

## **GAMESTOCK REVEALS HOW ELON MUSK COMPANIES ARE BUILT ON SCAMS AND MUSK COMPANIES CAN BE KILLED IN ONE ORGANIZED SQUEEZE PLAY**

Let's close out the week by walking through the whole GameStop thing — but first, let's observe that no matter what event occurs in the news, some folks will try to hammer it into a shape that fits one of their preexisting narratives. Also, some media voices belatedly realize Andrew Cuomo isn't as great as he says he is, and China wants your DNA. Hey, at least it's Friday.

### **The Danger of News Narratives Set on Autopilot**

Every once in a while, the unpredictable conveyor belt of events we call a news cycle will offer us something that doesn't easily fit the preexisting narratives.

You probably could name a bunch of these preexisting narratives off the top of your head. *This natural disaster proves climate change is getting worse, so Democrats are the good guys and Republicans are the bad guys. This terrible mass shooting proves guns are bad and the Second Amendment is outdated and dangerous, so Democrats are the good guys and Republicans are the bad guys. This Republican has been caught in a scandal, so Democrats are the good guys and Republicans are the bad guys. This Democrat has been caught in scandal, so it's just a random unfortunate*

*occurrence with no broader lessons, or implications.* (You no doubt have noticed the pattern here.)

And then something like the coronavirus comes along, and media voices try to shoehorn what's happening into their preexisting narratives. Back in the first few months of 2020, it was not hard to find mainstream media “analysis” and “explainers” that **deemed people who wanted to wear masks as being paranoid, that it was completely safe to travel to China, that “our brains make coronavirus seem scarier than it is,” that “we should be wary of an aggressive government response to coronavirus,” and that the “actual danger of coronavirus” was “racism and xenophobia.”**

It turned out that the actual danger of the coronavirus was that *the virus could kill you*. Go figure.

**More than 442,000 dead Americans later,** we can conclude that those expert-sounding op-ed writers didn't know what the hell they were talking about and were actually making people less informed and less prepared with their knee-jerk reactions. But those voices were so set on autopilot, so psychologically pre-programmed to denounce American paranoia and xenophobia and whatever the U.S. government was doing, that they never stopped to look and see if this

new thing coming our way was different from all of those other things they were used to discussing.

And this past week, that unpredictable conveyor belt of events we call the news cycle brought us something new, different, and strange: the whole GameStop to-do.

### **Let's Sort through this GameStop Thing, from the Top**

A week ago, I couldn't have told you the first thing about this GameStop thing. Every once in a while, my sons manage to drag me in to that store because they want to buy a game, and I wish they had had these kinds of games when I was a kid. I loosely knew that grown adult "gamers" were increasingly purchasing games by downloading them from the Internet, the same way streaming services such as Netflix were gradually replacing people's home DVD collections. If I had bothered to think about it, I probably would have figured the GameStop chain's long-term business outlook didn't look good.

And for most of the past two years, much of the investing world felt the same way. From April 2019 to September 2020, a share of GameStop stock cost less than \$10.

"Shorting a stock" is when an investor borrows a stock, sells the stock, and then buys the stock back to return it to a lender. This can be tough to get a head around, because we don't do that sort of thing

for other goods and services. “*Hey, I’d like to borrow your car, sell it, wait for it to decrease in value, buy it back at a lower price, keep the difference and then return it to you.*” As NPR notes, **it’s mostly used by hedge funds and professional investors**, and it makes sense if an investor thinks a particular stock is overvalued and headed for a steep tumble in the near future. **Short sellers are increasingly attracting heated criticism**, because some people see them as profiting from, and effectively rooting for the failure of businesses and other people.

What we’re seeing now is a “**short squeeze**,” which “occurs when a stock or other asset jumps sharply higher, forcing traders who had bet that its price would fall, to buy it in order to forestall even greater losses. Their scramble to buy only adds to the upward pressure on the stock’s price.” A group of smaller investors on sites such as Reddit figured out that certain hedge funds were shorting the stock of GameStop — but that if the stock price went high enough, those hedge funds would have to buy the stock themselves to avoid an even worse loss.

In the last few months of 2020, Gamestop’s stock price inched up a bit. On January 4, the company’s stock was \$17.25 per share. But by January 14, it was \$39.91. **The Wall Street Journal summarizes how**

purchasing the stock became a hot and rapidly spreading online trend:

On Jan. 19, a Twitter account identifying itself as moderators for WallStreetBets posted that the forum had long been dismissed, but “we are also now a powerful force to be taken seriously.” Some users have expressed concern that the Securities and Exchange Commission would act if users appeared organized. On Discord, in a chat room linked to WallStreetBets, a user on Tuesday posted, “Guys, we need to pump \$GME. Everyone buy 1000 shares in exactly 60 seconds.”

By the end of Tuesday, the stock closed at \$147 per share. By Wednesday, \$347 per share. And at 2:10 P.M. on Thursday, it peaked at \$492 per share, and closed yesterday at \$193 per share. the dot-com excitement of the late 1990s or tried to purchase a house in George W. Bush’s second term, you can recognize a bubble. Bubbles are a lot of fun when they’re inflating, and no fun at all when they pop. (GameStop is the most extreme example, but AMC theater chain, Blackberry, and Bed Bath & Beyond stocks have seen similar rapid jumps in the past week.)

About ten minutes after the GameStop stock surge turned into a big story, some media voices started trying to hammer the events into a

familiar preexisting narrative. For example, [Chris Cillizza over at CNN](#) contended that the stock surge could be explained by “Trumpism.”

What’s the end game for the GameStop surgers? Like, now that they have proven the point that they can take a stock that the pros have declared moribund and revive it — at least for a moment — what do they do now? Because they don’t really believe that GameStop is suddenly the new Amazon or Apple or Google. It’s still mostly a business that derives its value from brick and mortar stores in malls. Which, again, is not exactly a big growth area in the coming years.

The point is that there is no real point beyond showing up the pros — proving to them that they aren’t as smart as they think they are and that they don’t have the ability to control everything.

Which, again, has its roots in Trumpism. The entire notion of Trump’s candidacy and presidency was to stick it to the elites.

(Er, “What’s the end game for the GameStop surgers?” Isn’t it to sell the stock at some point and make a fortune?)

A lot of people instantly latched onto the notion of the little guys (the Reddit-using investors) figuring out a way to beat the big guys (hedge funds that had shorted the stock). **But I found this observation by George Pearkes at *Business Insider* useful:**

The WallStreetBets poster that initially identified GameStop and drove interest in the stock invested \$50,000 of his cash in stock and call options, and the position is now worth over \$50 million. While that poster is to be commended for such an impressive return, anybody with \$50,000 to throw into an extremely high-risk equity market trade doesn't fit a reasonable definition of "the little guy."

The *Wall Street Journal* reports that Jaime Rogozinski, the man who created Reddit's WallStreetBets, started it "**while working as an information technology consultant for the Inter-American Development Bank in Washington.**"

Yes, the WallStreetBets dudes and Redditors are the "little guy" compared to the largest hedge funds. But ultimately this is a battle between two groups of investors on opposite sides of a bet. So far, the Redditors have won big and the hedge funds have lost big, and the Redditor guys' actions are completely legal. They may or may not be wise; more specifically, the ones who got in early were a combination

of shrewd and lucky, and the people joining the party later and purchasing GameStop for more than \$300 per share are taking bigger risks.

Where it gets more complicated is when stock-trading companies such as Robinhood and E-Trade suddenly decided they wouldn't allow users to purchase stocks such as GameStop, only hold or sell. This morning, several of those companies reinstated the ability to purchase those stocks.

How scrambled is this situation? A week ago, Massachusetts senator Elizabeth Warren promised to “push for a sweeping set of reforms intended to stop what she calls ‘Wall Street looting.’” Now she's not sure which side is to blame, but is certain that we need the Securities and Exchange Commission to intervene.

“That's the problem: How do you know who's manipulating the stock at this point?” she asked. “Are you entirely sure that there aren't wealthy people on both sides? That hedge funds haven't moved in on the side of the people who bid up the price of GameStop?” I guess we've finally found the circumstance where Elizabeth Warren will come running to the aid of hedge funds.

What does it matter if there are “wealthy people on both sides”? Everybody involved in shorting or purchasing this stock knew or



should have known the risks — a share's price can rapidly move in the wrong direction for you. Somebody's going to lose their shirt, eventually. GameStop is pretty much the same company it was a month ago, a year ago, and two years ago. People are still purchasing games online in larger numbers. Unless something about the company changes, the long-term outlook for brick-and-mortar retail video-game stores is no better than it was last month. But at least for now, demand for those stocks is high, because it's turned into an online trend.