

Game Stop Aftermath

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Last week's entertaining charade in which the kiddies tripped up their big daddies by massing their pennies against hedge funds entered new territory beyond Games Stop, AMC and silver. Robinhood had to seek and obtain two loans totaling about \$3 billion, and limited trading in Game Stop and seven other companies. For Games Stop it meant from \$2 billion to \$22.6 billion and back again in a matter days (\$18 billion by the end of the week). Hedge funds counter-attacked and drove down share prices, and thus both parties made huge sums under this upside down system in which the most worthless, useless, people make the most money.

It turned out that the 'Wizard of Oz' that actually executed the trades was the very respectable Chicago-based Citadel Securities. Typically securities for short trades are borrowed from brokerage firms to complete the trade within the prescribed three day period. Recently revealed data showed a large increase in fails-to-deliver for Game Stop in the middle of December. That meant the firm contracted a naked short, not actually possessing the security, expecting (hoping, praying) that it will still be delivered in time. On December 16th Games Stop had 10,874 failed-to-deliver shares. On December 18th there were 872,523 fails.

The SEC frowns on such sleazy dealing but is powerless to do anything except for delivering severe scoldings. But not to worry, Janet Yellen, former Fed head and brand new Secretary of the Treasury, is said to be planning to gather together the SEC, Fed, and the Commodity Futures Trading Commission to determine exactly what transpired in this fiasco. But with Citadel being a prime party in the making of it, one may suspect Yellen's impartiality in her decision making because from the time of her retirement from the Fed in 2018 she was paid \$292,500 for each of two Citadel speaking engagement, plus \$337,500 for several less fancy ones. That totals \$992,500 worth of expensive chats. Citadel may have been involved in numerous naked short fails, but it certainly knows how to deliver cash on the barrel-head when it counts.

Economic Info

– How much has the stimulus effected the economy? The US economic health, along with Germany's, received more of an economic boost than any other major nation. 13% came directly from public funds. In the second quarter the US GDP was down 9% but disposable personal income was up 10%. Real disposable personal income for the whole year is likely to have risen the most in 20 years. Such is a prime cause for record market valuations. That's the positive side. The negative side is that it all came from increasing the national debt. Still, it's like trying to fly a plane without air, unless it suddenly converts into a rocket, it will fall.

– We have heard a lot about China's economy growing while the rest of the capitalist world remains in a slump. There is a mixture of hatred and envy from the standpoint of their competitors. 2.3% growth last year wasn't much, but it still was the best of the major economies. It gave the rest of the capitalist world the promise that eventually their economies would make a similar improvement – but maybe not. The overall non-manufacturing PMI fell a significant 3.3% in January to 52.4. Manufacturing PMI fell to 51.3, but only 0.6%. That all amounts to the 5th worst decline in China's post 'communist' past. If the world economy is looking for a boost, they will have to search elsewhere.

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