RELIANT REVIEW

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Summary

We have gotten A LOT of questions about what is going on in the market with a handful of stocks, GameStop being the best known, but also AMC, KOSS, Nokia, and BlackBerry. They are moving hundreds of percentage points a day, both up and down. On the next page you can read about what is causing it in "What is a 'Short Squeeze?!?'" and "It's Different This Time (kind of)."

A few important points we want to highlight:

1) This is not currently impacting the entire market, just a handful of stocks. The media is focused on it because it makes good headlines and seems 'sexy' but the impact to well diversified portfolios is small.
2) We have no intention of becoming active participants in this frenzy. This is going to end wonderfully for a select few and very badly for all the rest.
3) We see no need to make any short or long term adjustments to our portfolios at this time.
4) Our portfolios have almost no exposure to the stocks in this group, with it being approximately measured in by thousandths of a percent (that is a small number).

Short Squeezes, GameStop and Market Frenzy

Contact
Reliant Wealth Planning

502-398-5050
contact@reliantwealthplanning.com
www.reliantwealthplanning.com

What is a '*Short Squeeze*?!?!'

What is happening with this handful of stocks is called a '*Short Squeeze.*' Private investment companies called hedge funds will often '*short*' a stock. That means they believe the stock is likely to go down, so they take a series of actions that allow them to make money if that happens. Part of that is usually borrowing money so they can leverage their position. Thus, they can, for instance, only use $1 to get $10 worth of market movement. That's great if things work out but if things don't go their way, they are amplifying their risk as well, and that makes them vulnerable.

Enter the '*Short Squeeze*.' This is where other investors begin buying the stock, causing the price to rise. If the price rises enough, the hedge fund managers have to '*close their shorts*' by actually buying the stock themselves. That causes the price to rise even more, as the demand for the stock increases (remember from Economics class, that whole supply and demand thing?). That leads to a cascading effect that can make the stock price shoot up a crazy amount in a very short period of time. The price then usually settles down to a more realistic level, but that can take months.

It's Different This Time (kind of)

As mentioned above, Short Squeezes are not new. How this one is playing out, however, is a new twist. Usually, Short Squeezes are competitions between groups of professional investors, normally various hedge funds. You can see them being interviewed on CNBC, arguing with each other about how the other is totally wrong. They then probably end up at the same New York private social club that night, laughing and buying each other wildly expensive bottles of wine.

Not this one. This one has been driven by *retail* investors, regular ole folks. Mainly driven on social media sites like Reddit, a few true believers have been hyping these stocks to get others to buy them. The momentum built, and they created a Short Squeeze. Information has started coming out that with GameStop specifically, one of those 'true believers' who has been cheerleading the stock since 2019 turns out to be a financial professional. Some regulators will probably want to talk to him soon.

Short Squeezes work best on stocks that are highly shorted and thinly traded, meaning there are not that many shares being bought and sold. Thus, it would not take that much money or that many trades to start moving the price. That is why this isn't a whole market event. For instance, there isn't enough short interest in a large company like Apple, and even if there were, the trade volume in such stocks is enormous, making a Short Squeeze much more difficult to pull off.