GameStop Fiasco
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GameStop – Who actually won this "Game"?!

I've been bombarded with news about GameStop this past week, but it is the plethora of memes I have been sent which have got me thinking the most. The tone of all of these has been "Screw Wall Street", "The little guy finally wins vs the Fat Cats" or something of that ilk. I found myself trying to explain to a friend that this sentiment wasn't completely justified and in doing so, realized a lot of people don't understand who the losers are in this whole episode. In fact, no one really knows the full picture yet. Is this really as simple as the Wall Street billionaires losing and the masses finally getting one in the win column?!

For those who need a catch up on what happened and what we think we know so far, Kevin Dowd from PitchBook put together a nice summary[1].

I don't have the investor lists for the hedge funds who have been affected most so far but let's examine who the investors are in many hedge funds or other funds who employ the practice of stock shorting. The media, the outraged public and the meme creators use the terminology *Hedge Funds* as a catch all provision for any investment vehicle which they associate with Wall Street greed, akin to Axe Capital from the TV show *Billions*.

[1] https://pitchbook.com/news/articles/seismic-saga-gamestop-robinhood-reddit-wall-street

Stock shorting is not a strategy reserved for just the Bobby Axelrod-type investors. It is commonplace. Equally, hedge funds are no longer just the private wealth vehicles of the aforementioned “Fat Cats” nor only accessible to the uber high net worth investor.

The mass affluent sector can make an investment into funds of this type due to lower investment minimums than historically was the case. When I say mass affluent, think anyone from a Doctor or Dentist to middle management at a corporation. Certainly not on the bread line but definitely not the stereotypical wall street villain. Equally, pension funds can make large allocations to this type of fund. This means many people reading this article; parents of the millennial Robinhood crusaders; through to fire fighter and police force endowments may have indirect allocations. Anything but the wealthy scoundrel whose demise some are celebrating.

Let’s also briefly look at the fee structure for this type of fund. The two and twenty structure is a bit rich nowadays but typically a fund manager in the hedge fund world will charge a flat percentage fee on total assets under management and then a share of successful performance. In this situation, the majority of the money lost is that of investors, not the fund manager’s own money. In some cases, the fund manager will simply have a smaller asset base on which to charge a fee and will forego their performance bonus. The collateral damage is a lot more widespread than at first glance.

What do we know at the moment?

We know Robinhood suspended buy orders in certain stocks. No one knows what went on behind the scenes at Robinhood nor what the regulators recommended as a course of action; therefore, I am not accusing them of being more like the Sheriff of Nottingham just yet. No one can deny, however, that the optics are just terrible!

We know some of the “Wall Street Villain Billionaires” will have been slammed and hit very hard in the pocket.

We know some of the “little guy” individual retail investor made some money…. For now.

What we don’t know

We don’t know the full list of casualties, investors and funds with direct or indirect allocation to the funds hit hardest.

We don’t know whether this has started a new trend which is here to stay or whether this is a fad which will subside.

We don’t yet know the impact of which fundamentally sound investments have suffered because of reallocation of funds into this new trend.

We don’t know for how long this bubble will last and whether later retail investors who missed the initial surge will lose money. Joseph Halpern, CIO of Fountainhead Asset Management shares this concern- "My gut is that right now 100% of the ownership of GameStop is retail. The current valuation of GameStop is unsustainable. So, my real concern is for those retail clients unwittingly entering the stock now due to the tremendous swirl of excitement and disinformation surrounding the stock - they will all most likely lose most of the value of their investment"[2].

[2] Fountainhead Asset Management: https://www.fountainhead-advisors.com/

However much we all like a story with the underdog as the hero, it is not yet clear the full extent of the casualty list. When the dust settles, the meme creators may still consider this a win against Wall Street greed by simply not understanding the full fallout. It’s too soon to start pointing fingers or celebrating. This new trend has probably just begun!

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