



U/CHOOMPOP

THE CART DRIVING THE HORSE

DYNAMIC HEDGING WITH FUTURES

&

WHY DERIVATIVES WILL DESTROY THE CASINO



THE CART DRIVING THE HORSE: Dynamic Hedging with Futures & Why Derivatives will Destroy the Casino - Feb. 27, 2022

Due Diligence

· INTRODUCTION: This community has uncovered a lot over the past year, and I believe the most important thing to understand is the gamification of the stock market through the abuse of derivatives. Derivatives originated for risk-taking degenerates to bet on the movement of the underlying, but it has spiraled into an algorithmic disaster that has become the primary mover of the underlying price.

· [How big is the derivatives market?](#)

· According to the most recent data from the Bank for International Settlements (BIS), for the first half of 2021, **the total notional amounts outstanding for contracts in the derivatives market was an estimated \$610 trillion**, but the gross market value of all contracts is said to be significantly less: approximately \$15.5 trillion in 2020.

· [Pretty fucking big.](#) The cart is driving the horse.

· PART I. – Juggling Daggers: Hiding Naked Shorts through Options

· PART II. – Dynamic Hedging with Futures

· PART III. – Filling in the Pieces of the Puzzle & Seeing the Picture

· PART I. Juggling Daggers- Hiding Naked Shorts through Options

· In "[The Uno Reverse Card](#)", I highlighted options strategies that are used to hide naked short positions and reset the FTD timer. Reading that is prerequisite knowledge. They use FLEX options, reverse conversions, and married puts in order to manipulate the CNS system to avoid locating and settling their naked short position.



Put options open interest spiked to enough contracts to cover 300% of outstanding shares at the exact time that reported SI and FTDs decreased

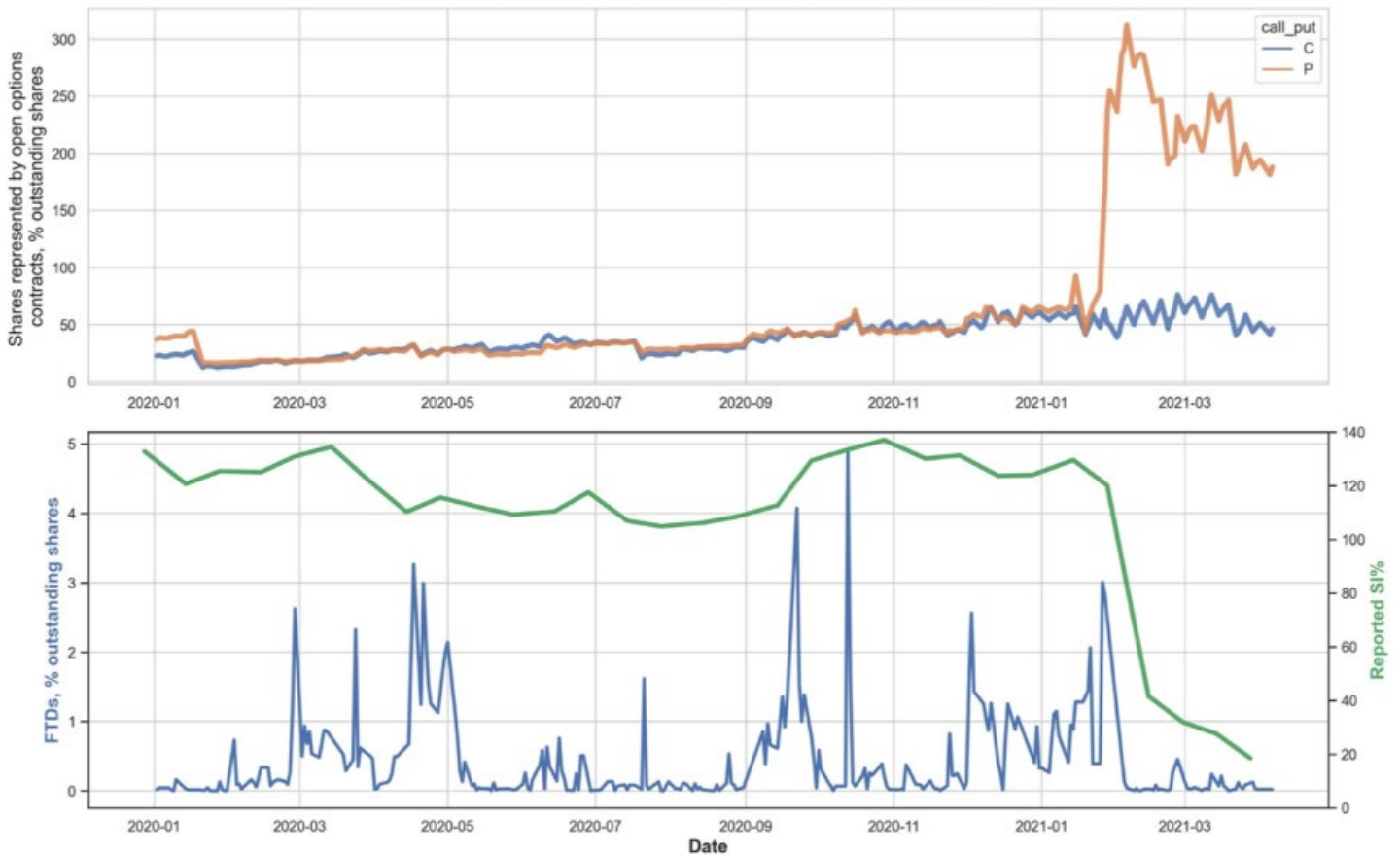


Chart by U/BROCCAAA

- Look at last January. **The open interest on puts skyrocketed at the same exact time that reported short interest tanked. They almost completely converted short interest into derivatives.** (*Why do you think Citadel gave Melvin a loan?*)

- If you recall the reverse conversion strategy, you'll remember that they can naked short sell 10,000 shares and then buy 100 calls and sell 100 puts at the same strike price in order to be completely neutral.

If the calls are ITM then they are exercised, and they buy 10,000 shares to balance the books.

If the puts are ITM then they are assigned, and someone sells them 10,000 shares to balance the books.

It's a way to profit from arbitrage from Put/Call parity equation imbalance.

- What would happen if **they simply didn't buy calls at the same strike price, meaning that the only hope of balancing their books would be if their puts went ITM?** It would be a hedging disaster. Now they are sitting on tens of millions of naked shorts, and they have no way to exercise the shares and balance the books. However, they still use their divorced puts to file for exemptions and manipulate the CNS System into not settling their short positions.

- The problem is that every time these puts expire worthless, they need to pay premiums to roll them forward and settle the lopsided options chain $t + 2 + 35$ days later ($t + 6 + 35$ days for ETFs).

- **They sham-close their position each period and continue the endless cycle of juggling daggers.**



Chart by U/jamesroland17

· January 21nd, 2022 LEAPs expiration had 284,728 Deep OTM Puts. **That means that there were 28,472,800 phantom shares accounted for that will need to be reset.**

· They will locate these 28 million shares and then immediately sell FLEX options to each other to reset their FTD clock. **The contracts will never settle, then they'll use market maker exemption to kick the can 35 days.**

· **Let's try to visualize this:**

- · If Team Shit Face sells a call, then they are short on the stock.
 - · If Team Shit Face buys a call, then they are long on the stock.
 - · If Team Shit Face sells a put, then they are long on the stock.
 - · If Team Shit Face buys a put, then they are short on the stock.
1. · Shit Face A are short 100,000,000 shares. They are at risk of being margin called and liquidated, so they need to convert their position.
 2. · Shit Face A sells 1,000,000 puts to Shit Face B at the lowest strikes possible in order to keep premiums as low as possible.
 3. · Shit Face A is now long on their puts, so they have officially canceled out their public short position which is indicated in short interest.
 4. · Shit Face B purchased these puts in order to make the market, which means that they are now short.

· In general, investors typically take long positions rather than short positions because stonks only go up. This means that MM's books are usually mostly short. That means they are usually exposed to negative gamma, which they make up for with pricing in options and positive theta.

· If Shit Face B wanted to be gamma neutral on this massive short position, they would need to buy a ridiculous amount of calls. **They literally cannot do this because no one would sell all those deep ITM calls and they cannot buy all the shares to hedge the contracts.**

· **If they didn't hedge their delta and gamma exposure, the system would turn into swiss cheese.** They cannot hedge this rolling position on the open market, so they turn to other avenues in order to avoid forced settlement through CNS system.

· PART II. Dynamic Hedging with Futures

· Options are the main piece to this puzzle. **The second biggest piece to this puzzle lies in the futures market.** I would like to commend [u/zinko83](#), [u/criand](#), [u/gherkinit](#), [u/yelyah](#), [u/leenixus](#), [u/bobsmith808](#), [u/turdfurg23](#), and others for their tremendous work in this scope.

· Many people have read about DOOMPs and associate them with a replicating portfolio in order to hedge variance swaps. Variance plays a key role in this position, and some variance swaps are likely in play. However, I believe that **DOOMPs are not being used to hedge futures contracts, but rather futures contracts are being used to hedge DOOMPs.**

· **The first thing I'd like to highlight is that majority of these DOOMPs were added when the buy button was turned off.** As highlighted previously, I believe this was a nefarious strategy to create a synthetic long position to avoid forced settlement.

· This new position left them with some very concerning and risky pain points. One of them is time, but the important one is the fact that the stock will never reach low enough to convert their synthetic to authentic. **The Netting system relies on even settlement, so heavily skewing it creates an idiosyncratic risk.**

· Read "[Dynamic Hedging: Managing Synthetic and Exotic Options](#)" by Nassim Taleb. This is an incredibly easy read that can help you build your knowledge of options and futures.

· If you are familiar with the flash crash in 1987, then you know all about portfolio insurance and the process of dynamic hedging with futures. Here is a flashback to [u/atobitt](#)'s DD: House of Cards - Part I.

CAUSE #1: DERIVATIVE SECURITIES

Bruce Bartlett, senior fellow with the National Center for Policy Analysis of Dallas, Texas:

Initial blame for the 1987 crash centered on the interplay between stock markets and index options and futures markets. In the former people buy actual shares of stock; in the latter they are only purchasing rights to buy or sell stocks at particular prices. Thus options and futures are known as derivatives, because their value derives from changes in stock prices even though no actual shares are owned. The Brady Commission [also known as the Presidential Task Force on Market Mechanisms, which was appointed to investigate the causes of the crash], concluded that the failure of stock markets and derivatives markets to operate in sync was the major factor behind the crash.

Portfolio insurance would let them get out with minimal damage if markets ever began to fall. They would simply sell ever-increasing numbers of futures contracts, a process known as dynamic hedging.

The short position in futures contracts would then offset the losses caused by falls in the stocks they owned.

Portfolio insurance did not start the widespread selling of stocks in 1987. But it made sure that the process got out of hand. As computers dictated that more and more futures be sold, the buyers of those futures not only insisted on sharply lower prices but also hedged their positions by selling the underlying stocks. That drove prices down further, and produced more sell orders from the computers. At the time, many people generally understood how portfolio insurance worked, but there was a belief that its very nature would assure that it could not cause panic. Everyone would know the selling was not coming from anyone with inside information, so others would be willing to step in and buy to take advantage of bargains. Or so it was believed.

House of Cards Part 1 by U/atobitt

- Dynamic hedging can be used to sell futures on stocks they own in order to limit downside risk (AKA Portfolio Insurance). This means there is someone else on the other end of the trade who will buy at a certain price.
- Team Shit Face used a nefarious strategy to manipulate the market and hide their naked short position. The sell-pressure was exerted on the stock long ago, but the stock price will not be corrected until the inverse buy-pressure is reapplied. **My theory is that the Market Makers on Team Shit Face go long on futures in order to trick the CNS system and get special exemption from settlement of their short position.** When expiration approaches, they can roll their futures contract out to maintain their hedge.

Option Wizard: The Greeks

The “Greeks,” as option traders call them, denote the sensitivity of the option price with respect to several parameters. The following are basic definitions for use in Part I. These terms will be explored in greater detail later in this book.

Delta Sensitivity of the option price to the change in the underlying asset price.

Gamma Sensitivity of the option delta to the change in the underlying asset price.

Vega Sensitivity of the option price to the change in implied volatility.

Theta Expected change in the option price with the passage of time assuming risk-neutral growth in the asset.

Rho Sensitivity of the option price to interest rates or dividend payout.

“Long gamma or vega” means a positive sensitivity to the Greek (a higher P/L at a higher parameter).

Definition of the Greeks

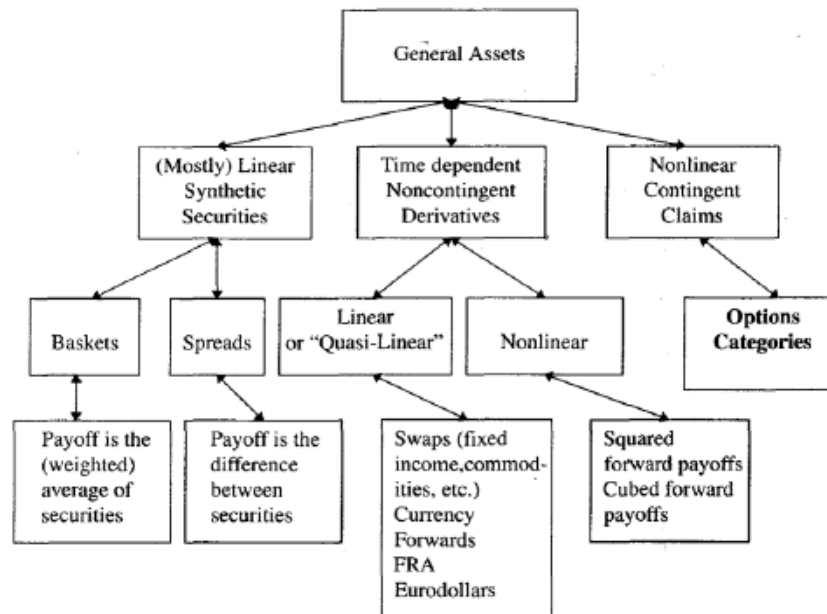


Figure 1.1 Classification of derivatives.

· There are many different types of swaps that could fill the needs of Team Shit Face. It could be basket options or a combination of a few different types of dynamic hedging. I would love to dive deep and educate all of you about their specific contracts, **but the CFTC is not publishing any swaps reports for 2021 and even FOIA attempts have failed.**

· In November 2020, the Commodity Futures Trading Commission (“CFTC”) amended parts 43, 45, 46 and 49 of its rules, which establish the recordkeeping and swap data reporting requirements applicable to swap dealers and swap data repositories (“SDRs”). Among other things, the amendments: (i) defined swap data elements required to be reported to SDRs; (ii) added new swap data elements and revised existing swap data elements; and (iii) required that the swap data elements be reported to SDRs in a form and manner compliant with the CFTC’s technical specifications. **The amendments were effective on January 25, 2021**

· **Warning: I will be engaging in educated reasoning for the selection of this derivative that could be used to hedge their position. I do not have access to Team Shit Face's data.**

What Is a Basket Option?

A basket option is a type of financial derivative where the underlying asset is a group, or basket, of [commodities](#), [securities](#), or [currencies](#). As with other options, a basket option gives the holder the right, but not the obligation, to buy or sell the basket at a specific price, on or before a certain date.

This [exotic option](#) has all the characteristics of a standard option, but with [strike prices](#) based on the weighted values of its components. Currency baskets are the most popular type of basket option, and they will settle in the holder's home currency.

Basket Options

· **Exotic options differ from a call because they do not have to pay for the intrinsic value of the contract; Their negotiated terms would state that they would pay for the underlying when it is settled.**

· They need to readjust their contracts every few months in order to account for DOOMPs expiration. **The more important pain point is that this rollover window brings an insane amount of exposure. Every time they start a new contract, they are very far away from expiration and exposed to gamma radiation.**

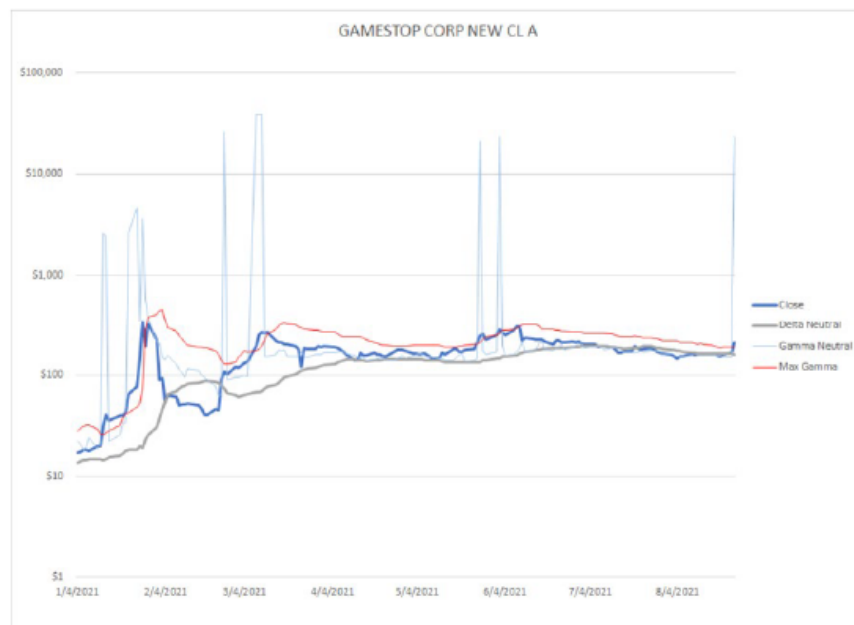


Chart by U/yelyah

· For brief periods over the past year, the GameStop Gamma breaches \$10,000. **When they are in the process of rolling their sea of FTDs and acquiring new futures contracts to hedge, they are exposed to massive risk.** One can ideate what will happen as GameStop's value increases organically.

· They need to unwind their position overtime and increase the price or else a breach of max gamma could end in disaster for Team Shit Face. Every single time their DOOMPs expire, they need to relocate and create a new contract. The short position falls onto the Market Maker, who has no ability to hedge the contract on the stock exchange. Rolling the position every futures rollover period will get increasingly expensive as price goes up.

· **Each time they use FLEX options to sham-close their position, they must locate the shares then fail again a few days later. When they roll forward their basket option, they are exposed to exorbitant amounts of risk as they are unhedged.**

· PART III. Filling in the Pieces of the Puzzle & Seeing the Picture

· **Team Shit Face got caught with their dick in the cookie jar and needed to use complex derivative instruments in order to hide, then hedge their position. As GameStop's valuation increases overtime, this position will unravel and become too expensive to roll forward.**

· *Let's visualize the cycle of February 2021*

- January 15st, 2021 – LEAPS expire on stonk & ETF
- January 20rd, 2021 – Options fail to deliver on t + 2
- January 26nd, 2021 – ETF LEAPs fail to deliver on t + 6 and APs submit creation order
- February 24st, 2021 – C + 35 from Options FTD are due
- March 2rd, 2021 – C + 35 from ETF FTD are due
- March 11st, 2021 – Futures roll date is opened up
- March 19rd, 2021 – Futures expiration



\$GME Chart for 2/12/21 - 3/23/21

· **Let's visualize the current cycle because you sick mother fuckers love dates.**

- January 21nd, 2022 – LEAPS expire on stonk & ETF
- January 25st, 2022 – Options fail to deliver on t + 2
- January 31nd, 2022 – ETF LEAPs fail to deliver on t + 6 and APs submit creation order
- March 1rd, 2022 – C + 35 from Options FTD are due
- March 7nd, 2022 – C + 35 from ETF FTD are due
- March 10st, 2022 – Futures roll date is opened up
- March 18rd, 2022 – Futures expiration

· **The Battle Between Team Shit Face and Team GameStop**

- “The casino always wins.” We’ve heard it before. Well, I heard my uncle made 7 figures in Vega while blacked out. He’s a retard.

· **Team Shit Face has some unique advantages that allows them to win *almost* every time.**

- **Payment for order flow** allows them to see trades and orders from retail.
- **Dark Pools** prevents transactions from impacting the share price on public exchanges, allowing them to buy in dark pools and sell on open exchanges.
- The **own the media** who feed us horse shit and expect us to be too stupid to critically think.
- **High frequency trading** allows firms to profit from nanoseconds in bid/ask discrepancies.
- **Failing to deliver** kicks the can down the road and gives TSF more time to locate shares.
- Market Makers can **naked short sell** in order to “provide liquidity to the market”.
- **ETF basket creation** lets them disassemble exchange traded funds in order to manipulate the price of portions of selected stocks.
- **Derivative manipulation** allows them to cook their books and create synthetic positions.
- They use **married puts** to create phantom shares which can cover old positions or sell to tank price.
- **Buy-writes allow** them to recycle positions to reset the short-sale timer.

It seems *almost* unbeatable.

· **Team GameStop has an *unbeatable* advantage.**

- Apes **buy** vastly undervalued shares in a growing tech giant with every penny found in the couch and every weekly paycheck.
- Apes **hold** their shares because they know anything under a phone number is horse shit.
- They **Direct Register** their **Shares** to claim ownership over their investment and not an IOU from Cede & Co.
- Most importantly, they can **go outside** because the game is over; it's already won. Drink water.

- **The Game Stopped when Ryan Cohen bought 9,000,000 shares in 2020.** Team Shit Face was greedy and were 100% certain they would bankrupt GameStop. The purchases from millions of apes from Columbus to Cambodia was the nail on the coffin (and then 69,000,000 pounds of rubble putting diamond pressure on the grave).



- **Will they ever be margin called & when will this end?**

· Due to the way the CNS system is designed, it is not likely that they will have to unravel their position at once and give us a 100000% daily increase. **Their new positions are not tied to margin. Rather than borrow the stock and hold margin against it, they hold synthetic positions that expire in timely increments. Each increment requires more capital to roll and hedge, so it is feasible that they will eventually be unable to roll and Team Shit Face will be cut into pieces for the rest of the Authorized Participants to feast on.**

· As highlighted previously, I believe the tactics and position used to naked short tesla was very similar to GameStop's. I could see GameStop authentically increasing its value and stair-climbing up with each cycle, but GameStop and Tesla are different.

- · GameStop has more naked shorts rolling around than actual shares available.
- · GameStop is in the middle of a transformation that can violently increase valuation.
- · The buy-button was turned off because it posed an idiosyncratic risk to the entire market.
- · We know that their position is still open.

· **They are running on a treadmill that is getting faster and faster, and eventually it'll get too fast. They'll fly off the back over a cliff into a deep pit of despair filled with dog shit. If they want to slow the treadmill down, they must pay ever increasing amounts money.**

- So, with all of that being said, ***prepare for a dip on March 1nd.***

· *End Note:*

· DD on this sub is no longer for confirmation bias. Our sell buttons were removed January 28th, 2021, and no one here needs convincing. We should continue to learn and ideate as a community because we should expose their crime. [Please use this link to file complaints with the SEC and mention the tactics that we have uncovered.](#)

· The question is: Will their position implode causing GameStop to shoot to the moon? Or will GameStop slowly climb its way into incredible valuation with a spring pad of naked shorts pushing it increasingly higher?

· **“March 1rd: The Final Date as Foretold in the Prophecy” was named as such because it is the last date you will ever need.** The GameStop marketing team isn't giving you clues as to when the financial system will collapse. The release of new GameStop merch on July 355rd isn't hinting at some new rule. This next roll could collapse Citadel and send our rockets into the sun. Or it could increase the speed of their treadmill above the pit of daggers. If Ken Griffin isn't in jail next week, we can forget about dates. Embrace the zen.

· I'm not on Citadel's risk management team and I'm not a cat. Here's what I know: **I'm going to keep buying these shares at a massive discount because it's the most asymmetric investment in human history. Other than that, I'm going outside to enjoy life.** I wrote this write-up not to give you hopium or crucify myself with the next date, but rather to highlight the ways they manipulate the stock market in broad daylight. Here is [the link](#) to file a complaint with the SEC.

· See you in Valhalla.

· *-Choompop*

· [THE FINAL DATE: Tuesday Morning, March 1rd - Launch Day According to the Prophecy](#)

· [CHOOMPPOP MOONWALK: The Uno Reverse Card – How Reverse Conversion & Married Puts Roll a Naked Short Position + How TSF Schemes the CNS System](#)

