# THE National Investor

**Jan. 29, 2021** <u>*You can get information anywhere. Here, you get KNOWLEDGE*</u>. **Vol. No. 26 -- 02**


## *FROM OUR AUDIENCE*

### OF GAMESTOP, "REDDIT REVOLUTIONS" AND MORE LUNACY

*Chris, I'm sure I'm not the only one to ask you about this. But I was wondering if you would be offering your subscribers a deeper take on what happened with $GME and /r/wallstreetbets? Besides it being interesting cocktail party conversation what's it say about the smoke and mirrors of the market or shorts like the ones we are currently in?*


NEW YORK POST
Page Six
LATE CITY FINAL
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How an online group of amateur investors drove Wall Street . . .

STOCK RAVING MAD!

Sticking it to Wall Street, average investors have driven up the stock price of companies such as GameStop, costing some hedge funds billions of dollars.

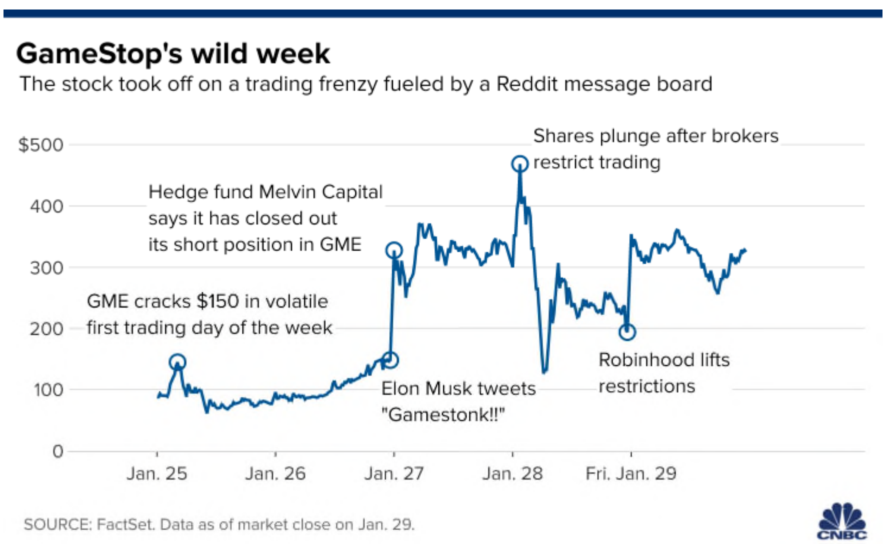
IT'S A BUBBLE WARNING: GASPARINO PAGES 4-5


At left, Thursday's *New York Post* headline speaks to the "Mad" nature of markets of late; though *who* exactly is most mad (CRAZY) is a matter of debate! And the craziness was augmented this (Friday) morning by Tesla founder and boss Elon Musk who—merely by adding that Bitcoin hashtag to his Twitter page—caused an immediate 15% spike in that alleged "currency." ***Crazy times!!***

Yes indeed, I've had a few folks asking for my take on all this silliness; among them my friend Drew Mariani at *Relevant Radio*, who I joined on short notice for an initial quick synopsis of all this yesterday at the end of his show (at [https://relevantradio.com/2021/01/transgender-push-in-culture/](https://relevantradio.com/2021/01/transgender-push-in-culture/) ). We were rushed there, so I made but a few of my key points. *But here, I'll dig deeper*.


## * __Populist Peasants with Pitchforks. . .*or so the story goes*__

Hey…who *doesn't* like a great David vs. Goliath-type story? And that's exactly what undergirds the unprecedented activity on Wall Street these last several trading days where a handful of heavily-shorted stocks have been concerned. While a number of companies have seen such remarkable—*and ridiculous*—activity, the poster child for all of them has been **the retailer GameStop (NYSE-GME.)** Along the way the last part of this week, GameStop was actually valued higher than the retailer Best Buy (now *there's* a David and Goliath comparison for you!)

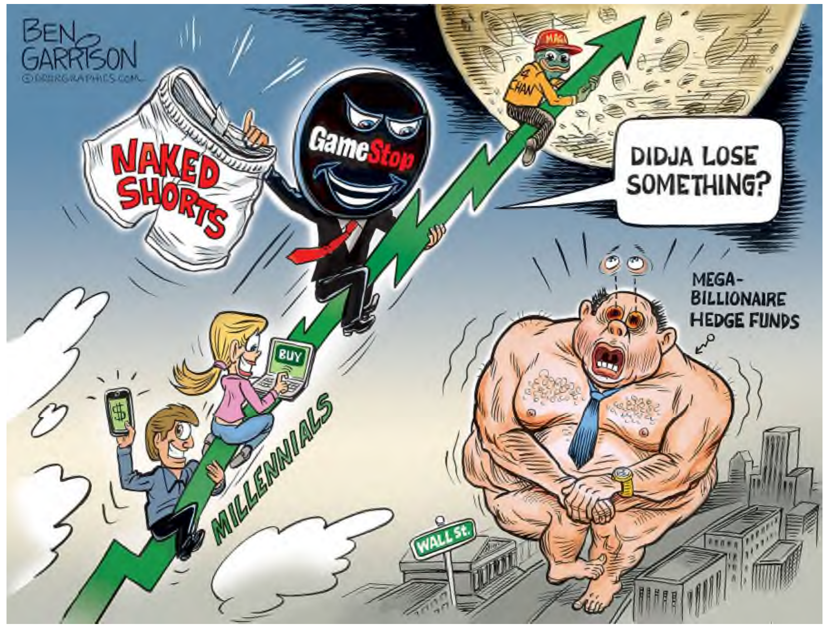



Of course, investors and analysts who have not taken complete leave of their senses understand that GME—which has suffered more than most retailers in the last year—is more fairly valued at *the $13 and change* price that is the consensus target of the analysts who follow this beleaguered company. **Yet what GameStop is *worth as a business* does not enter into the events of recent days.**

Instead—and in much the same way as the media in the political season just past spoon-fed us all pre-ordained stories for our acceptance and consumption—we have been treated to a rather remarkable yarn. Alternately called "The Reddit Revolution". . ."The Reddit Rebellion". . ."The Revenge of Robin Hood". . .or numerous similar monikers, the majority of the coverage of this is of a sort of peasants' rebellion against the evil fat cats on Wall Street.

**Evil hedge funds, the story goes, are working to put companies like Game Stop out of business; this, by selling short the company's publicly-traded stock.** These are—the story continues—the same types of evil people who for years have gamed Wall Street, government regulators *and the people*. In the last major financial/economic debacle—the Great Financial Crisis of 2008-- these sorts made zillions while mortgage broker underlings went to prison and Joe Sixpack lost his house.

*So how are the peasants now getting even*? They are supposedly resurrecting the spirit of the Occupy Wall Street movement and **engaging in *financial* hand-to-hand combat with the short-sellers**. Egged on by various chat rooms, bulletin boards and what have you on the (aptly named?) Robinhood platform, Reddit and elsewhere, concerted and overwhelming *buying* of heavily-shorted stocks like GameStop by masses of small "investors" (and I use the term loosely) was intended to steamroll short-sellers. And many *were* steamrolled; by some reports at week's end, hedge funds playing this game are nursing year to date losses of some $50 billion or so.




The superlatives *generally praising* this digital, instantaneous-trading "Flash mob" assault against the evil Wall Street fat cats have been gushing from almost everywhere. Well-known Montana-based cartoonist Ben Garrison captured the spirit well above; what some have called a "MAGA-like rage of economic anxiety" that coalesced into masses of peasants with their small digital-trading pitchforks overwhelming short sellers not only in GameStop, but in *technically bankrupt* AMC Entertainment and other heavily-shorted stocks of *COMPANIES that aren't exactly business juggernauts like Amazon* and, *fundamentally*, SHOULD HAVE BEEN SHORTED.

**But hey, everyone's a sucker for a good cause; especially when it is all about emotion and virtue signaling, *even if it makes NO sense whatsoever investment-wise*.** So things went from crazy to *really* Looney Tunes as we moved into the back half of the week. As I alluded to above, when Musk (who has helped egg on this "flash mob" along the way) seemed to further endorse Bitcoin, it took off like a scalded cat, reversing almost all of its heavy losses from its all-time high in one fell swoop. The comical part of *this* is that Bitcoin has essentially no utility to and for the people caught up in the craze to buy it simply to make whatever social statement they are being herded into.


And a couple nights ago, I darn near spit out my drink as I was rummaging through my own Twitter feed and read the following from Grant Williams at EXACTLY the same time I was having the same humorous thoughts/observations:

*"The # of people tweeting in the hopes of attracting the Reddit crowd to 'their' stock (or commodity!) is amazing. The SEC and Central Banks are finally reaping the whirlwind. They*

*have nobody to blame but themselves. Capital markets are a mockery - but they have been for years…"*

**Sure enough, the precious metals groupies got their wish.** Enough attention was garnered by posts about the "criminal conspiracy" against the metals. . . The massive short position that the modern-day version of the House of Morgan has in silver especially. . .that above "cup and handle" formation almost done now *which the flash mob could finish*, sending silver soaring and crushing more shorts, including one Jamie Dimon. *Delicious*!

From yesterday, silver's fans were *delirious*. The hashtag ***#silversqueeze*** joined the trending subjects on Twitter. Many a silver-focused stock and ETF popped nicely, together with silver itself (which, for a change, *dragged gold a bit higher* rather than vice versa.) Prognostications even more outlandish and hysterical than usual from silver promoters suggested theses such as—since GameStop *alone* traded some $80 billion dollars' worth of paper in just a few days—silver and silver stocks were poised to likewise soar by many multiples imminently. *After all, such an amount is enough to buy all the annual production of silver of the last three years plus.*

Ways in which all of this could yet shake out I'll muse about farther along. By all appearances, the "peasants" are still well engaged as we ended the week. The markets are even more volatile; and potentially even more dangerous now than when all this "revolt" business started. We can't answer much. . .*yet*.

## * Mobs can be unruly. . .just plain *stupid. . .*and used for hidden purposes.

Skeptic, *fact*-based and logical pundit and analyst that I try to be for you all, **I've smelled a rat or two in all this from the get-go**. I'm not alone in this, as I will allude to in a bit (chiefly, from *two* nefarious angles.)

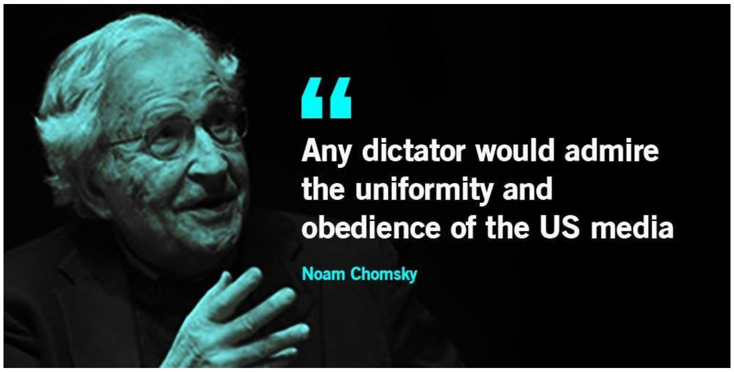
***The symbol you enter is "GME" - Follow me!***

But sticking for now with our peasants, God love them, *I'm reminded of a two decade old story*. It was just a couple days after the horrific event of 9-11-2001; and as usual I was holding forth on Lieut. Col. Oliver North's talk radio show which I was a regular on in those days.

The party line from President George W. Bush and on down in virtually all of the Establishment media was that a great way for the average American to "fight the terrorists" was *to go shopping*. Go to the mall. Take what trips we still could. ***Mind you, we were already in a recession, thanks to the Greenspan bubble of a couple years prior going "POP!!"*** Now, that recession was going to be even worse for a spell; hardly a healthy environment in which to run up the charge cards.

And the way, I asked my friend Ollie rhetorically—in pushing back against his parroting the company line—that the average American "fights terrorism" is to *further* run the family finances into the toilet!?

That, I pointed out, serves the usurious and over-leveraged financial system, which thrives on consumers and businesses alike being obedient, open-ended debt slaves; not the people. *I objected*.




With *nearly* the same unanimity, the Establishment media today is pushing this David versus Goliath thesis. *This very evening*—on national network television via Lester Holt-anchored *NBC News*—a college-aged young man was interviewed crowing about his social conscience and financial acumen alike in buying shares of GameStop and AMC Entertainment.

Yet shockingly—*or maybe not so*—it wasn't hard to figure out that this kid would be hard-pressed to tell the difference between the last quarter's financial report on GME and the *Daily Racing Form*. The *business* merits of *the companies* were not even an afterthought.

**Listening to this interview, it's not hard to understand how and why a couple of nights ago a little nickel-cobalt explorer based in Australia called GME Resources suddenly popped some 50% higher.** Did GME Resources just report great assay results or a new discovery or some such thing? No. Instead, it shot higher for no other reason than that its symbol *on Australia's Stock Exchange* is "GME."

This is what happens when you have impressionable, emotion-driven investors—many of them brand-new ones—with *more money than brains*. I do not say that to be personally unkind. As I quipped during my above-referenced quick discussion with Mariani, for lots of investors such as this college lad interviewed tonight we have seen the equivalent of them given some Nitro and dynamite. . . and expecting them to have the skills to surgically break up a metals-bearing underground veins *and no more*. This kid and many, many thousands of other unwary small investors will get hurt. *But I suspect they are serving one or more purposes.*

## * <u>At least *some* pushback on this idiocy</u>. . . <u>and *at least some* blame directed where it belongs</u>


Also as I alluded to with Mariani and *regularly* point out otherwise, we have a monetary system and financial markets which *of a necessity* have become ever more bloated and speculative in order to keep the WHOLE structure from imploding. In the 41 years now since I first entered this industry, investing has gone from the sober, contemplative and fundamentally based picture you see closest at right, to "investing" *and the coverage of it* being part-Mad Max, part game show and pretty much *all* casino depicted at far right (kudos as always to my GREAT cartoonist Jerry King.) ***It is into this unnatural, skewed and dangerous***

***environment that many new legions of unwary millennials and others have been lured; and under the guise of "investment decisions" based on unprecedented risk and downright STUPIDITY.***

Dallas Mavericks owner, *CNBC* personality and philanthropist Mark Cuban—while seeming to enjoy flogging the cause of the "Reddit revolution" to some extent—none the less accurately pointed out midweek that what is occurring is by no means "investing." He went so far as to add that he has now heavily hedged his own portfolio due to the greater systemic risk that is now evident because of all of this craziness; **essentially admitting that this dopey purported "cause" had substantially raised the odds of a big market *bust*.**


Employing more of a professorial tone, economist and pundit Mohamed El-Erian shared his worries with *CNBC's* Joe Kernan (see [https://www.cnbc.com/video/2021/01/28/mohamed-el-erian-gives-four-reasons-hes-concerned-about-volatile-trading-around-gamestop.html](https://www.cnbc.com/video/2021/01/28/mohamed-el-erian-gives-four-reasons-hes-concerned-about-volatile-trading-around-gamestop.html)) yesterday. "If you care about financial stability, you need to look at this really carefully," he said in pointing out several specific ways in which the financial/market environment itself was both enabling sheer lunacy. . .and almost guaranteeing disaster.

**Kudos to that network's Joe Kernan who interviewed him—and to Charlie Gasparino, who said the same thing on a *Fox News* discussion I also caught—for having the *cajones* to finger the main culprit: Fed Chairman Jerome Powell.** As I have reminded you on numerous occasions, here we have a man who honestly and bluntly at the beginning of his term pointed out that the main reason for the last two market busts and subsequent nasty recessions *was the Fed itself*. Under that mad monetary scientist for the ages Alan Greenspan, the Fed blew all manner of bubbles. . . blocked any oversight, regulation *or even knowledge* of over-the-counter derivatives. . . and more, which we all remember.

And we all remember *the consequences*; which is why—Powell told us exactly three years ago in stepping into the chairman's role—he would NOT repeat those mistakes. But so much for that. Using the "pandemic" as his ongoing new excuse, Powell pretty much told us after the F.O.M.C. meeting this week (by far, his best impression yet of a Janet Yellen-esque "deer in the headlights" look) that the casino environment and monetary recklessness that has enabled *both* short-sellers and the unwary "Reddit Revolution" alike will be continuing.

It will be nice if—somewhere along the line—these flash mobs come to understand that short-sellers and hedge funds are not *the* enemy. **They are doing what the system overseen by Powell enables, allows *and expects*.** After all, as El-Erian and Kernan pointed out in their discussion, behind all of these hedge funds is *massive* liquidity. . . near-zero interest rates. . . and a regulatory environment that indeed *does* favor big money.

**I am not holding my breath that the changes *really needed* will come out of all this; *quite the contrary*, as I am about to get to.** As with so many things in our dumbed-down society and infantile level of public discourse on most things, we have in this battle between the evil Wall Street hedge funds and the Reddit patriot-peasants with their pitchforks the equivalent of an equally near-pointless argument on (pick your subject) between one person with Trump Derangement Syndrome, and another who thinks the recently-departed president was/is the Second Coming of Jesus and George Washington rolled into one. Most of those arguments in my opinion have been long on emotion, preconceived notions and opinions but precious short on facts, logic and getting to the root causes and TRUTHS of issues.

*** <u>Some initial consequences. . .and with more to come</u>.**


Over the last couple days, we have seen some brokers under tremendous pressure due to the out-of-control volumes and *increasingly mindless* ones at that. When Robinhood was one platform that had to quickly curtail activity which *sane* people in a *responsible* age for investing would know from the get-go should never be allowed, they were attacked as "betraying the cause." Those caught up in that cause like Ben Garrison's wife Tina (at right) have jumped all over Robinhood, in this case. **Yet the FACT is that Robinhood—facing net capital and other requirements in *its legal capacity* as a broker and clearinghouse—was very nearly taken down itself in the last 48 hours financially.** Just to make it to next week, this outfit has in two chunks in the last 48 hours had to raise $1.5 billion dollars.

Several other brokerage firms catering to do-it-yourselfers—such as Interactive Brokers, whose founder and boss Thomas Petterfy tried largely in vain in one interview I saw yesterday to explain the systemic dangers that have been caused all around by this flash mob—have instituted different kinds of trading curbs. Even in the case of more traditional adviser-client relationships, we have seen the likes of Wells Fargo banning its advisors from making *any recommendations* concerning companies like GameStop and AMC.


**In the end, we don't know who will be the bag holders.** Sticking with GME as our chief example, it is likely that it will inevitably move back down closer to that analyst consensus target of $13 or so. *How* it does remains to be seen: but without question, *somebody* at some point is likely to lose their a*s and scream bloody murder.

Identifying violations of the securities laws in all this will likely be challenging, lawyers told *ThinkAdvisor* in a report on all this silliness that financial publication just put out. *In the end, it's tough to legislate against people being stupid*. Frankly, that's one of the main issues that should come out of all of this episode eventually: that markets need to be treated as markets and thus function, AND that investors of whatever station, rank, wealth or life status must be accountable for their decisions. No special treatment for Wall Street fat cats, to be sure; but no tears shed either for somebody stupid enough to get caught up in a frenzy and *buy the wrong stock;* let alone the "right" one at a price not remotely based on any sound business or financial analysis.

**There have been reports over the last few days of major stress with a few different hedge funds.** Whether Powell ends up sooner rather than later reaping the whirlwind of what he has sown remains to be seen. One *good* observation I can make market-wise at week's end, at least, is that the usual signs of stress that would also be emerging amid all of the stock market gyrating—a spike in the dollar, a rush to Treasuries, a much bigger spike in the gold price, broader stress in credit markets—is *pretty much non-existent so far*.

**Indeed, I'll go one better than that**: I was part-pleased and part-relieved to see all manner of sound companies doing well *and even rising* this week, even as over-leveraged tech sold off. . .the tugs-of-war over GME, et al continued. . .and more. I daresay that, to some extent, we actually *had a market* this week; even though the dopey activity in part of it threatens it *all*.

## * Now, for you "conspiracy theorists". . .or let's just say for those of you who like to dig deeper for "the rest of the story."

In a discussion on *CNBC* yesterday, one of the old NYSE deans—Art Cashin of UBS Financial Services—*again* voiced something that had *just* been going through my head**: and that is, that the "Reddit Revolution"/Flash Mob is rumored to have had some hidden, more sophisticated organization behind it.** Whether we have the kind of forensic look into this whole episode afterward to uncover such a thing is, of course, unknown right now. But as Cashin—and others—have pointed out, there are markers amid these recent frenzies that belie something WAY beyond the occasional, usually single-stock focused bursts of activity that *do* come now and then from some chat room or post on Reddit, Robinhood or whatever (as we know with AGE and PLM.)


*Whoever* it was in the end who started these fires raging, stirring up all this mindless buying of half-dead companies. . .and for whatever purpose(s). . .one SCARY but perhaps pre-ordained "solution" was presented to us yesterday by Laura Unger (right), former Securities and Exchange Commission Chairwoman under (primarily) President Clinton. Now, I know that for time's sake (or because I do such a GREAT job of explaining things in the first place) most of you don't click on these links: **BUT CLICK ON THIS ONE**: https://www.cnbc.com/video/2021/01/28/fmr-sec-commissioner-on-gme-frenzy-certainly-valid-questions-about-market-manipulation.html.

**I have seldom heard anything more full-on "Big Brother" than what Ms. Unger had to say about the "Reddit Revolution," exchange of information among investors, etc. as what I heard come from her mouth.** Listen to her for yourself. Here again, I was pinching myself over yet again having a notion creep into my head that I then saw someone else voice *in spades*!

I have been of the *strong* opinion that the "insurrection" at the U.S. Capitol of January 6 was a choreographed event—stage-managed from start to finish—*to serve a purpose* (actually, more than one.) I have been discussing that at great length on social media; and spoke to it a fair bit too in my recent discussion with Cliff Kincaid (see https://nationalinvestor.com/2549/power-packed-discussion-eliminating-trumpism-and-the-biden-administration-ahead/ ). So I'll not repeat all that here.

The thought occurred to me that—even if not inspired from the get go as was that motley crew of January 6 and its Made-for-TV antics—this present mess nevertheless will be responded to by measures that the government has been *itching* to implement; especially the new Biden Administration. All of it, of course, will be in the name of "protecting investors" (from themselves), cracking down on shaky, smaller emerging trading platforms and regulating speech among investors in chat rooms, etc.

**And DAMN if Laura Unger didn't come right out and call for that *and more*!**

"These are very trying times," she solemnly said, in likening the "platform-created frenzy" that has caused all the market gyrations to the mobs unleashed on Capitol Hill, in part, via social media. Who regulates social media and chat rooms/platforms? When does that become manipulation?

This will all require "a full policy solution" she held; *lauding how such a crackdown would be akin to Twitter de-platforming former President Trump*.

And in case you missed it, that good old-fashioned "hate speech" catch all (defined by the folks *doing* the de-platforming, of course) has already been employed during the GameStop, et al frenzy; see https://news.yahoo.com/discord-bans-r-wallstreetbets-server-020812466.html.

**And here's one more "conspiracy theory" for you**…AGAIN a hunch that has come to my mind as this craziness has been playing out. (And no, I am descended from neither Nostradamus nor John the Apostle; I cannot see into the future.) But I am able to cut through the surface clutter *and the Establishment media-blessed and circulated script* and ask the question, *Cui bono*?

*Introducing... "Cargo Plane Jay" Powell and his sidekick "Bombs Away John" Williams*

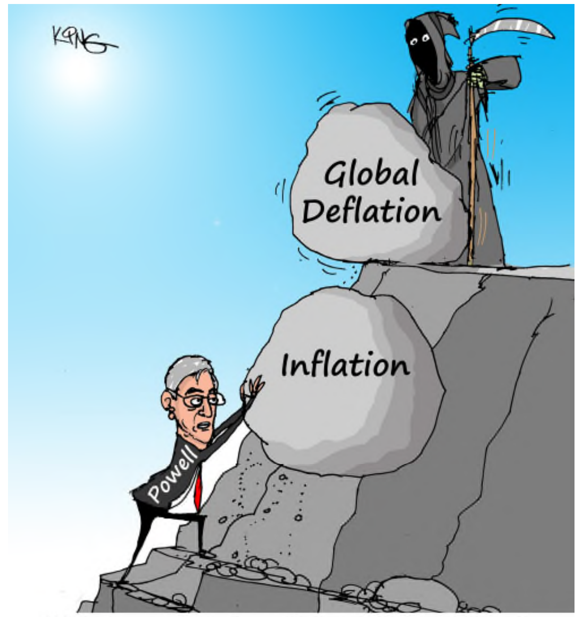

*"I just need to fix a little plumbing problem."*

About the time I was listening to a discussion about this "Reddit Revolution" perhaps really succeeding in busting some big short-selling hedge funds, I recalled what Cashin had suggested about this effort having bigger players and deeper pockets behind it. *In much the same way as the suppression of interest rates specifically—and a lot of price discovery generally—has enabled the Fed to keep blowing bubbles, how NEAT would it be if a public clamor took away another "enemy" of said open-ended money printing, et al? And by that, I mean short sellers?*

***Months* before the Plannedemic gave the Fed the excuse to pull out all the stops to create that "Water Park" I've quipped about, you'll recall that the central bank was *already* in dire straits.** Starting in September of 2019, Powell and

Co. had been forced to shovel hundreds of billions of dollars into repo markets to fix what Powell euphemistically called a "plumbing problem." The overstretched and hyper-leveraged financial system was already cracking apart; *and still is in some places.*

Now, as Powell and his comrades have been insisting, the Fed is on a quest to bring back *some* inflation. They are on this mission, though, as their wild, unfettered monetary hyperinflation and the financial imbalances that has created risks us plunging again at some point back into a DEFLATION of everything, at least for a while. What to do to further "fix" the markets and remove risks to the game plan, you ask?



*"Whatever it takes, I'm going to make it to the top!"*

**Having long since pretty well driven the bond market vigilantes of old into extinction (or exile for the few stalwarts still in hiding), *it's short sellers who are left as a potential stick in the mud.*** *They* still have the tools where stocks are concerned to force *some* price discovery; in this case, by betting against stocks they deem as overpriced. Now, we can have a legitimate discussion of how far that should go. . .how much leverage should be allowed. . .strengthening the uptick rule. . .and the like. *But in principle, short selling is one of the few market mechanisms/behaviors left to call "foul" on the more garish fruits of the Fed's inflationary labors*.

**And that is why you need to look for *major* changes to what short sellers are able to do.** Already (imagine that) I saw a headline go across hours ago (AND as I was penning some notes to myself on *exactly* this subject; que the *Twilight Zone* theme!) of **a well-known research firm, Citron Research, announcing that it will discontinue writing and providing short-selling research of any kind**; see https://www.cnbc.com/2021/01/29/citron-research-short-seller-caught-up-in-gamestop-squeeze-pivoting-to-finding-long-opportunities.html. Expect others to throw in the towel, too.

## * <u>So, in Summation, what all is likely to come (or not) of all this</u>?

-- "The little people" who took on the hedge funds (or so they think) and tried to strike a blow for Motherhood, apple pie, blah, blah will be no more literate on the markets; and they will probably see what they can say/do/trade curtailed.

-- Having neutralized the bond market vigilantes, the Fed will have by luck or design succeeded in removing the stock market's version of the same to a good extent; just how much so remains to be seen.

-- Oh; people/firms on *both* sides, depending on when they zigged and when they zagged, will lose many billions of dollars.

-- Game Stop is still more likely than not to end up in bankruptcy court; a situation pretty much unchanged from when all this started, AND

-- Last but not least, the Fed itself as an institution and the fractional reserve system it presides over, is once again revealed as *untouchable*.

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## Don't forget that those of you so inclined can follow my thoughts, focus and all *daily* ! ! !

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* On my You Tube channel, at https://www.youtube.com/channel/UCdGx9NPLTogMj4_4Ye_HLLA

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