Jim Bianco: Wall Street Bets – Who's Playing Who?

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Erik:

Joining me now is Bianco Research founder Jim Bianco. Jim is known for his graphs and charts, there is a chart deck to accompany this week's interview, we won't be going over the slides page by page. But you're going to want to download this chart deck because there are charts and graphs that will supplement a number of different conversation topics that we're going to touch on today. Registered users will find the download link in your research roundup email. If you're not yet registered, just go to our homepage at macro voices.com. Look for the red button above Jim's picture that says looking for the downloads.

Jim, it's great to get you back on the program. You know, I had Russell Napier on the show last week and something I'm noticing Russell was one of the devout deflationists for the last several years. And I'm seeing really smart people who were convinced it was deflation coming around to an inflationary view. I'm very curious what your reaction is and what your outlook is in terms of inflation versus deflation, particularly in light of the change of the presidential administration and all of the stimulus that's being contemplated?

Jim Bianco:

Well, I would probably put myself somewhat into Russell's camp. I wasn't a deflationists until this summer. But I was always arguing I was a bond bull. And I was saying that inflation is not a problem. But then this summer, I've kind of jokingly said I became an inflationista this summer. And I'm looking for higher levels of inflation, as we move forward from here. Now, why I think the biggest thing is the amount of government stimulus, we're mailing people checks, we mailed them $1200 check in the spring, we're just finishing up mailing them a $600 check, we're going to mail them a $1400 check. We're giving people extra money for unemployment, they weren't getting 600 bucks a month until August, they're not getting $300. And if the new stimulus package that's being negotiated stands as is being presented, that $300 will last all the way through to September 30th, plus bailouts for the states as well in the cities and a whole bunch of other stuff. And then they'll start on an infrastructure spending program right after that. A lot of people ask me, well, how can you have inflation if there's no wage inflation, and I said, right at large, this is about a larger measure called personal income, which the biggest thing on personal income is wages.

But in 2020, a record 20% of all of the income that the American public got came from the government, mailing it to them. So one fifth of all the money came from the government. And there's more checks going out now, and they're debating even more checks. Too much money, you know, is what I think it is. And that will eventually chase into too many goods. Now, short term, that money is being saved, there is a fear about the economy. Right now, it's not open, a lot of people are unemployed, they're not in the mood to go out and purchase a car or remodel their kitchen, because they don't know what their job situation is going to be. So and I know we'll talk about this later.

So they've been saving it. And that's been finding its way into brokerage accounts, and all of the Wall Street bets stuff, and everything else is been fostered or fostered by that as well, too. But I do think, though, that there is a consequence to all this money printing, and the more you do it, the more it will stimulate the economy. And I also think that it's not going to stop my leftist economist friends say, this is not enough to create inflation and my response to them, other than debating whether it's enough is who said they're done. They're going to keep going until we go too far. If all we've done is send people money. And the argument is the poor got something maybe it wasn't as efficient as we liked. The unemployed got a bridge, they got some extra money. And a lot of it went into brokerage accounts that helped push the stock market to new all time highs isn't the answer there, everybody won.

So if everybody one sends them more money, and then if they win again, which we just did, we sent them more money in the stock markets, back at all time highs, send them more money again and again, until we go too far. And I think too far is inflation.

Erik:

Now, Jim, the study of what causes inflation and what controls inflation, unfortunately, in the study of economics feels to me oftentimes more like religion than science, but at least one of the versions of that religion says okay, the way this inflation stuff works is, you know, they provide accommodation, they do things to stimulate the economy, eventually it goes too far you get to inflation. And the remedy is the government simply increases interest rates and that arrests the inflation and it's all cured.

The thing is Jim, what it seems to me that we're headed toward is what I'll call an inflation trap, where you get to that point where it's time for the Fed to raise short-term interest rates aggressively in order to contain the inflation, stop it from running away, but they can't, because doing so would bankrupt the US government because we've got so much more debt on the books than we did 20 or 30 years ago. Would you agree that this idea of what has to eventually contain inflation? Does this idea of increasing interest rates really even come into play? Because that's not necessarily science, that's more religion. And if so, would you agree that there's a trap setup that might be on the horizon?

Jim Bianco:

Yeah, let's look back at the last two cycles, just as a quick measure of what's been happening with the Fed, and I'm talking about December of 2018. The Fed had made noise off of the fourth quarter of 2018. We're going to reduce the size of the balance sheet. And then on December 19, Jay Powell holds a press conference. And he says we're going to reduce the balance sheet by 60 billion a month, it will be on automatic pilot, and it'll be about as interesting as watching paint dry.

The stock market fell 3% in the one hour of his press conference, and kept getting crushed all the way through Christmas Eve was down 19.8%, nearly a 20% correction from its September 2018 high to Christmas Eve. January 4, Powell was speaking at the American Economic Association annual meeting in Atlanta. And he did what is famously known as the Powell Pivot, where he said no the feds gonna be patient and flexible. So the Fed spent months and months and months late articulated a plan to reduce the balance sheet. Markets didn't like it. 10 days later, forget it. We're not patient and flexible. Let's go to a year ago, the late January meeting, the Fed held the funds rate steady at two and a half percent, everything's fine. We see no reason to be doing anything with the funds rate for as far as we can see. Literally hours after that meeting, the market started to wobble because it started to become aware of the Coronavirus coming out of China. Within 15 days of that meeting, the Fed cut the funds rate 50 basis points. And within a month of that meeting, the Fed had put rates at zero. So my point is the Fed will lay out these careful plans, and they'll pat themselves on the back. And then the market will reject it. And within two weeks, they'll change everything.

So yes, what will happen is inflation will creep up. And the Charlie Evans's of the world who last month said, Oh, we at the Fed could see two and a half percent inflation without moving rates and Richard Clarida, the Vice Chairman put out a very wonky academic paper talking about why the Fed could see the average inflation rate run over 2% and they wouldn't adjust policy. And I've always answered the question. It's not their call. It's the markets call. If inflation starts moving up, and the market at some point says enough, I don't like it and bonds sell off and rates go up. There'll be within two weeks of changing policy, because the market will force it upon them that they have to start to change policy then at that point.

So I think that you're right, that they're not going to want to do it. They're going to be forced to do it at some point in the last half of the year. One of the feds favorite measures of inflation is the core personal consumption expenditure, core PCE. If that number hits 2.6%, that would be a 28 year high. Now when I say inflation, especially if certain people have an age, oh, they'll start thinking 10% 7%, something like that. 5%. Others will think 1,000,000% because they're thinking of Zimbabwe or something like that. And when I say How about 2.6% on core, believe me that's not inflation. It's like, well, it's a 28 year high. And interest rates are 1.1%. That would put you with a deeply negative real rate. That's a good place to start.

So when I talk about inflation, I'm not talking about some big, gigantic number, maybe that's 2, 3, 4 years down the road, but it wouldn't take much now. And if you got to 2.6%, Charlie Evans will say no big deal. We told you that we would we would hold the line here. But like 2018 and 2020. If the bond market rejects it, the Fed will be forced to move in kind.

Erik:

What's the play for investors? If you see this inflation on the horizon? Is it long commodities is it something else? What do you do to trade this?

Jim Bianco:

Well, yes, the answer is I think that the traditional inflation plays have been working short bonds. They're 111, 1.11% 10-year yield as we record, long commodities, long industrial stocks, and basic material stocks relative to the entire market. That is, as well should continue to do better. But I also want to put a little nuance on it. What determines interest rates? from an economic standpoint? Why are some countries interest rates at 10%? Others are negative, ours are at one. And the answer is expected nominal GDP expected nominal growth.

Now nominal growth is real growth and inflation. Now for the last 25 years or so, whenever interest rates went up, it was real growth expanded. And that was good. And everybody's like, okay, that's more profits, more jobs, better standards of living, interest rates are going up, that's fine. That's why Wall Street thinks of rising rates as a sign of prosperity. But if instead nominal growth is being driven like it was in the 70s, up in the 80s, down by inflation, that's not so good, as well to from 1966 to 1982, the stock market lost two thirds of its after inflation value. stocks were not a good inflation hedge they were among some of the worst inflation hedges.It wasn't until the mid 1990s that they recovered, all of that lost inflation value. So in that environment, we're talking a lot about the phrase on Wall Street is reflation. Well, the commodities work in that the basic materials, the industrials work in that higher interest rates work in that.

But if it more silver to inflation, which I think it will, you know, going from "R" to "I", those same plays still work. And that's what the trick is, is when people say what's the inflation play and I say what it is. Commodities, industrials, basic materials, cyclicals if you want to throw those in there as well to higher rates, they look at me say, Well, isn't that the same as the economy booming, and don't we want the economy to boom it's like, that's the trouble. That's the tough part about it is they start off the same way. But it can morph into inflation. Now, just because we haven't seen it since the early 1990s. Everybody's forgotten about it. But it could come back as inflation and then the bond market could really have a problem.

Erik:

Jim, when I hear somebody say that I always tell them that a booming economy is defined by Treasury yields in the five to 10% range, we have Treasury yields in the five to 10 basis points range. Is it as simple as I make it, it seems to me like like you just can easily debunk any strong and vibrant economy argument just by Treasury yields alone. Am I missing anything there?

Jim Bianco:

You know, I think you're right. And I think the problem with Treasury yields, is, you know, in the stock market, there's an argument about a moral hazard, because the feds got your back, there's a perception that there's no risk. So go ahead and speculate to the moon in the stock market. Okay, I get that. And that's true. But it's worse than the bond market. The Federal Reserve owns 30%! 30% of all Treasury notes and bonds.

Right now, they're buying them at a clip of $120 billion a month, right now. So you've got a lot of people there in the bond market. And they're, you know, you go, why are you owning yields at 1.1%. And you've heard people say, the Treasury market has no value, it's overvalued. It's been that way for about 12 years now, because you've got this big buyer with a printing press that's holding suppressing these yields right now. And they haven't been tested with this idea of inflation, because it hasn't existed in the last 12 years or so. But if they do get tested with this inflation argument, then I do think they're going to get tested. I've used this metaphor many times that the Fed is like a post in the ground. And the market is a horse tethered to the post.

And so the horse stands there, right where the Fed wants it because it sets where it wants to put the post. But if that horse ever gets spooked, and inflation would spook it, it's an 1100 pound animal, it can rip that post right out of the ground and go wherever it wants. And we've seen that with the BoJ, and with the ECB, that at times when their bond markets get spooked, they'll just flatten their central bank, as well. So if our central bank, if our bond market gets spooked by inflation, yeah, the Fed will be there and they've been buying the market and yields have been low, but the bond market will just, you know, rip the post right out of the ground and go where it wants.

Erik:

Jim, I want to move on to the pandemic situation. I can count on one hand, the number of people in finance who were ahead of me in seeing this pandemic coming and predicting what it would mean for markets. You are the absolute top of the list. And in fact, it was your charts and graphs that really persuaded me that a pandemic was imminent back in January of last year.

So as the man who was probably the first I can think of to have called this any new insights or what are you thinking in terms of the strains and the various things that are going on in the COVID crisis?

Jim Bianco:

Well, I think there's two things. First of all, there are the potentials of new strains. And I don't know enough about the new strains to say other than that there are an undefinable risk. But what I am looking at is the pace of vaccinations. And, you know, the CDC and who have some really good data, Bloomberg has actually put this together. If you Google Bloomberg, vaccine tracker, they've got a very good page that they keep up to date, in real-time.

And I want to focus on the country of Israel and the reason I want to focus on Israel is Israel is leading the world right now, when it comes to vaccinations 55% of their population has gotten at least one of the two doses. 20% of their population has gotten the second dose or the full vaccine. Now, that compares if you want to compare that to another country that's running way ahead. On the scale of the United States, the United States is actually doing very good job. But we've only got 1.9% of our population with two doses versus 20% in Israel, and we've only got 8% with one dose, versus 55$ in Israel. If you look at the numbers and the infection counts in Israel, they've peaked about a week ago at around 7500, on a rolling seven-day basis. And they're down, you know, by a 1000, to about 6500 or so, right now. And I look at that and say, okay, they needed half their population to get one dose and nearly a quarter of their population to get two doses, just to put a peak in.

And I think about the US I'm like, Okay, so that's 150 million people with one dose. And that's roughly 60-65 million people with a second dose, before we could really start to see a bend in the curve. And Biden is pushing 100 million shots in 100 days, it's going to take the bulk of 2022 at the current pace we're going with these vaccines in order to maybe make some real headway and that's just the US. Remember that it only takes one person from one country to come into your country with a new strain and infected everywhere. So we really need to get these vaccines worldwide, it could be well into 2022. Before we've vaccinated enough of the world and enough of the United States to say it's worked. We've now effectively gotten herd immunity. And again, this assumes no mutation that comes along, that makes the vaccine less effective.

Erik:

Jim, one of the things that I hear quite a bit is concern that younger people in the United States have concluded that there are risks inherent to the vaccine, there's no risk of any consequence to them of actually dying from this disease. Therefore, they don't want to take it.

And of course, the counter argument is that society needs them to take it in order to achieve herd immunity. They're not buying it. They're saying, Hey, I'm not going to risk my own health in order to contribute supposedly to herd immunity, which is an unproven concept. Do you think that's going on? And is there a way to measure it? I mean, logically, it makes sense. But I don't know if that's true. Is there a way to tell from the data?

Jim Bianco:

Well, there is and there isn't. A couple of things, so according to the surveys, the polling that's been done, somewhere between 50 to 70% of the public is willing to take the vaccine, or restated 30 to 50% of the public is not interested in the vaccine, right now. I've argued, you know, you could probably get into April or May or maybe even June, before you even get to those people.

So if you vaccinate, you know, 40% of the public, or so 40% get a first jab. Maybe they'll come around a little bit on that data on their thinking about it, because right now they're all afraid of it. They're like, well, wait a minute, 100 million Americans have gotten vaccinated, and nothing terrible has happened. And maybe they'll soften up a little bit at that point. As far as young people thinking that they're bulletproof.

I'll just give you one anecdote, and this is from this weekend. One of the guys who works for me is we're in Chicago, and he's very smart. He's spending the winter in Laguna Beach, California. I'm here shoveling 15 inches of snow so you know who the smart guy is right now in this equation. And he told me that Friday in California, they lifted the lockdown bands, and he said Laguna Beach went from a ghost town to Mardi Gras in less than 24 hours. Every bar was packed. They were flowing out into the streets. No one was wearing masks. They were drunk.

They were partying all over the place. And he concluded by saying to me, we're gonna have to go back into lockdown and about a month. Because these cases are gonna spike right back up all over again.

So yeah, this is a real problem, because it seems like we're binary, you know, both in Europe in the United States. It's either we're in lockdown, and we scream that the government is imposing an undue burden on us. Or we go from zero to 60 miles an hour instantly. And everybody is in Mardi Gras at that point. And it's not like we can have some kind of middle ground right now.

So I fear that, you know, this is why we have these certain ways, we do what's necessary to slow the transmission. Then we ease up and the transmission picks up, then we slow it, then we ease up and the transmission picks up, wash, rinse and repeat. So we're not there yet. And I think the people that are thinking that we're going to be there, say the financial markets, that we're going to be there shortly, and this is going to be behind us soon. They might become a little bit disappointed as we move forward.

Erik:

I completely agree with you on that. This crisis, unfortunately, is getting worse, not better. And yes, there is a light at the end of the tunnel, thanks to the vaccines. But that's a distant end of the tunnel.

Jim, let's move on to Wall Street bets and what's been going on in the revenge of retail, if you will. I know that you wrote an interesting piece on Bloomberg, you were also interviewed recently on Fox. I had a chance to read and watch both of those. Last week the story was GameStop. This week, the story seems to be silver, what's going on here? Who's behind it? What should we expect?

Jim Bianco:

Okay, so I think that there's been a paradigm shift on Wall Street. That paradigm shift has started, as we all know, many years in the making with the availability of information on everybody's fingertips and on their phones.

There's very little data or analysis that sophisticated institutional investors have that a retail investor cannot get access to. And most of it is free. But the institutional investor has a cost advantage. Well, in 2019, that cost advantage went away. Because we went to zero commissions. Well, the institutional investor has a size advantage.

Well, early last year, the size advantage went away with fractional share purchases, you like Amazon, and so $3300 stock and you don't have $3300. Don't worry about it! You could buy a 10th of a share for $330. No commission. But we don't have any money to really play on this. Don't worry, the government mailed you a lot of money. So you can open up your account with as little as a few $100 as well.

Well, I'm sitting at home and I don't really know what to do, don't worry about we've got several social media websites, obviously, the big one is Reddit and Wall Street bets, their stock twits, they're Seeking Alpha, there's fin twit on Twitter, there's a lot of others. If you follow along on those communities, you can learn a lot more about the market. Or you could just be one of the large momentum traders in those communities.

So I think that we've now in total, have created this big player that has organized through social media, it's got millions of players. There's more than seven and a half million people now signed up on Wall Street bets. And that doesn't even include the ones on fin twit and everything else. It gets to be very, very large numbers. And even though they're all small, they could move in different directions. They're also playing in the options market, and that's the so-called gamma squeeze.

And right now, the option market is being dominated by small traders. In fact, I even tweeted out the day we're recording that the options market has now become the domain of the small trader, it used to be one of the most sophisticated institutional tools. But now the small trader is working in that market. And we've seen them win along the way repeatedly. Back in May, Warren Buffet sold his airlines. And he said, I wish the airlines well, but I don't see a prospect for them. And a bunch of people led by Dave Portnoy, David day trader said Warren Buffett's you know, old and past his prime, and he's wrong on the airlines. And they banded together and they doubled the price of the airlines in a month. And the price today is even higher.

So for now, the retail investor won by beating Superman, Warren Buffett. Then the retail investor said, you know stuck at home. I think that these work-from-home stocks and these emerging technology stocks, these are the new trends. But these active managers that work in big office buildings in Boston, they think they're overvalued. They don't want to touch them. They're not part of the S&P 500. So they started buying all of these racy non-profitable tech companies. And they've gone up hundreds of percent since they bought them. They won again, the highlighted by the big one was Tesla they ran Tesla From $100 in March to over $700, and it got it to be the fifth largest stock, and it's now part of the S&P 500. They won again there, and then you get to what's happened now.

Now a different type of crowd is on Wall Street Bets. That's that's the retail trader, not maybe the retail investor, which I was describing before, they were looking at GameStop, because it had the single largest short interest on the New York Stock Exchange, well over 100% of the float, which should be illegal. In most terms, you can't short more than exists, as well. And they pointed out no less than Melvin capital being in the middle of that trade. And they were talking about, we need a catalyst in order to basically squeeze the shorts. This goes back to October, that this was out there on this. And that catalyst came in mid January, there was a big surge of put buying. And then Citron research put out its short recommendation on GameStop. And a bunch of people in on Wall Street Bets that said this is it. They just rang the bell, it's time to squeeze these shorts. And we know what's happened in the last 10 or 10 to 14 days or so with an extraordinary short squeeze. And now we're on the backside of this trade as well to.

At its basis, what they're doing in a lot of these cases is Wall Street operates under its own set of rules, you know, at a minimum, what the shorts were doing in GameStop. And a lot of these other meme stocks, as they call them, was they were doing imprudent risk management. At a minimum, they should have never had shorts that big, maybe even illegal, because it should never get that over 100% of the float. But the SEC is not doing anything about it.

The SEC was invented in 1933, because of abuse of short practices in the 2009 crash. And they're 90 years later, and they still can't get their act together and trying to rein in abuse of short practices as well, too. They all looked around, and maybe there's a little bit of arrogance. If you could be like a fly on the wall three weeks ago and said, Hey, guys, isn't 100% short? kind of risky? I think the answer would have been yeah, well, who's gonna do anything about it? You think Goldman Sachs is going to stick it to us? You think JP Morgan is gonna stick it to us? You think another big hedge funds gonna stick it to us? Yeah. It's not risky if no one is big enough, or interested enough to stick it to us. Well we found a group that's big enough and interested enough to basically play their own rules against them. And that was this shortcut and how do we know that they're, we're playing together? Because what is the first thing they did? When Melvin capital ran into trouble bailed them out? They got big bailouts from Citadel and Point 72.

Let me contrast that to 20 years earlier, 23 years earlier, to be exact, long-term capital, when long-term capital was in a big trade that had imprudent risk management. What did the other hedge funds do? They shot and killed them, and basically almost blew up the whole market at the same time. But today, when we see somebody doing something imprudent, like long-term capital. We play along and we protect them.

And so that's where I think that the Wall Street Bets crowd is the big game changer right now. Is that they are now looking at Wall Street's way of doing business and saying I can take advantage of that. And they have repeatedly they took advantage of the small stocks because they weren't in the indexes. And the Graham and Dodd value investors and active managers didn't want to touch them. And now they took advantage of a big giant short squeezes as well too.

Erik:

Jim, it's interesting, because I agree with many parts of what you say. But there are some aspects of this where I think we are in disagreement. So I'd love to run my ideas past you and have you critique them because the place where I don't think this all adds up is the narrative you're hearing is okay.

What happened here is a bunch of Wall Street outsiders, retail guys, normal, ordinary, hard working men and women who have nothing to do with this corrupt industry of Wall Street figured out how to beat those stinking hedge fund guys at their own game. Hallelujah! Well, first of all, if that's actually true, I say double Hallelujah! Because I think the Wall Street hedge fund crowd deserves exactly what they got. But I don't think that's what happened.

I think that wall street insiders, who understood the opportunity to put this squeeze on GameStop, borrowed the playbook of terrorists. And what we've learned from the last 20 years with terrorism in the Middle East is if you get young men, particularly young men who have been through very traumatic childhoods, and you feel their heads full of enough passion for their cause, that they're willing to trade their own life for the cause. You get a small army but an incredibly powerful army because they're willing to go and be suicide bombers and do things that are not in their own best interest for the cause. And what I see going on here is somebody who was very smart and understood exactly what it takes to put a short squeeze on and knew to wait for the catalyst.

And all the things that you said, I find it very hard to believe that a Davey day trader type of character was smart enough to figure all of that out. Certainly not Dave Portnoy, somebody was smart enough to figure all of that out, I'm guessing that they were Wall Street insiders, other hedge funds. And I think what they did is they played the Wall Street Bets crowd and said, Look, you know, they were very quiet, probably starting in October, putting their long positions and their option, you know, their calls and everything on GameStop. And then they very dramatically pulled the trigger. And they got an army of young people who don't really understand how these markets work and what they're doing to be the sacrificial wolves, because it's not just the guy who bought at $22, when it first started moving up, it's when you got to $502, before it went to $504, or whatever the top was, that some retail guy is still buying there. So yes, there's a handful of retail people that made an absolute killing.

And you know, you're hearing about them on the internet, normal, ordinary mom and pops, who followed the advice that they saw on Wall Street Bets, you know, made 20 times what they invested, or were 50 times whatever it was. I think there's a larger number of people who lost their shirts, because if you look at the volatility and what happened in GameStop, the guys that were buying at the top, totally, completely got nailed on this. And I think they were sacrificed by somebody who knew exactly what they were doing. And that what they knew how to do is they said, we're Wall Street Insiders.

We know that most people, especially young people in this country, hate our guts, what can we do, we can tell them that we're on their side, we can do it on social media, on the internet. So it looks to them like we're them, even though we're not them. And we'll get them to believe that we're getting even. And the thing I find most interesting about this Jim is I've read several accounts from people who did lose their shirt, and say they have no regrets. Because they're so proud of themselves for having participated in a movement to do the right thing to stick it to the man that they don't care that they lost their money. That's the reason I invoke the analogy of suicide bombers. These people have been diluted into believing that if they lose all of their money, it's for the cause.

The cause here I think, was a bunch of large number of people on Wall Street Bets were played, played by wall street insiders who knew exactly what they were doing. That's, that's my take on what's really going on here. What am I missing? Why is it? I would love you to explain to me why it really is a case of people who are Wall Street outsiders beating Wall Street at its own game. I would celebrate and cheer for that. Unfortunately, I don't think it's what happened.

Jim Bianco:

Well, first of all, you know, as a caveat, we don't know what's happened, there hasn't been a forensic analysis, and there won't be for some time. So we're going to do some suppositions here. And I think that you're right, that the masters of the universe to quote the book bonfires and vanities about hedge funds, they jumped in. But what happened with them is that they're no longer the people setting the agenda. They're basically momentum traders like everybody else.

And you're right, Dave Portnoy didn't figure this out, Dave Portnoy knows who to listen to. And he basically follows along with the rest of them as well, too. I think this started with retail investors on these boards, and I think it might have got exacerbated by some hedge funds jumping in after the squeeze started. S3 partners does a good job of estimating and always has of estimating short interest on a daily basis. And they estimated that on Friday morning, or Thursday's close to short interest in GameStop was something along the lines of 113% of the float. And that by Friday night, 24 hours later, so Friday, it had fallen to like 51%. So in other words, 57 million shares were short and it went down to 27 million shares short just on Friday. What also happened on Friday was the price at $400. Now it hit its absolute peak on Wednesday, but then we had that shutting down of trading on Thursday.

What it looks very clear to me about is that Friday, it looked like the $400 buyer was a short cover, and then all of those nosebleed level buyers was more a short cover than it wasn't a short cover as well, too. And I think that, in total, Melvin capital lost 53% of its money, I guess we're gonna call them Melvin half capital. Now, we know that Point 72 took a big loss. We know that D1 capital took a big loss. We know that Maple Lane took a big loss. We're waiting on all of these funds to basically tell their investors what their January returns were. They usually tell them on February 1, a lot of them haven't said anything. That should be a sign of what happened to the hedge fund community.

In total, I think the hedge fund community came out of this worse than the retail investor. Now there's seven and a half million people out there. Did somebody lose their shirt? I bet they did. Davey day trader took a $700,000 loss. But that's not catastrophic for him, he'll live, he might even make it back by the end of the week with given the extreme volatility that that guy trades with as well, too. He might lose it again, before the end of the week. But in general, if you were to ask me a big picture, what happened here? I think it was a lot of retail investors. And a lot of these people like 95%, or 98% of them are trend followers.

There's a group of influencers, just like all social media, that basically told them, guys, let's go, and they went, and when the stock started moving, a bunch of professionals on Wall

Street said, we got to get in on this. And then you know, so they were there, too, but they weren't the initiator of this trade.

Erik:

We don't know who the initiator of the trade was, to be fair, right?

Jim Bianco:

Right. To be fair, there is yes, because we're talking supposition, we don't know who the initiator of the trade is. We do know that some of the names of some of the more prominent people on Reddit have been coming out. And we're finding out that they are, you know, in some cases, the guy Warren Kitty, who, you know, I can't believe in 2020, you know, we're talking about Wall Street, we have to use the name of Warren Kitty, but that's what 2021 has brought us to. He was one of the big, big proponents of all of this on Wall Street. He's a wealth manager, a 34 year old wealth manager with a CFA. So he's not, you know, he doesn't work for a big billion dollar hedge fund. But he's not ignorant of the financial system, because he's already got a CFA. And he's been pushing these kinds of trades as well, too.

So and then if, again, if you go back and go, they bought the work-from-home stocks who bought Tesla who was ramping Tesla up 600%, you know, who embarrassed Buffett in the airlines who's been buying cryptos to get Bitcoin to, you know, get briefly over 40,000 as well, too. I think this crowd is a big dominant crowd. And I want to emphasize my take on this is they're looking at kind of the way Wall Street does business. And they're saying, these guys are we could take advantage of this, because they don't think there's anybody else out there that can, you know, can come in and play this.

Now, with that said, I think this is the last short squeeze. No one is ever going to be caught short, in a big way in a stock again. Pershing Square, Bill Ackman's hedge fund last night, put out a statement that they have no short positions as of the end of January. Why did he feel necessary to do that? And I think you know, my friend Bill Fleckenstein was quoted last week as saying, and Mark Kahuta is The Big Short seller. They think this is going to destroy the short selling business right now, short selling is a necessary thing, especially the way that the Jim Chanos of the world do it. They identify fraudulent companies, they put out a position they explain why the fraudulent companies and they profit, they take their risk and they profit on it. And they probably make the world a better place because they get rid of bad companies and bad actors.

Of course, now we've abused that short selling a little bit too much and that's what they took advantage of. But if we're gonna wipe out all the shorts, I think we're worse off than we were, you know, then we'll be worse off without the shorts. We should have found a way to not let the system get abused in the first place. So that we're going to go too far the other way, that Bill Ackman, who runs a long/short fund, basically just announced he's a long only manager, he doesn't have a single short, and he's afraid to put one on right now.

Erik:

Let's move on to the next chapter in this story, Jim, because, frankly, if I were to grade the job that whoever designed initiated and orchestrated the squeeze on GameStop, that's a plus, plus, plus in terms of somebody's understanding the market mechanics how it works, how to engineer a short squeeze, they absolutely aced it.

Now, we move on to this week's sourced from Wall Street bets squeeze on the silver market, you'd have to be about the stupidest gold bug idiot on the planet to believe that wall street bets is going to squeeze silver to $1,000 an ounce, which is what the nonsense that's coming out of there says.

Now, I cannot for instance, believe that it's coming from the same accounts on Wall Street Bets. But in the perception of a lot of people, it's like last week Wall Street Bets totally killed it with this squeeze on this GameStop whatever that is, I don't really understand the mechanics and how it works. But my God, they made a fortune. And now they say it's silver, this is a can't lose. Gotta just go. And my favorite part is in the one of the things that I read that came off of Wall Street Bets, the way to squeeze silver, according to them is to buy PSLV, which is a Closed-End Fund, which indicates whoever wrote this has absolutely no concept of what they're talking about. But people are perceiving this as Hey, Wall Street Bets last week totally nailed it. This this is I can't lose.

Jim Bianco:

Yeah, yeah. PSLV is the Sprott closed-end Silver Fund, which trades at a gigentic premium as well, too. And there's no doubt that there has been a perception out there that the next big play, Silver, if you look at SLV, the IShare silver trust, it took in $589 million. Just yesterday. That was its second best day in history. Its first best day in history was the day before Friday took you know, but $900 million. And it's third best day in history was Thursday.

So there's been a ton of money that's gone in there. Now in fairness to the Wall Street Bets crowd. There's a giant debate out there on that on the Reddit board, whether or not they're in agreement, that they should be playing silver, a lot of the players that were successful in this, you know, the screen names that were successful in this game stop short and have been successful before, have been saying, No, no, no, no, we're not we're not doing the silver thing. This is this is taken on a life beyond us. And we're being accused of it. Others are saying no, we've got to do this short on silver.

So it's unclear whether or not there's a consensus that is formed on silver out there. But after what happened in GameStop, it almost doesn't matter is if everybody believes it and now the outsiders have, in this case, the outsiders of Reddit, you know are reading it in the Wall Street Journal, are reading it in Bloomberg News, you know, are reading it in the FT. They're all running into it as well, too. So it's unclear whether they're not they're doing this trade and I agree with you. It is kind of a head scratcher, why they decided that it would become silver would become the trade. I don't I don't get the hook I don't get what they think the advantages. Their argument is, is that there's not enough cash bars in the world, there's not enough silver coins in the world.

So that if we if we ramp up the paper silver prop markets, then the hedging either they'll have to buy cash or the hedgers will have to buy cash that sold them some other put option or something like that to protect themselves, and that they'll eventually squeeze the cash market to the moon and forced the paper PSLVs and SLVs up with them. That's sort of the argument they're making. I understand the argument, but I'm not sure it's right. You know, the silver market probably better than me is that does that make sense to you?

Erik:

I think what's going on here is somebody has been somebody who believes in the nonsense that's been circulating in the silver market for decades is taking the old story of the supposed secret cabal of bullion bankers that are suppressing the price of silver. And what they're doing is people who don't understand how the market works, one gentleman in Florida in particular whose name I won't mention, publishes a newsletter saying look at the commercial just outsized shorts on the Commitment of Traders reports.

Obviously, these people have this massive short they're trying to force the market lower. Now of course, you and I understand Jim, the business that bullion bankers are in is not taking risk. So when they have a large vault full of physical silver Longs they balance that with paper shorts in the futures market, and that's the way they hedge market risk. So there is no you know, conspiracy to suppress the price of silver but people who don't understand how to interpret Commitment of Traders reports have been pushing this story for years. I think what happened is somebody who believed that nonsense, is a member of Wall Street Bets and said, Hey, our next play should be you know, the most crazy opportunity I've ever heard of a bunch of corrupt bullion bankers being short that we could squeeze out is this stinking situation in the silver market. It was always bullshit for the last 20 years that these ideas have been circulating. They've never been true, and they're not true now, but I think that after what happened with GameStop, which was a brilliantly engineered short squeeze. They're saying we've got The power, the people can take on Wall Street. Let's do it!

And so I mean, I'm off I own silver. So I'm all for people irrationally bidding up the price of silver, that's just fine with me. But they're not going to squeeze any shorts out of the market, they're not going to take it to $1,000. The notion that they have that they're somehow going to consume the available supply of physical silver. What they think is supposedly going to happen is if they keep buying SLV, SLV physically owns bullion in a vault to back its holdings, which means they have to buy more bullion, they'll run out of physical silver, and they've got this nutcase idea that's been circulating for decades, where supposedly, the physical price is going to decouple from the paper price. And then what they do is when very predictably, the price of retail coins and bars decoupled from the wholesale price of physical silver, they misinterpret that and they say, look, the paper price and the physical price are different.

Now there's a huge premium on physical, it's because the paper market is crumbling, and it's about to collapse. That's nonsense, the paper price and the wholesale price of 1000 ounce silver bars is still the same except for a small amount of basis between the front month futures and the spot market. The real difference that's occurring is the difference between the cost of those 1000 ounce wholesale bars, and the retail products like coins and retail size bars, which have a huge premium on them, because a whole bunch of people are falling for this nonsense.

So I don't think it's going anywhere. I mean, they can certainly bid up the price of retail coins and bars, the retail precious metals dealers are going to love them, maybe the retail precious metals dealers are behind this, don't discount that possibility. But I do not think they're going to squeeze anybody out of the market or cause a run on physical silver deliveries that results in you know, $1,000 an ounce price or whatever they think is going to happen. I think there that's completely diluted.

Jim Bianco:

So I agree with you. And I've always been dubious of this silver idea as well, too. But let me also for the listeners point out something else that seems to be evolving, and you want to talk about sticking to the man, Think about this. First of all, there is something that's very healthy that's going on, on Wall Street Bets. And it's two words. The first one is loss porn, loss P-O-R-N, porn. And what that is, is that no one is allowed to go out and brag about their winners. Unless you brag about your loser. And I when you say loser, I mean, I want a screenshot of your trade ticket, that you actually bought this thing and got killed on it. And they celebrate their losses as much as they celebrate their wins.

That's why as we speak today, Dave Portnoy tweets out, I took a $700,000 loss getting out of all my meme stocks, they're completely fine with telling you that this game is like baseball, if I fail seven out of 10 times, that means I'm successful three out of 10, I'm a 300 hitter, I get paid riches. That's healthy, I wish more of Wall Street would do that, instead of trying to pretend that all the smart guys bet 99% on every trade that they do, they don't. And so that's good. And then the other phrase, you'll hear from them a lot is the phrase YOLO which if you're not familiar with it, it's you only live once, or their version of Carpe Diem. And the reason that they talk about YOLO options, is what they're saying is pay. This is extraordinarily risky, and you have a high degree or high percentage chance you're going to lose all your money, but YOLO you only live once. And if it works, you're going to become very, very rich.

So understand that there's a tremendous amount of risk. And oh, by the way, look at my last PRRN over here. I've blown it before in the past, you know, if that came to regular Wall Street, that would actually be a very healthy thing, at least in terms of framing expectations about a lot of stuff. And like I said before, you know, these hedge funds, you know, they haven't reported their January numbers yet. And I think a lot of them are afraid to because some of them don't have very good numbers.

And let me throw out one other thing that seems to be going on about really sticking it to the man, activist shareholders. There's a rumbling out there that maybe they should get into activist shareholding and the name Larry Culp is coming up. He's the chairman of GE. Now, if you're one of these millennial suicide bombers that you're talking about, and I don't think that's an inaccurate description of what some of the momentum types are thinking about right now. It's easy to look at GE which is now an industrial company, and its history and its problems in the dirty things that they make and say: Okay, I hate them just because of who they are. Then you point out that Larry Culp is standing to make a $47 million payday if the stock can average over $10 a share and a $230 million, payday can average over $16 a share. And there's some naysayers and arguments out there. Let's prevent that from happening. Let's sell this stock down short it whenever we need to prevent Larry Culp from getting his payday.

Now, they're just talking about this, this is kind of in the over in the corners. But there is some idea that they might try to morph themselves into activist shareholders as well to this is a big community. This is a lot of money in aggregate each individual account being small, and it could go a lot of different directions. And we'll have to see where it goes forward from here. That's why I'll push back on the idea that it's being engineered by wall street hedge funds. I don't think it's being engineered by them. But I do think that they've been reduced to the millennial suicide bombers as soon as they can figure out what the next trend is. The Wall Street hedge funders will jump in on it too, because they think that the power of this crowd will just make the momentum work for a while.

Erik:

Jim, I agree emphatically and I should clarify my earlier comments. I completely endorse the fact that good things are happening on Wall Street Bets. It is wonderful to see retail traders finding the power of the internet and collaboration to help one another stick it to the man and the man deserves to have it stuck to him. I agree with that. I cheer it. Please don't anybody think that I don't want to see you guys succeed at sticking it to the man. Just be aware of the possibility that the man might be hiding behind a screen name, pretending to be someone who he isn't and playing you. These guys are as sleazy as they come.

In any event. Jim, we're running out of time, so we're gonna need to leave it there. But before I let you go, please tell us a little bit more about what you do at Bianco research.

Jim Bianco:

It's an independent research firm, I'm not affiliated with any brokerage firm or any money manager have not been for the entire existence of the firm. And we do more macro research and it has a bit of a fixed income flavor to it because that lends itself better to macro. But as you could see, you know we don't exclusively stick with fixed income. And it's available as a product if you will not a formal newsletter but a product for people that want to purchase our research. And I also am active on Twitter at Bianco Research, biancoresearch.com is our website, you can go see what we're what we're about, you know, you can follow me on Twitter, as well to get some ideas of what we're talking about.

Now, My Twitter timeline in the last week has been dominated by this Wall Street Bets thing but if you looked back two or three or four weeks, it was something completely different. And in two or three or four weeks, it might be something completely different again as well too. That's the nature of being a macro researcher. We kind of seek out what is the issue of the day and try and add to that conversation as best we can.

Erik:
Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.