sensationalized piece of media they can find that conforms to their pre-existing political beliefs.

I hope, at the very least, that anyone who’s listened to me review this document or talk about it on video will have a slightly better understanding of the underlying mechanisms at play here, but I won’t hold my breath.