



Market Commentary: Exuberance? Mania? Our takes on GameStop, Dogecoin & SPACs

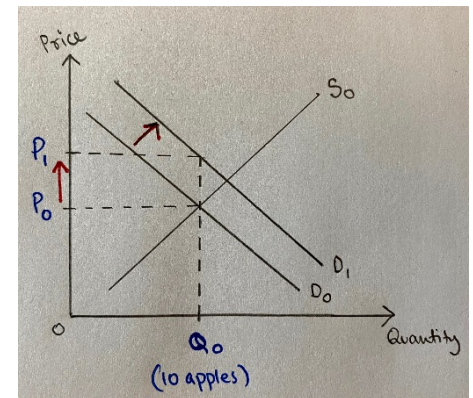
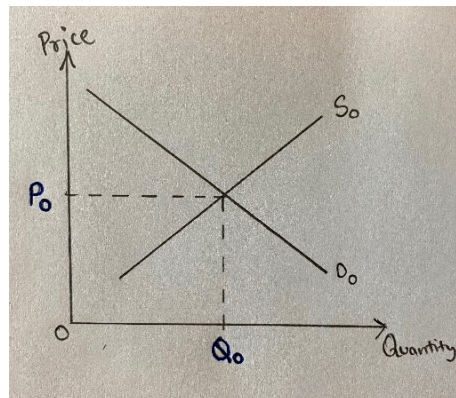
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The first thing one learns in Economics is the Supply & Demand curve. It is so simple yet so powerful in explaining the adjustment of prices. For example, if a vendor has 10 apples (supply - S_0) and there are 20 clients who want an apple (demand - D_0), then the price for those apples will most likely increase to the point where only 10 clients are interested (D_1). Demand outstrips supply resulting in a price increase. On a way more complex, larger scale, if the money supply increased dramatically or actual product supply declined then inflation would be introduced based on this concept as prices would naturally increase.

The value of an apple increases based on demand. The value of an apple is elastic¹ in that eventually people decide not to buy the apple due to the increased price. For example, they may decide it is better to purchase two oranges rather than that single, really expensive apple. Most products have some grounding of relative valuation that generally keeps price within some reasonable range.

A mania/ bubble disregards value. It only focuses on supply and demand.

GameStop is first and foremost a story of supply and demand exacerbated by market structure. A Reddit community of investors became enthusiastic² about the prospects of the company and began to purchase shares. For this community, pricing seemed inelastic. The number of shares in public hands (the “float”) is fixed, like the apples in our example above. Due to a dramatic increase in demand for shares there was only one direction the stock could go - up!



GameStop High Level Bull & Bear Case:

- **Bear Case:** Blockbuster for video games
- **Bull Case:** Becomes Amazon for video games

Exacerbating this newfound demand by an investing community was the fact that for every share outstanding there was a share

¹ [Elasticity Definition \(investopedia.com\)](https://www.investopedia.com/terms/e/elasticity-definition.asp)

² An understatement.



that was being held short. In order to sell a stock short you need to “borrow” the stock. Custodian banks and brokers categorize stocks into three groups for purposes of short selling:

- Easy to borrow
- Hard to borrow
- None to borrow

GameStop moves between hard and none to borrow with the cost of borrowing the security at times approaching 100%. While our custodian would not provide us a price – and indeed pricing is variable given the dynamic situation – based on the options market, you could synthetically short the stock at a cost of 2.5% for a month, translating to a 30% annual yield³.

Currently, GameStop is the Blockbuster of video games. It is trading as if it successfully converted to the Amazon of video games⁴.

Cryptocurrencies are a bit harder to assess a fundamental value. One crypto currency my six-year-old really likes is Dogecoin⁵. The symbol is a very cute dog – way cuter than what shows up on US currency. The creators of Dogecoin wanted their coin to be “more fun and more friendly than other crypto coins”. The current valuation of Dogecoin is \$6.5 billion. It is the 10th largest crypto coin according to Coinmarketcap⁶.

Fiat currencies⁷ trade based as pairs (one currency vs another) and move based on the relative supply and demand for those currencies. There is a high demand for US dollars as a material amount of business is in US dollars globally⁸. Prior to Covid, there was also a carry trade from other developed markets as the yield on US government debt was higher than that of Europe and Japan. A carry trade is where an investor converts currencies to take advantage of the higher



³ To go synthetically short a stock one can sell the at-the-money call and buy the at-the-money put. The financing fee will be priced into the options. If you are an institutional trader, like a hedge fund, you can synthetically short the stock by entering a swap contract with your prime broker. They will also charge you. The main advantage of doing a synthetic trade is that you will not get called in due to losing your borrow, while the risks of short selling remain. You will also still pay a very hefty fee for shorting the stock.

⁴ The Amazon of video games does not even make sense. First off, A to Z is the point of Amazon, meaning it is a one stop shop for everything. And second, physical video games are going away as did video tapes and DVDs. The hope perhaps would be that somehow GameStop can become the Netflix of video games if feasible, or if enough of a following, the Reddit of video games.

⁵ For more insight: [Dogecoin - Wikipedia](#). To learn even more and become a crypto-miner!: [Dogecoin Mining: Learning All About How to Mine Dogecoin \(bitdegree.org\)](#)

⁶ [Today's Top 100 Crypto Coins Prices And Data | CoinMarketCap](#)

⁷ [Fiat Money Definition \(investopedia.com\)](#)

⁸ Note our [Money Explorations](#)



yield in another country (e.g., Sell Japan, Buy USD)⁹. Since Covid, there has been a weakening of the US dollar due to debt issuance¹⁰.

One of the arguments for cryptocurrencies has been the demise of many fiat currencies. Cryptocurrencies aren't immune to this phenomenon - well over 1,000 cryptocurrencies have disappeared¹¹ in the last decade. Dogecoin does not hard cap supply like Bitcoin does. It is hard to see the longer-term demand story.

Another area of the market that has received its fair share of exuberance as of late are SPACs. A SPAC is a *Special Purpose Acquisition Company*. It is a "blank check" company where a group of executives raise money with the intent to acquire a private company and stick it in their publicly traded vehicle. The fundamental value day one is the cash they have in the bank. SPACs have been in demand lately. The real way to make money is by being one of those executives, as these executives receive handsome compensation if the SPAC works out but not really any of the downside if it does not. Colin Kaepernick, Shaquille O'Neal, and Ciara (sports and pop stars) have gotten into the game.

There is always some exuberance in the market. Recently, it seems like there is a higher level of exuberance than typical. Some of this may be due to the increased access (e.g., Robinhood) one has to the markets. Historically, increased exuberance has not ended well. Heightened demand fully disconnected from value tends to fray at some point.

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⁹ [Currency Carry Trade \(investopedia.com\)](https://www.investopedia.com/terms/c/currency-carry-trade/)

¹⁰ Note our [Debt Explorations](#)

¹¹ [List of Dead Coins and Failed ICOs | Coinopsy](#)