



1 February, 2021

## GameStop vs Hedge Funds- Who will surrender first?

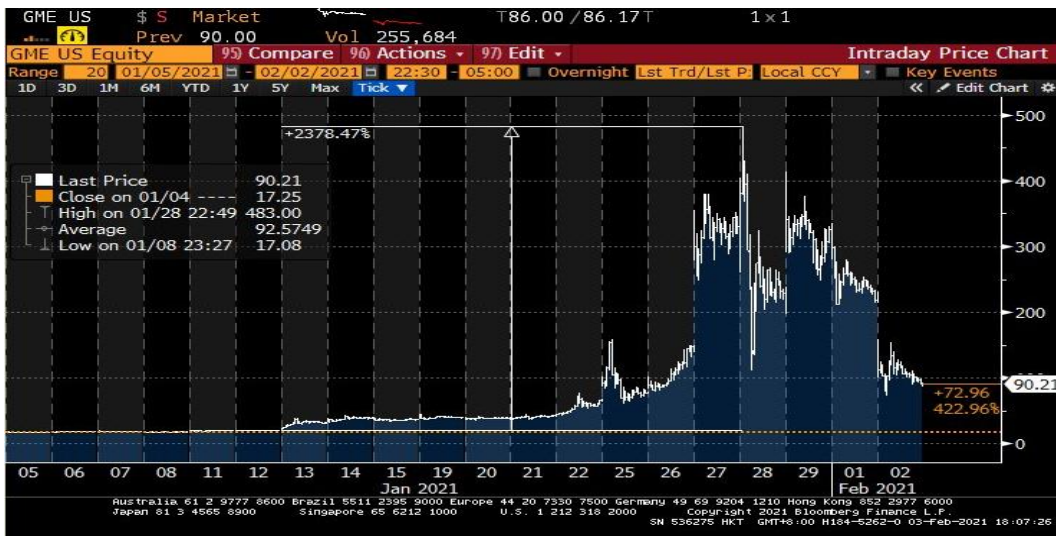
GameStop, this name has dominant coverage in the media in recent weeks. A battle between small investors against massive hedge funds has ignited a trading frenzy, driving up the share price of GameStop and meanwhile hedge funds are forced to buy back the stock to close out their short positions.

*GameStop, a struggling company runs a chain of video game stores across the country. The rising of mobile games and digital downloads gave GameStop a hard hit, and facing strong competitors - online retailers like Stream, UPlay and Amazon have rendered GameStop more than 5,000 stores obsolete. December data showed sales have fallen 10 of the last 11 quarters, even as the pandemic has lifted the overall video game industry. According to 7 investment banks' valuation of GameStop average share price only worth \$13, comparing to the current stock price \$225 (as of 1 Feb 2021), still have nearly 95% of potential downside.*

### **'Short Squeeze'**

Thanks to the discussion of 'WallStreetBets' on the forum Reddit, where small investors have been buying GameStop stock at high volumes to drive the price up, and forcing panicked hedge funds with short positions to buy shares to cover their short positions, further fueling the surge. It would create a 'short squeeze'.

GameStop stock price was trading around \$18 in early January, it has surged to \$20 on 13 January, and jumped to \$325 on 29 January, which is 18-fold, and the highest was \$483. It soared more than 2300% in less than a month.



Source: Bloomberg

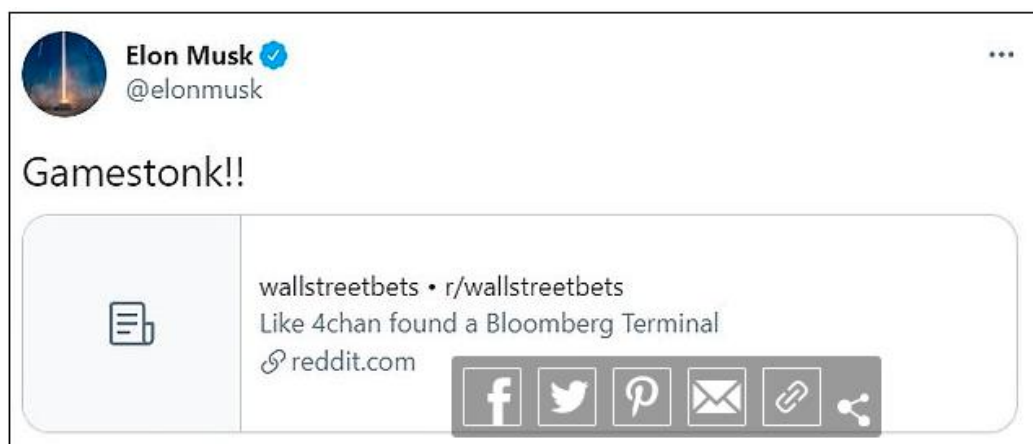
### 'Crowdsourcing'

Investors fully understand the contradiction between GameStop's epic run in its share price and business fundamental. However, over \$130 billion transaction value of GameStop in just a month was not all Reddit retail investors. Thanks to social media platform which effectively formed a scheme of pump and dump of 'crowdsourcing', has mobilized millions of small-time investors to cause billions of dollar worth of damage to hedge funds.

The noise has led many investors to jump on the bandwagon. Elon Musk's tweet on GameStop on 26 Jan has sent the share price skyrocket more than 100% in after-hours trading and skyrocketed for a fourth straight day and getting more investors to participate.

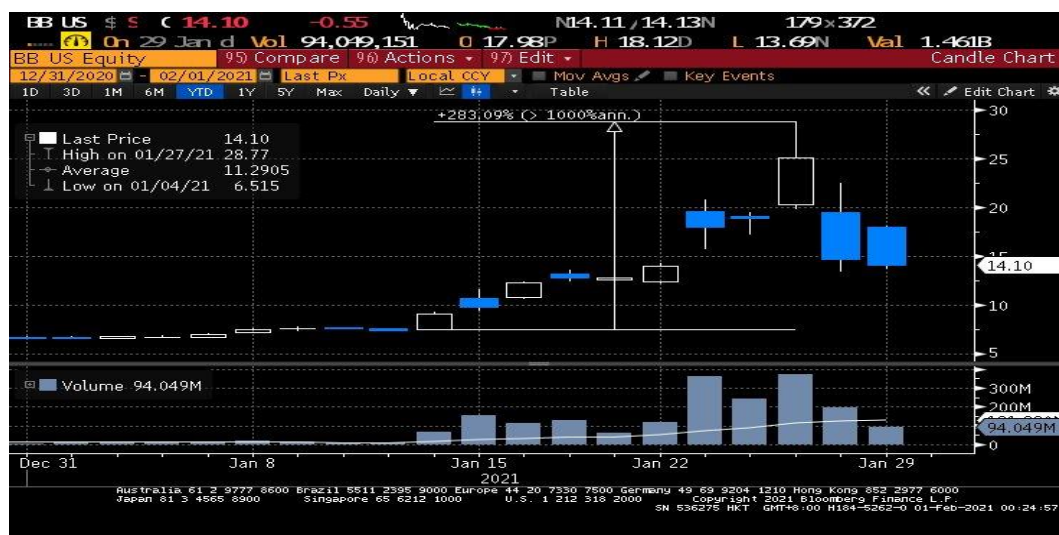
Meanwhile, smaller investors who are feverish buying have also [pushed up prices](#) of AMC Entertainment, KOSS, Blackberry and Bed Bath & Beyond during the last week of Jan.

GameStop's shares skyrocketed for a fourth straight day, thanks in part to Elon Musk's 26 Jan tweet.



Source: Twitter

## Blackberry stock price: Jumped 200%+ in a few days



Source: Bloomberg

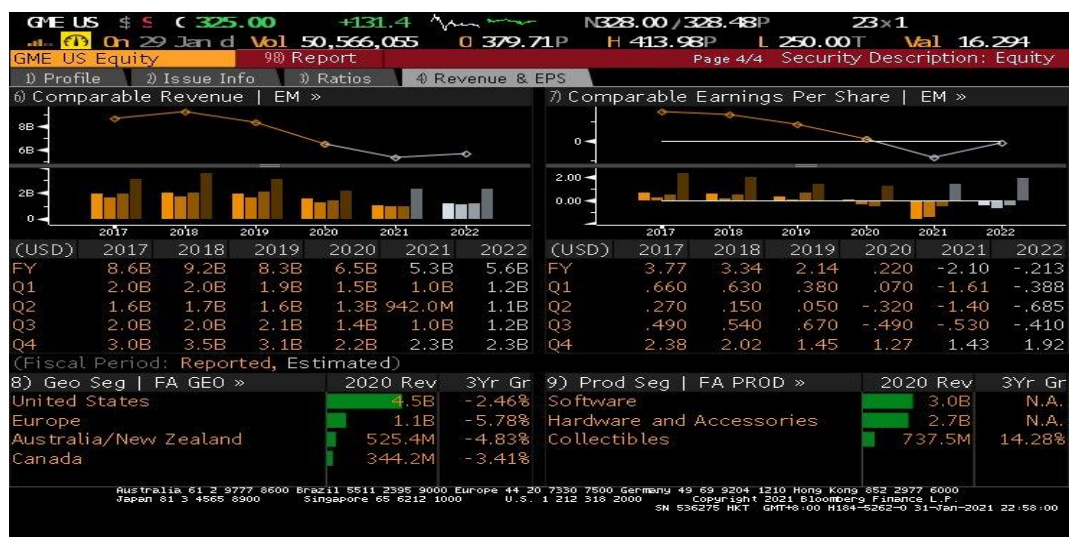
## KOSS stock price: Jumped 3300%+ in a few days



Source: Bloomberg

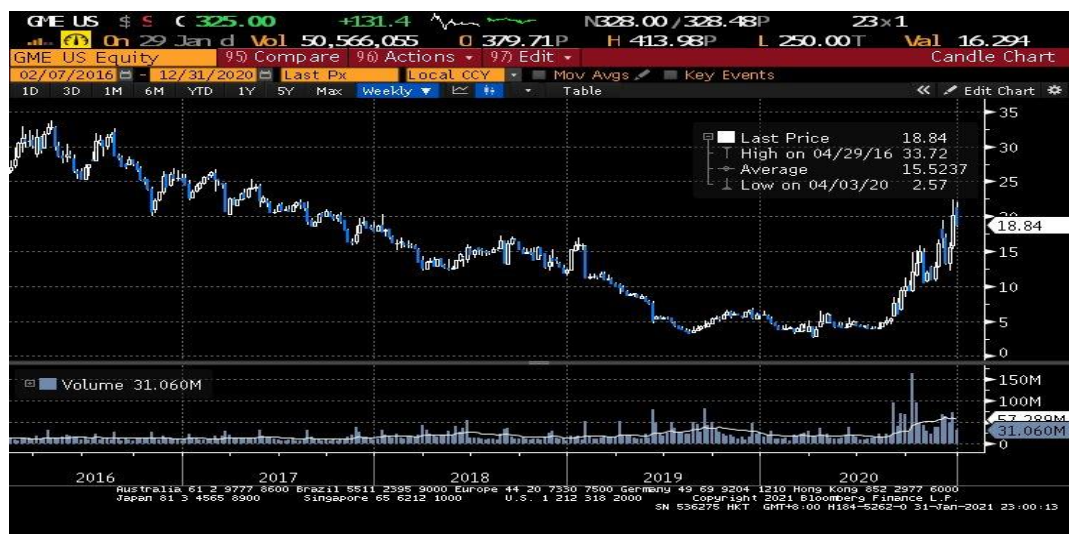


GameStop Income and profit: According to the NPD market research group, even as the pandemic has lifted up the whole industry by 26%, GameStop still suffered a loss for 3 consecutive years. GameStop is struggling in the market in retreat mode.



Source: Bloomberg

GameStop historical stock price: It had never over \$100 in the past.

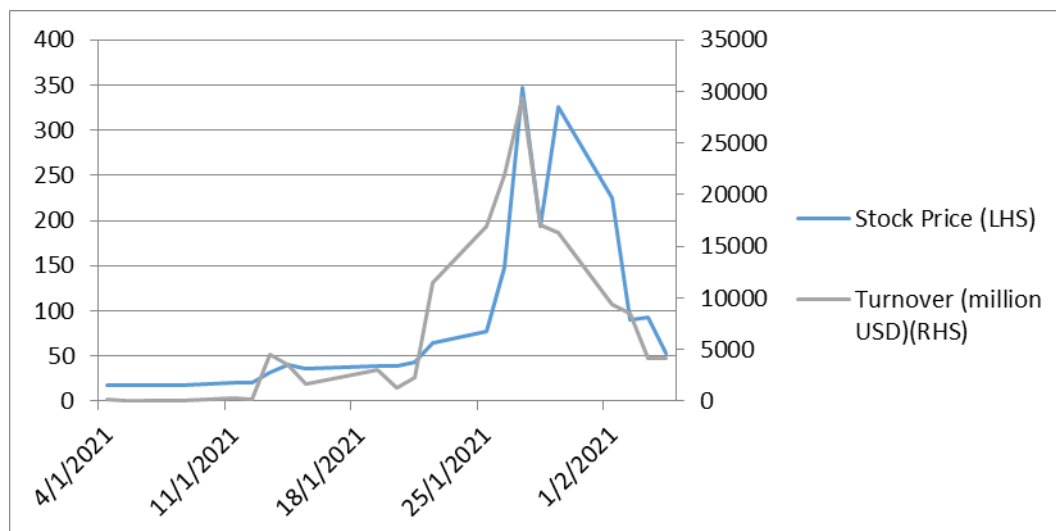


Source: Bloomberg

**GameStop trading value:** The average trading value of GameStop is over \$17.4 billion from 22 Jan to 1 Feb, comparing to December was just around 100 million.

<b>GME US \$ S C 53.50 -38.91</b> <span style="float: right;">N-- /--N --x--</span>									
<b>On 04 Feb d Vol 62,427,275 0 91.19P H 91.50P L 53.33N Val 4.157B</b>									
<b>GME US Equity Export Settings Page 1/6 Historical Price Table</b>									
<b>GameStop Corp</b>									
<b>Range 02/05/2020 - 02/04/2021 Period Daily High 347.51 on 01/27/21 Low 2.80 on 04/03/20</b>									
<b>Market Last Price Value Traded Currency USD Average 14.5046 682,547,680 Net Chg 49.32 1179.90%</b>									
<b>View Price Table</b>									
Date	Last Price	Value Traded	Date	Last Price	Value Traded	Date	Last Price	Value Traded	
Fr 02/05/21			Fr 01/15/21	35.50	1,727,963,000	Fr 12/25/20			
Th 02/04/21	53.50	4,156,888,000	Th 01/14/21	39.91	3,568,714,000	Th 12/24/20	20.15	128,942,800	
We 02/03/21	92.41	4,176,554,000	We 01/13/21	31.40	4,565,698,000	We 12/23/20	20.57	547,896,400	
Tu 02/02/21	90.00	8,554,738,000	Tu 01/12/21	19.95	140,730,000	Tu 12/22/20	19.46	579,624,200	
Mo 02/01/21	225.00	9,361,328,000	Mo 01/11/21	19.94	295,297,100	Mo 12/21/20	15.53	154,784,000	
Fr 01/29/21	325.00	16,293,860,000	Fr 01/08/21	17.69	114,393,300	Fr 12/18/20	15.63	262,035,100	
Th 01/28/21	193.60	17,054,850,000	Th 01/07/21	18.08	113,944,100	Th 12/17/20	14.83	118,243,500	
We 01/27/21	<b>347.51</b>	29,326,330,000	We 01/06/21	18.36	110,976,100	We 12/16/20	13.85	81,757,440	
Tu 01/26/21	147.98	21,852,430,000	Tu 01/05/21	17.37	87,080,510	Tu 12/15/20	13.85	110,444,100	
Mo 01/25/21	76.79	16,921,210,000	Mo 01/04/21	17.25	176,590,500	Mo 12/14/20	12.72	126,950,800	
Fr 01/22/21	65.01	11,534,540,000	Fr 01/01/21			Fr 12/11/20	13.31	100,629,300	
Th 01/21/21	48.03	2,338,124,000	Th 12/31/20	18.84	132,632,200	Th 12/10/20	14.12	104,821,500	
We 01/20/21	39.12	1,290,129,000	We 12/30/20	19.26	114,766,200	We 12/09/20	13.66	339,056,200	
Tu 01/19/21	39.36	3,010,344,000	Tu 12/29/20	19.38	180,371,300	Tu 12/08/20	16.04	258,314,600	
Mo 01/18/21			Mo 12/28/20	20.99	189,090,100	Mo 12/07/20	16.35	122,510,700	

Source: Bloomberg



Source: Bloomberg

## Impacts

On one side, GameStop's stock rally has created more than \$3 billion in net worth for the company's three largest individual shareholders. They include the largest individual shareholder Ryan Cohen, whose shares are up more than \$2 billion, GameStop CEO Geroe Sherman is up \$500 million and investor Donald Foss \$800 million. However, when the bubble collapses all of the shareholder gains could be wiped out.

On the other side, losses mounted for short sellers like **Melvin Capital** and **Citron Research**. Melvin said on 27 Jan that they had closed out their short positions around \$90 after suffering 53% on its total portfolio value. Melvin Capital assets had downed from \$12.5 billion to \$8 billion, include Citadel and Point72 Asset Management injected with a combined \$2.75 billion to Melvin on 25 Jan to help the struggle.

The extreme volatility raised concerns about manipulation which could lead to an investigation by brokers

and stock market regulators. Robinhood and TD Ameritrade instituted unprecedented restrictions on GameStop stock for trading. Investors expressed alarm that they have never seen anything like it. White House and the SEC also said it was closely monitoring the situation.

## **Conclusion**

On the upside, market waters are shaken by the speculative rallies, warning that the bubble that could collapse at any moment, wiping out the gains of the biggest shareholders and small investors alike. Let alone of hedge funds have not publicized their losses, they have to sell out some of their investments to compensate on GameStop losses and it will cause certain adjustments for the markets. Regarding the epic high stock price of GameStop has divorced away from its fundamental business, and it is expected justification of moves and eventually gone down in the coming future (in fact, on 4 Feb 2020, the stock price for GameStop had dropped to \$53.5).

**Source: Bloomberg News, Financial Times, BBC News, The Street, Wall Street Journal**

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