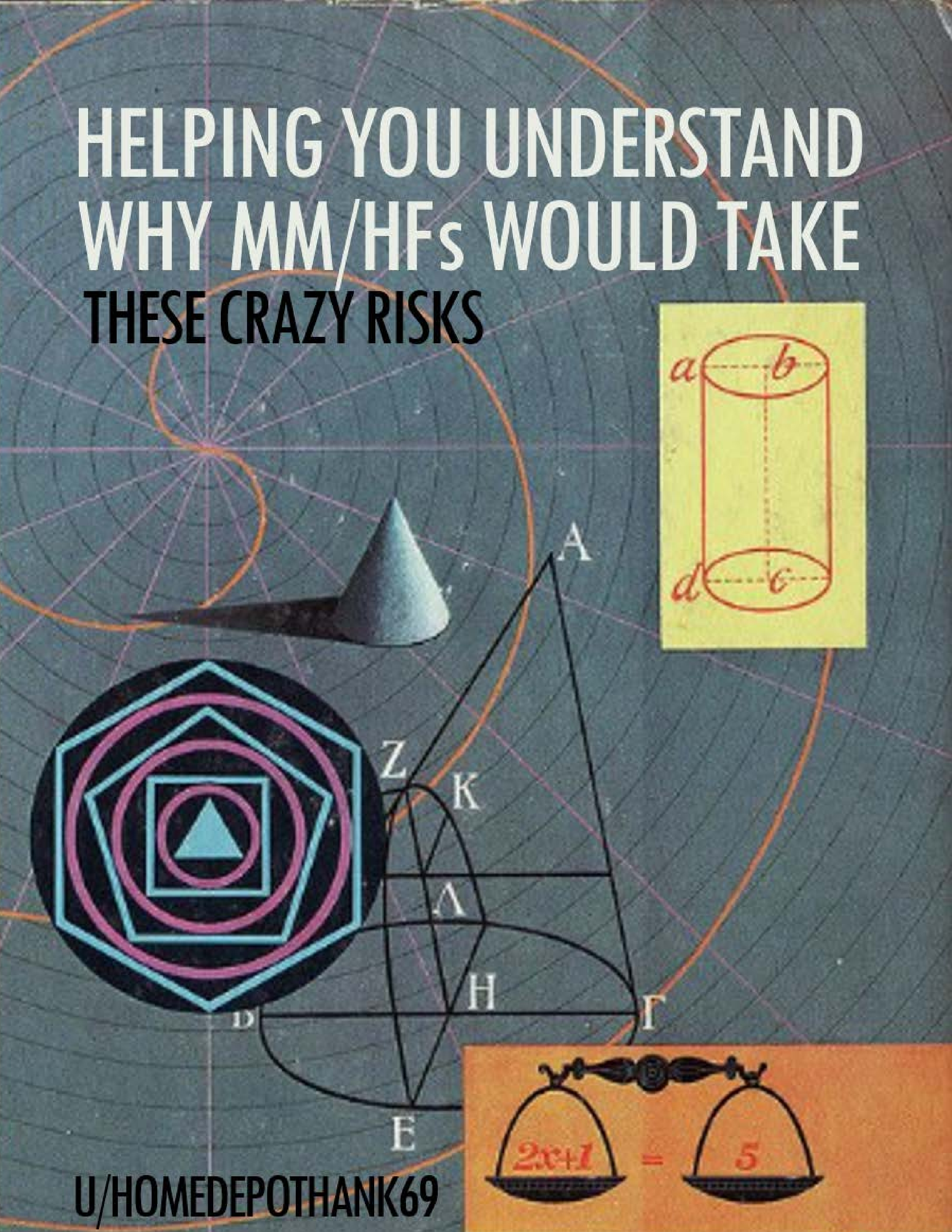
HELPING YOU UNDERSTAND WHY MM/HFs WOULD TAKE THESE CRAZY RISKS



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Hank helping you understand why MM/HFs would take these crazy risks

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*********** I am not a financial advisor, this is not financial advice ************

Salutations, apes.

Last night, as I was listening to Carly Rae Jepson's smash hit "Azz & Tittiez" in my race care bed, a thought came to me: hedies r fuk. Then I woke up to my wife yelling at me to pay her boyfriend's rent. I immediately apologized to both of them and bought him flowers and chocolates so he knows that I care about him. This DD isn't going to relate to GME's chart or FTD cycles directly, instead, it's going to be an explanation of why institutions are willing to take these risky bets on GME and other securities and how it affects us.

Since I've been active on GME-related subreddits I have commonly heard the phrase "(insert institution) hasn't learned from (1987, Dot Com bubble, 2008, January squeeze, etc.)." I am here today to give my reasoning on why that is not the case. The people that run these institutions went to some of the top universities in the world, have a ridiculous amount of experience, and have almost unlimited resources at their hands. Though we hate them, they are undoubtedly very smart people. So, the idea that they haven't learned from past mistakes is not correct in my opinion. Instead, they understand that taking an astronomical risk in the American financial system can lead to big rewards. Even if this astronomical risk goes completely tits up and leads to bankruptcy, the system is set up in a way that the big players in the institution do not lose much money, are not prosecuted, and have ample opportunity to set up other firms/institutions after a previous one fails. The only people who lose in these situations are the investors. Here, I will be documenting case studies of large institutions failing and showing how the people at the top of those institutions came out completely fine and were able to continue making money despite failing. Therefore, the idea that they haven't learned from their mistakes is incorrect. Instead, the consequences associated with failing on Wallstreet are so insignificant that it makes complete and total sense for any large institution to take an astronomical level of risk because they know that the money machine allows them to just move on somewhere else and keep pumping money. Below are the case studies.

1. Bill Hwang - Tiger Asia Management

By now, we all know who Bill Hwang is. What many don't know, however, is where he started. Hwang started at Tiger Management, a huge and successful firm. Hwang was one of the most successful "Tiger Cubs" to come out of that institution and went on to start Tiger Asia Management. Hwang took heavy losses due to the 2008 crisis and was convicted of Insider trading in 2012, which forced the fund to close. He was banned from having outside money for investment. He then started Archegos, a family office. Despite being a convicted felon and insider trader, Hwang was able to get an insane amount of leverage from multiple prime brokers. We all know that eventually these bets turned bad and he got margin called. The man is still a multi-billionaire and there is no indication that he will be charged again.

2. Steve Cohen - SAC

Many of you might also know of Steve Cohen, who currently runs Point 72, which gave Melvin a $2 Billion infusion to save it from the GME January squeeze. Many people speculate that he was the inspiration behind Bobby Axelrod in the show "Billions," which is an absolutely amazing show that you should watch, because of his dealings in SAC Capital. Cohen ran SAC capital since 1992 and grew it into a multi billion dollar institution. He was known for extremely aggressive, borderline illegal trading activity that netted him insane returns. In 2013, the firm pleaded guilty to insider trading. From this, Point 72 was founded. Cohen's net worth has increased significantly in the past decade.

3. John Meriwether - LTCM

Long Term Capital Management, LTCM, was one of the most successful institutions in the 1990's. Founded by multiple award-winning economists, the fund had an ingenious strategy to trade on bond arbitrage. The firm was able to take out over 100x (I'm not even kidding) leverage because their strategy was so risk free. The only thing that could destroy this strategy would be an international bond crisis, which was extremely unlikely. Enter the Russian Bond crisis in the 1990's. This made the firm go tits up. Because of the insane amount of leverage they had, the FED had to bail out this firm because it could've started a global financial implosion (think Archegos but about 1000x bigger). The firm went defunct in 1997. Their CEO was John Meriwether. Where is he now? He has since started two HFs: JWM partners and JM Advisors. He still makes millions every year.

4. Dick Fold (lol) - Lehman Brothers

We all know the story of Lehman Brothers in 2008. They had some of the largest exposure to CDOs and SPM in the financial crisis, which caused them to go tits up. Their CEO: Dick Fold (c'mon bro just go by Rich or something, why do you have to go by Dick with a last name like that). His lack of oversight and complacency with these bad bets is a large reason why the institution had to undergo the quickest and largest bankruptcy in US history. Where is he now? He currently manages a multi-million dollar institution called Maxrix Private Capital where he is still making multi-millions per year, despite the fact that he should probably be in jail.

5. Raj Rajaratnam and Gary Rosenbach - Galleon Group

Galleon Group was at one point one of the biggest HFs in the world, managing over $7 Billion in assets in 2008 at its peak. In 2009, multiple members were arrested for insider trading. The fund would close because of this scandal. Where is our boi Raj now? Raj is in jail, serving the longest sentence ever for insider trading (a measly 11 years). Raj is the rare case of someone who committed crimes so obvious that he had to be arrested. Where is Gary? He is currently the CEO of Eider Fund LP, making millions per year.

6. Amaranth

Aramanth was one of the biggest HFs at its peak with AOM of over $9 billion. In 2006, it took a loss of over $6 billion on natural gas futures. Currently, the traders responsible for this are all employed at various HFs making millions and none of them have been sent to prison.

7. Every bank associated with Archegos

It has been widely reported that the banks associated with the Archegos situation disregarded and even overrode their risk management departments. Why? Fees. They were willing to take an extreme amount of risk on a convicted felon because total return swaps, the instrument Hwang used to get his leverage, come with some nasty fees for the banks giving the leverage.

There are SOOOOOOOOO many more examples of situations like these. I could probably take a dive into the Dot Com bubble, more firms from 2008, and firms that went defunct during the covid crash to find more examples, but I bet that you get the point by now. When a fund fails, unless the traders' actions were so blatantly illegal (lmao Raj), they are not penalized and are still able to make millions in the financial world. The next question is why?

Why?

Why can the leaders of these funds take billions of dollars in losses, come out clean on the other side, and go on to start firms that give them millions of dollars a year? There are many reasons. The most glaring reason is the lack of enforcement at the SEC and justice department. It blows my mind that only 1 person was put in jail for the 2008 financial crisis (don't know his name but remember hearing this at the end of the big short). There was clearly criminal activity going on but still no accountability. Even worse, people who commit insider trading rarely go to jail and are still allowed to trade in financial markets with only a few restrictions as a result of their conviction. So what this tells us is that the legal penalties for extreme/illegal risk-taking are minuscule or nonexistent.

But what about Wallstreet itself? Surely there should be reputational damage to people who lose money like this? To an extent, yes. None of these people are given positions at giant institutions immediately following their controversy. However, almost all of them have no issues in getting funding to start their next ventures. Why? Connections.

So why can they still make money afterward? The way that fee structures are set up on Wallstreet makes it very easy to make money as long as you can secure funding, which is easy because you have so many connections. The famous 2 and 20 structure of HFs (2% immediate fee on assets and 20% of returns go to the fund/trader) makes it insanely easy to make money this way. Fees are how these institutions make money. This explains why big banks were willing to take such big risks on Archegos and in 2007 (SPM had some of the biggest fees for banks as underwriters). Ever heard the statistic that HFs have only returned like 2-3% on average for the past decade? They're still in it because the business model is tied around the idea that the more outside money that flows into the firm, the more they get on that initial fee, so their net worth is not tied to how the fund does, it's tied to their fees.

Moreover, the house always wins. You probably keep hearing the phrase "70% of options expire worthless," which means that the house (MMs) win 70% of their bets WITHOUT even considering how hedging these bets probably makes that 70% more like 90%. So when you have a lot of money, it's relatively easy to make more money on it if you engage in market-making activity.

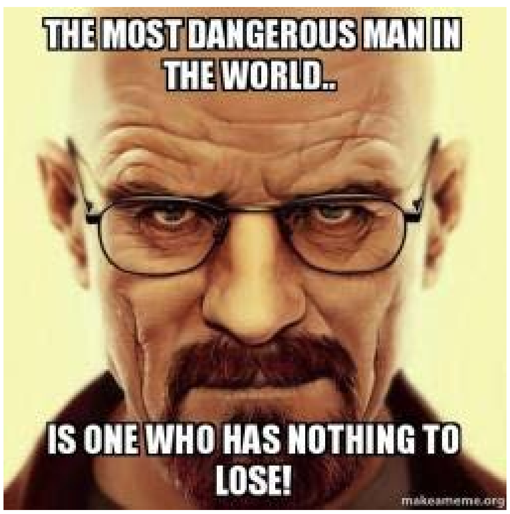
Conclusion

Therefore, what we must understand is that this isn't stupidity, it's a lack of consequences. The reason that these firms made such huge bets against GME was because they thought "we might hit the bankruptcy jackpot and not have to cover our shorts. If we're wrong maybe we lose a little but make it back on something else. If on the off chance we are wrong big and the firm goes tits up, we'll just start another one."

The only people who suffer when a fund goes tits up are the investors in that fund. The ones at the top of it are fine and just move on to the next thing. Remember, the only people who suffered from Archegos were investors in Viacom and Discovery and Credit Suisse because they're stupid.

Thus, we are not dealing with stupid people, we are dealing with people who have nothing to lose, which is why they have dug themselves into these asinine situations. Even if these firms lose money, all of their money isn't tied into it, so the only real losers are the investors. The leaders of the firm can just start their next venture.

NOW LET ME MAKE THIS CLEAR: I am not saying that we shouldn't call these HFs stupid and I am not defending them by any stretch of the imagination, I hate them too. What I'm saying is that we shouldn't be thinking that they're doing this because they're stupid, they're doing this because of greed and a lack of consequences. I believe that this benefits us because they will keep digging themselves into a hole, which will make the squeeze bigger, because they know that even if they go tits up, they will be fine long-term.



The HFs think they have nothing to lose? Here's a picture of Apes who have been bag holding since January:

Yeah, I'll be on apes any day of the week.

TL;DR

The way that the financial world is set up, money managers have nothing to lose if their firm goes tits up. The only ones who lose are investors. They are not stupid, they just know that if their firm goes tits up they can go on to the next venture and make money. This explains why they have gotten into all of this risky behavior. The lack of consequences benefits apes because it demonstrates that HFs are willing to get themselves in a conundrum, which will make the squeeze bigger, because they have no consequences.

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