The Derivative by RCM Alternatives
Wallstreet Bets Busts Wallstreet? WTF ^%$#

Jeff Malec 0:40

All right, Hello, everybody. Welcome to another one of our WTF episodes, my mom would be so proud. I just can't bring myself to use the actual F word. But we'd like to spin these up with only a day's notice or so to our guests. When there's something happening in the markets that really does make you think the world is insane, like crude oil going negative. And this week, it's a relatively obscure stock GameStop getting 1000s of percent and the mother of all short squeezes gamma hedge fueled rallies. It's dominating traders feeds all week, and we've grabbed two of the best peeps we know to talk market maker dynamics and flow. Kris Sidial, CTO of Ambrus group, and Cem Karsan of Aegea Cap, or is it Capital? Yeah Aegea Capital. So, we brought these guys on to answer what the actual F is going on. So welcome, guys.

Kris Sidial 3:00

Thank you, for having me.

Cem Karsan 3:01

Thanks for having us.

Jeff Malec 3:01

Yeah. So, Kris wanted to start with you. You mentioned about 150 points ago in GameStop, that there was a more coming to this short squeeze. Tell us what you were, what you're seeing and how it played out. Whether it played out as you thought it would, or way different.

Kris Sidial 3:18

Yeah, so, you know, I know, I had tweeted that when GameStop was at like, 45, or whatnot. Um, more so because you see, these dynamics happen much more frequently than people understand. And, you know, this happens all the time, in markets in so many different asset classes, you know, like, just like crude oil, right, people underestimate the potential distribution of outcomes when we are levels of extremety. So people say, Oh, this now goes two sigma. There is no way this can go, you know, four sigma. So what does it do? It causes people to pile in, right? Like, for example, if a stock goes 200%, people pile in short, and they say, oh, it has to go down. Reflexively, now it makes it go 600%. Right. So this dynamic is a constant theme in markets. And I think, you know, with the Citron with the Citron news coming out, it just had a bunch of more people piling short. And when I was seeing it, I was looking at some of the price action. And I was saying to myself, well, this is looking like it's just grinding up people are consistently buying it. And everybody short and more people are piling in short. And I looked at it, I was like, Yeah, I could see which way you know, this is going to go.

Jeff Malec 4:30

And what was the Citron news? They came out with a report basically saying this this thing's toast.

Kris Sidial 4:35

Yeah, exactly.

Jeff Malec 4:36

And that was only like a week ago.

Kris Sidial 4:38

Right? Right. And now GameStop's trading at 350 bucks.

Jeff Malec 4:44

Right But and that to me, what well just get in and out. So to me like and there's these guys who've made millions of dollars, right? But they're buying $50,000 worth of out of the money call that has to move 100% in a week. Right like that's the insanity - all props to those guys they've made. They've done well, but it's kind of an insane trade. Right?

Kris Sidial 5:06

Yeah, i it's a real risky trade. Um, but again, you know, I think I think there's a lot of moving parts from this that people are not understanding, well, you have this gamma squeeze where people buy calls, and then the dealer needs to hedge off the risk, and then that basically causes a reflexive dynamic of forcing the stock up. And then from a pure Delta one perspective, I mean, you know, it's a short squeeze, right? These are distressed names, $GME, $AMC, $BB, all distress plays, where people are piling in hundreds of millions of dollars shorts on these things, right. And when you have that, and you have that dynamic of, well, here comes a gamma squeeze, here comes a single stock squeeze. And then which is the most interesting part about this whole thing is the predatory type of institutional ability to take advantage of these things. It creates something that's really big like this, you know, people think that this is all Wall Street bets. It's not. You know, I'm looking, you know, at some of the flow coming in, especially on level

2, we have access to some of the level 3 stuff as well. And you see it, it's like, this is not only Wall Street bets, prop guys know what they're doing certain other hedge fund guys know what they're doing. They're, they're bringing things up to certain levels. And it's causing this…..

Jeff Malec 6:20

Let's circle back to that now and bring it to you, Cem and say, right, from a former market maker standpoint, like what do you think this is look like for them? Are they you know, going home and popin a bottle of champagne? Are they quaking in their boots?

Cem Karsan 6:33

Yeah. Kris, use the word predatory, I'd be a little more cautious with it. The reality is, is Citadel which is now over 25% of market making volume. You know, yes, if they see weakness, right, they understand dealer positioning, right, and how important that is for market direction. So that goes into their models, they'd be foolish not to, that's what the markets, you know, driven by to a great extent. But they're really playing the flows, in my opinion, they see these things coming there. They don't want to be run over. Not only is it bad for business, it's more profitable to get ahead of it. And so they see the flows coming, they're consistent, they're reliable, they're predictable. And so they're jumping in front of them, and front running them and buying it, and then selling it as it gets bought. And this creates a cascade, right.

Jeff Malec 7:29

So, hold on, you're talking about them as a market maker or as a hedge fund?

Cem Karsan 7:34

Both, right, as a market maker. But the reality is, as a market maker, you're going to, to position yourself for incoming flows. If you have consistent buying of vol day after day, I'll tell you in 2008. 2009, you didn't come in short vol, you made sure you were long vol every day, because you knew each day you come in and there'd be some crazy bits of vol somewhere that you want to sell in a second, you sold it, you get long again. Right? To get to get ahead of the coming flow, you have to because you have to be absorbing that leverage right now absorbing that flow. And so you know, that's, you can say, as a market maker hedge fund, it's a very gray line, right? This was, it's kind of like what big banks used to market make, and they had to kind of divest themselves of that, you know, or they could market maker they couldn't they couldn't have the positions, they still ended up having the positions, because they were market making. So yeah, in my opinion, you know, there is some of this, hey, people see blood in the streets, they know where the pain points are, and they push on it. But the line of whether that's predatory or really just investing nowadays, you know, we've talked about dealer positioning and how critical it is, this world is not a world based on fundamentals that these liquidity levels. Were given where, you know how available money is, and how easy it is for people to invest. It's about, you know, it's about where the flows are going. Companies aren't going bankrupt, because there's infinite liquidity. So, at the end of the day, who's buying who's selling, if people are more buyers and sellers, you better be buying that name, it's not a function of fundamentals, like Kris mentioned, if you're somebody out there, playing the fundamental games actually ends up being a disadvantage to you, because you're betting on something that it has nothing to do with the reality of where these prices are going. And ultimately, you end up getting short and being somebody who, you know, is playing the wrong game.

Jeff Malec 9:30

Can you explain the difference between a dealer and a market maker if there is one or you're just using those interchangeably?

Cem Karsan 9:35

Dealer is a broad term for anybody who takes it for the street. So anybody who's taken the other side of customer flow, so it could be market makers, it could be banks could be other entities, warehousing, risk. You know, but it's essentially where the customer flow gets warehouse.

Jeff Malec 9:52

Right. So different than the pure market maker who's just making a market on that option and might have to gamma hedge so the dealer may have inventory they're trying to offload or something like that?

Cem Karsan 10:01

The dealers generally heads, right. So, because they're taking in warehousing risk and trying to manage it, you know, factor neutral.

Jeff Malec 10:09

Right now, it's an interesting point that you're making, because the simplistic example that we put out on our blog, and a lot of nice work out there is right of A retail buying these calls, it's a 20 delta, the dealer has to buy, you know, 20 deltas to hedge themselves out, gets closer to the strike, now they have to buy 80. Now they're 90. Now they're 100. But you're saying it's even more complex than that, because they know that's coming. So, they might have to pre-position themselves and they're not waiting for the call option to come in, they're actually going to buy those deltas before it goes this

Cem Karsan 10:41

Yes, this isn't a world where you blindly just say, make a market and then take it & hedge it move on, it's the factor model, you're feeding, you're looking at the whole market, right, and you're not just hedging it with underlying Delta, you're doing it on a correlation basis, on a dispersion basis, the best market makers have real time models without every single factor flowing in, you know, and every factor on that factor, vol factors, you know, toasters, etc. And so at the end of the day, you know, as one's moving and you're getting too much inventory, and that way, you have to move your model – right - to take back aggressively, what you're getting short, which means ultimately, you end up being the most aggressive buyer out there, and pushing along with it, because you don't want to be the one cut short. So, there's that process. And obviously, the more reliable the flow is, the more you know, it's coming, more predictable it is, the more aggressive you're going to be to make sure that you kind of get taken out of it. And so yeah, you know, Citadel is making a lot of money on this, not just because the market making because I'm sure they're, they're going with the flow, but that's what they do. It's not predatory. It's, it's really what trading is. Now. If you don't watch the flow, if you don't know where things are going, it's a liquidity driven world. It's not a it's not a world where, you know, this is cheap, and that's expensive. Based on fundamentals, it just doesn't, things don't move.

Jeff Malec 12:03

And Kris, I cut you off. Sorry, what were you saying before?

Kris Sidial 12:06

Yeah, you know, I agree with Cem. So I want to stand on this point that I think that what these guys are doing as traders, is not predatory, right. But most people will look at it as it's a predatory action, right. I was on a prop desk, I know what it was like to trade Prop, right? Guys have certain things that they look at on a day to day basis, where they say, Hmm, where are people positioned that right, and they have certain ways to understand the way how flow is coming in, right and levels where everybody else is looking at. So when I say a predatory way, right, institutional guys know what they're doing when they're buying at certain levels and selling at certain levels. They're moving, right, the actual underlying for a particular reason, and this is not just Prop, right? So I don't want to single out all the prop guys. These are hedge fund guys as well. I have guys who are also buyside, delta 1 traders. And I know, they know what they're doing in these things. Right. And what I was saying before is that the actual flow is showing me right, the flow that we are seeing, and we are noticing, it's very obvious to see this is not Wall Street Bets, right. Like I was looking at the price action on$ BB, right, you know, we're tracking flow there, we're seeing level 2, some of the prints coming through a level 3. And it's very clear that, you know, once this thing breaks through a specific level, it starts skipping up, you know, a buck every 30 seconds. The reason for it, right is because guys knew if they ticked it up to that level, it's going to move in a specific way. And then also, you know, we track intraday correlations. So you know, all three of these names $BB, $AMC, $GME, non correlated, but if you look at some of the intraday correlations, they trade in line at 5am this morning, I was looking at how some of these things were moving, right? $GME would drop down a little bit, then you would see the best bid on $AMC drop the best bid on $BB drum. This is not a wall street bt guy that's in front of his screen saying, Oh, yeah, $GME down. I'm gonna, you know, I'm gonna bid a little lower. Right? This is an algo. That's coming from one of the guys that's trading it the same way that I was explaining. So I agree with Cem when he says, you know, it's not predatory. Maybe I use that term in the wrong way. But when I say it, I mean, guys know what they're doing. Right? This is not just those Wall Street Bet kids that are playing this. There are other smart investors, smart traders who also understand these dislocations.

Cem Karsan 14:25

Alpha predators. Yeah, you're right. I mean, it is predation, in the sense that the markets are a series of, you know, hunted and hunted and hunted. So I agree with that. I just, I think I was more reacting to….

Kris Sidial 14:40

No, I completely get it. I complete because you know, especially right now when you have this thing going on with everybody saying well, you know, is it wrong that some of these Wall Street Bet guys, you know, are they are they partaking in price manipulation? I don't think so. I don't, I really don't. This is a market right. If Cem if I wanted to buy Apple from you at $1,000 who's to say that that's the wrong price? Right? What's the reason that's the wrong price?

Cem Karsan 15:06

Yeah, no, I think there's, you know that this is a whole nother debate. I don't know, if we want to get done this, this is a series of grades. Right, once you get into to this world, and I'm not going to die on either side of that, that hill. You know, the reality is, there is a line, I think we can all agree there is a line where at some point, there is coordinated action. Right. And it's, you know, if you had, if you had a bunch of big hedge funds teaming up together to kind of take down another fund, right, knowing their positions, that would be illegal, that would be predatory. Right. Yes, this is how markets work. At what point is it, you know, explicit, and kind of the intent is to, you know, to team up and to do something that is not free market.

Jeff Malec 16:00

Do you think we'll get anyone, any senators who will go fight for wall street on, you know, against the retail guys?

Cem Karsan 16:09

Right? I mean, this is the thing, this is the reason I don't think the SEC is going to come out and say anything soon. Is because they're, you know, if, you know, unless they do some blanket statement across, you know, hedge funds everything, because there is this sentiment that, hey, nothing's been done about this for years, when the big boys do it, you know, why are they saying something now that retails doing it, it'll feed into this whole inequality narrative and kind of be a mess.

Jeff Malec 16:38

And there was an interesting, Dave Nadig, I don't know how to say his name, had a great post of like, this isn't about the game. It's not about all that. It's social media, and the algorithms they're using to serve up what you click on most. So it's almost like the gamma trade inside the social media, right of the more people click on GameStop, the more content about GameStop, they're going to get and it just creates all of a sudden a herd mentality, just based on that social algorithm of, you know, on Tick Tock, on Reddit on all that it gets voted up, and you're going to get more of that content. And it's going to drive more people to buy the calls, and it's going to drive the price. So there's a little bit it's different this time, it's his argument because of this social algorithm piece. Have you guys got any thoughts on that?

Cem Karsan 17:27

I think that's part of it. I don't think that's my personal opinion is that's not the core going on. I think this was happening, something very similar, but without derivatives, right, in 2000. I mean, you had chatboards and people pushing, you know, they were squeezing shorts.

Jeff Malec 17:44

And those banded rooms, right?

Cem Karsan 17:47

I think the leverage is different. I think that's the big difference, the amount the adoption, and ease of trading options, call options, particular and the gamma and leverage that's embedded in that, you know, you’ve basically taken no retail and giving them a 10x multiplier. And so that's incredibly powerful, not just because of the leverage, but because of the profitability that comes with that. And then the added leverage, it gets added, it's a it's an exponential function, right. So, I think that's what's really different, there are a lot more powerful as time because of the cool new weapon.

Jeff Malec 18:21

Benn Eifert had a nice graphic explaining that of like, 15 $100 premium, and Amazon and his example resulted in a market maker, a dealer buying 230,000 worth of stock.

Cem Karsan 18:34

At the end of the day you guys, you know, you've seen the posts, you know, 10k in and now they're writing a $20 million check. I mean, and there's, they're doing that that quickly, because of leverage, and they're that 20 million is now leveraged again, right? And there's nothing that says I can't become 200 million. I just, that's the crazy game of leverage. And, you know, but at the core of it, I think that the thing you know, we shouldn't lose sight of is what Kris said at the very beginning that this is about positioning, righ? There are guys out there with that, that became public what their positioning was. And that positioning is in these markets, which is all liquidity based, is ultimately something that that will lead markets to go there. I mean, this as I've talked about, as I call it, Gary or whatever, right? The dealer positioning is ultimately what is driving the supply and demand dynamics and particularly, particularly in derivatives which has this embedded leverage in it, and really has gotten so big that it's, it's kind of dominating flows.

Jeff Malec 19:31

But even in this case, it wasn't necessarily the dealer positioning right but the Melvin capital, the short sellers, like you don't know, all the flow trading you guys do you don't know when that short seller has to puke out right. Like that's the missing piece in terms of…

Kris Sidial 19:46

You could see that though, you know, like you could you know, when the price action starts to react a certain way when somebody just basically puking it all out, right, like levels start to skip tremendously high, right, the market winds up at a certain point. You could spot that, I think If you're if you're an experienced flow trader, and you know, you know what to look for, you know when something is abnormal at that price level, and with that price action.

Jeff Malec

But it's but it's in real time after the fact, right? You can't see it like flow, you can kind of tell before the fact, or have a guess of where the levels are where the where the hedging needs to take place.

Kris Sidial

Yeah, well, while it's taking place, you know, something's abnormal, you may not know directly, oh, that's, you know, Melvin capital or whatever. But you know, something abnormal is taking place, this could be, you know, a specific fund or, you know, somebody coming through a specific route, consistently, right, they're there, they're coming through that route one with the same type of lot, maybe like 1000 lot, 2000 lot, you know, hits the route on VWAP. You know, every time it goes to VWAP, so, you pick up on things like that, you know, okay, that's a big order there somebody you know, somebody who's consistently bidding or offering at this level. So, it's little things like that, you know, when it's abnormal. But it's interesting, too, because, you know, everybody focuses on well, everybody's talking about this Melvin Capital thing. These are all distressed names. You know, many other funds are underwater. Everybody's just been piling in short on this.

Jeff Malec 21:04

Another one that came out just before we got on…but it can't be just them.

Kris Sidial 21:11

Right. No, it's not just them, you know, I honestly feel bad for the guy because, you know, he's being singled out on this whole thing. And it's like, you're gonna start hearing more names pop up. I even tweeted about this last night, you know, like, just AMC alone, you're gonna see AMC squeeze today. And, like, I mean, anybody could have told you, it's gonna squeeze because, again, if you have a bunch of funds that are short, distressed names, and then they just gap up 100 to 100%. You have, of course, you're gonna get, you know, forced liquidation.

Cem Karsan 21:38

I think this is important point. And, you know, I think we're recording this right after that big drop today, right? That's completely tied to what's going on as much as people. I mean, if you've been watching the action, you understand what's happening, hedge funds are, are having to liquidate their, their long side of the pair trade. And a lot of these guys have been short, all of this, all this junk, right. And they've been long enough that they believed that had, you know, was a good hedge against it. And, and again, in a world that's all liquidity driven, has nothing to do with fundamentals. Now all those Long's have to get liquidated to make room on the sheets for the liquidation of the shorts.

Jeff Malec 22:20

And we're basically saying margin calls or just to keep their risk and balance are both in

Cem Karsan 22:26

Both. First margin calls, right? But then, like, you can't continue to stay long that stuff if you're getting killed on those. And plus, if you get redemptions, right, somebody comes in and says, hey, you're down. 30%, I want my $5 billion back, right? You got to liquidate both sides of the book, whether it's a margin call, redemption, whatever it is, that that Long's got to go to. And so, you know, what you're seeing today is a result of serious pain on a lot of these names. And it's gonna, you know, until this is resolved, I think you'll see a little bit more of it

Kris Sidial 22:59

You are 100% right. That is exactly why we noticed the relative weakness in the market today as well. And you notice people are going to do this on the large thick names, right, you're not going to do this on a small cap name, or a mid cap name, right? If you're exiting a position, you're going to want to do it on a name like Apple or you know, Facebook or Tesla, you will have relative weakness in the larger names. Because, you know, you could enter an exit at, you know, better or, or, or worse prices, that won't be much more detrimental than you know, if you were in like a small cap type name.

Jeff Malec 23:35

Right and we're talking GameStop is mall based video game sales, right? It's basically the most antiquated business you could come up with right now. Right? Like, it's all subscription based and goes online. AMC movie theaters, who's going to movie theaters right now? And what BB is, is blackberry? Yeah. Right. Like, who do you know, with a blackberry? Right. So, like, fundamentally, like you're saying like, these are the three stocks you would least want to own in the in the universe. And there are hundreds of percent if I'm a dispersion trader, or a pair straighter, right. I'm going to be long Apple and Tesla, and short these names that have no future. Right. So that's, that's also the key of like, the that's gone way out of whack.

Cem Karsan 24:20

Yeah, I mean, look, there's been a lot of talk about factors and what's wrong, why is quantitative trading not working? Whatever. It's reality is they're playing the long game. What's deemed quantitative trading now is based on fundamental factors on issues that have nothing to do with supply and demand, really. And if anything, they're contrary. You know, they're counter-correlated to it, because people are playing that game, and it's not the game so they're getting taken out on it.

Jeff Malec 24:46

We're probably going to hear some stories about some smart hedge funds that were piling into this alongside the retail. My two things are like 1. AI driven funds aren't there yet, right? Because if you have that smart AI, it's identified this six months ago, and is already put into the trade. So that's neither here nor there. And 2 like, where are the smart macro traders that are saying, "Hey, we need to be in these trades? This is what's going on?" Or is it worth it? Or maybe they're like, no, even though this has happened, it's such an outlier. It's not worth chasing that kind of outlier here, you know, it's gonna happen once every 30 years or something.

Cem Karsan 25:29

There aren't enough funds out there that that have completely switched to the *fundamentals don't matter, t's all about who's buying and who's selling*. I mean, a lot of guys do that. But that, you know, there's so much money out there and playing a long short value game, right. And it's just those guys are, they're at a huge disadvantage, and there's a lot of money that's going to continue to, you know, unless they start looking at where the supply and demand is.

Kris Sidial 25:58

Cem, you hit on that perfectly. You know, I, I'm so outspoken on social media about these things. And also in, you know, some of the other interviews I've done, but this is why I don't believe fully quantitative models, especially in the vol space work, you need some sort of discretionary overlay, because there are times like this where the model is going to say, okay, there is a dislocation and upside skew, you know, between these two names, right. Now, you're short a calendar, and you're getting blown out the water, right? Like if you were short, a call on $GME, right? Like, a week ago, it doesn't matter what strike you were short, it doesn't matter what structure you were short, it does not matter, you are blown out, even if you were short, one lot, right? You were I mean, the thing went from like, what was it like $15 or something to $350? It does not matter, right? So you need that discretionary overlay, you need to be able to realize what is creating this dislocation from a supply and demand dynamic spot that, assess it and then make a trade. If you just have a purely quantitative model in the wall world, tje model, especially if you're math driven, like, you know, we are, you know, we take pride in that. But on the same accord, we use our discretion as traders to say, hold on now, what is making this dislocation? And if it's supply and demand driven; do we want to get run over? No.

Cem Karsan 27:26

I agree 100%, with what you're saying, but I have a semantic difference, I have a distinction I want to make. I think you need to, you know people who are quantitative traders, need to remodel their distributions based on supply, which is basically what you're saying, right? You know, I don't sit here and discretionarily trade as much. And it's harder on it when you're dealing with idiosyncratic name. So to an extent, like, it's very hard to model that. But you know, you know, what I what I try and do is really model that distribution and put it into my quantitative framework. So I can continue to be very quantitative, my approach, but I agree, you have to model that underlying distribution is not a normal distribution. It's not a set, you know, distribution that you're used to it. It's whatever the supply and demand dynamics dictate that, that it is.

Jeff Malec 28:13

And to me, it's more like, right, like high frequency trading is essentially supply dynamics on a super short timeframe. Right? Right. Like they're looking at the order book. And that's where they're getting all their information, and they're trading that flow. Right. So we're just talking the same flow, but over days and weeks and months. So it to me, it's like that should lend itself perfectly to a quantitative approach of modeling that flow. You know, ignoring what you're saying Kris. If I model, every time a thing goes, three standard deviations out, if I sell the ball 97.6% of the time I make money and life's good, right? That ignores that you're gonna blow out on that 2.4th% of the time, right? So I get that sort of the quant model is not going to work because you're going to discount where the outliers how frequently they happen. But it seems to me like perfectly set up for a quant model to say, I'm going to plug in all this this fundamental flow info and get a model based on that info. Right, if Netflix can tell me what movie I want to watch next, someone can surely model that flow.

Cem Karsan 29:16

Yeah, I think he's talking more about, you know, volatility, quantitative volatility models, right - with embedded assumptions. Right. And I think, I think to his point, I completely agree with him. It's like, those embedded assumptions of you know, they'll kill you. You got it. You got to, you know, have other quantitative models like you're saying, Jeff, that that helped help you better model what actually is reality in real time.

Jeff Malec 29:41

So how did how does this all end?

Kris Sidial 29:45

Cem, you first.

Jeff Malec 29:48

It's like the in The Hunt for Red October one of my favorite book/ movies where they, like do the big turn back into the missile and It breaks up before it has time to arm. Right? He's like, Oh, that's it. That's all I gotta do? He's like, No, he's changing the settings on his on his torpedo right now. So like, it seems to me like, Oh, this is it, you just got to look at the most shorted names and by way out of the money calls. Okay, but for sure someone's readjusting the torpedoes right now.

Cem Karsan 30:18

Yeah. So this is we talked about this off air before we got started here. But, um, I think you have to step back for a second and ask yourself, okay, what's actually going on here? Why is this happening now? And, you know, the reality is, it's because of people are a at home. B, there's massive fiscal, you know, we've had now three fiscal stimulus flow into, and it hasn't just gone to the bottom right, if it just went to the very, very bottom, you'd have because price inflation because people aren't really investing, but this is going to lower middle class and middle class, upper middle class, while this PPP money went to doctors, lawyers, dentists, right. You know, small business owners, and those people are at home. You know, markets are illiquid, their opportunities to make money, and people are taking it. And, and so that fiscal wave has that as, as was would be expected as leading to inflation, but not just price inflation, right, it's leading to asset inflation, but not the old kind that you'd expect with institutions and corporations as much as retail you know, people at home you know, leveraging their brokerage accounts and you pair that with you know, RobinHood's of the world and all the embedded leverage now that we talked about as well as better understanding you know, social media you know, we talked about on Twitter Kris is out there educating people all the time people get a better understanding of, of how these things work and and what they can take advantage of.

Jeff Malec 31:48

Right maybe you guys should take all the credit like, Hey, you shouldn't just be out there dumbly…. be on the long vol side.

Cem Karsan 31:59

No, but uh, look, it's this makes sense. So how does it end so that that's what's happening? How does it end? It ends with a, you know, people going back outside and spending as opposed to sitting in front of terminals trading on time, it ends with, you know, retail, having to pay some taxes on this potentially in March and April. You know, it ends with anything that's going to limit the flow of capital from the retail that's throwing money hand over fist into it. Either that or, you know, a market correction or these guys get washed up. Until that happens, expect this to get bigger, worse, crazier. The thing is if the SEC or somebody comes in and make some type of a directive that that also stymies it. But I think you know, even that, like, there's a lot of people with a lot of money sitting at home. Now, they'll play markets and they're going to keep trying to find ways to make money. You know, and, unless that, you know, they're not sitting at home, they don't have that fiscal money flowing into their pockets. That's…you're gonna keep seeing this type of action.

Jeff Malec 33:11

Scott Galloway, I like to follow him he was like, it's all about sex. These people are locked in their houses, they're not having enough sex, they've got all this extra money there. They're replacing sex with gambling on calls.

Cem Karsan 33:22

There might besomething to that, you know, like, everybody expected that to be a baby, boom, it's actually the opposite.

Jeff Malec 33:27

It’s the call option, boom, right?

Cem Karsan 33:30

You're getting too much of each other, I don't see you anymore.

Jeff Malec 33:34

And also, you said they made they all there's a market crash and they blow out. But they might say I'm using a very loosely of this whole group. Like, no, we're buying options. Right? How are we going to blow out? Like, we have to lose many, many, many times in a row. I counted that of like, well, when you bought your whole net worth 50,000 worth on, you know, 200% out of the money weekly calls. Like if you do that 10 times, you're probably not gonna…

Cem Karsan 34:01

This is gambling at the end of the day. You can you can take half of it, I'll put pocket I'm never gonna spend this again. But you know, the question is, are these guys gonna pull that money out of their pocket when the markets down?

Jeff Malec 34:11

Right? So it's less a correction, right? Then just it? How many times can you do it before it it doesn't work.

Kris Sidial 34:18

This is what makes it super interesting to write is because these guys are winning on all these trades. So the buying power is exponentially increasing as we go along to. They're not losing like they're winning, they could take that money and now you know, theoretically just run it back. And that's what that's what's been happening. You've had this amazing reflective dynamic of not only from the hedging standpoint, the short interest, not only that, but when you're making money and you know, you have not been burned, you're just gonna go with the crazy, you know, far out the money call or you know, just hold the position. And these guys are holding too, you know, you look at the way things are trading. It does like AMC, offered twice in the last three days. Two big offerings. Did not budge itright, maybe dropped it like, you know, a few percent right back up.

Jeff Malec 35:10

It’s up like 20 million on the April calls for GameStop. Nope. Holding. In April. A lot can happen in one week. And you went all that three more months.

Cem Karsan 35:22

Right? Like looking at fundamentals the disadvantage, right? If you're in any way looking at fundamentals, like you would have sold 250-300% ago, right. But you know, and that's the other thing, these guys that are, you know, hedge funds that are short, like, you can lose more than 100%. If you're short, you can lose 200, 300, 400, 500%. And that's the problem with being on the short side in this type of a world especially not on any flow analysis, on fundament.

Jeff Malec 35:52

Does anyone know how that works on Robinhood? Can you sell options on Robin naked? I don't even know.

Kris Sidial 36:00

I believe I have a friend that was doing that. Previously, not now. And I think he was able to I don't know if they changed this. But this was like five months ago, he was selling naked on Robinhood.

Jeff Malec 36:11

My two questions are 1 can you sell? And then in their platform, does it like try and auto liquidate you?

Kris Sidial 36:19

That I know. It does. It definitely does auto liquidate you. Because it happens in a few times very on very bad positions. He was out faster. Just because they're really tight with their with their risk, because I think they know that their investor base is very risk focused.

Jeff Malec 36:36

Right. But that's another argument too, for the self-fulfilling prophecy right of like the auto liquidations just going to add more buying power, which adds more, more upside.

Jeff Malec:

So let's talk these big…Cem, you had the comment of like, maybe this game's over, because these guys are coordinating because of Citadel and Point 72 coming in and buying a stake in Melvin?

Cem Karsan 37:06

Yes, yes, I thought you know what, when the big boys come in, I my initial thought was that these guys probably passed this by the SEC before they did it. You know that? You know, that would make sense that, you know, there's Melvin's having stress that, you know, they'd want that to be stabilized. Um, I also my also general thought was they'd be willing to, not coordinate, but but, you know, hold these values down. That having been said, I think, you know, I've done a bit of thinking, since I genuinely and the SEC, I think will have a major problem coming out vocally and doing anything at least too harsh, given the, like, you guys have mentioned kind of the the populist rhetoric around around this, this has gotten all tied into the inequality narrative, right. At this point, I think, you know, at some point, if it gets bad enough, they'll have to do something, but I could see it going on a bit longer without any SEC.

Jeff Malec 38:18

Well, and it's upside, right. If it was flipped, I feel like everyone would be all over.

Cem Karsan 38:22

Very important point here, too. I made this point on twitter at one point. And I think, if at any point, and I don't see this necessarily happening anytime soon, but if this turn, right, and people started realizing you can buy puts and the markets getting really weak, and we're gonna flip this and start buying puts and use the same leverage. That's incredibly more powerful than what you're seeing now. It's incredibly more dangerous because the street is short puts right? At least here, like, you know, the senators of the world are getting plenty of call flow in the indices and other places, it's a much more balanced trade to go buy calls the market also has as a whole market has more limited upside potential, just based on there are embedded Long's in the world that at some price will sell. But, you know, I do think it's important to at least give lip service to the fact that, you know, if this was retail wave could be very, very dangerous if it turns to the downside of that. And there's nothing that says that it can't or won't happen.

Jeff Malec 39:19

Especially if they're like, disenfranchised millennials who want to blow up the system, quote, unquote, right?

Cem Karsan 39:28

Yeah, and the market gets really weak and they start saying, Okay, this looks like this could really go the other way for you know, not be as appealing because it's not infinite, right? But you could see situations where this all of a sudden, this adds tremendous, I mean, retails 25% of the flow now It used to be five two years ago, you know? 25% of the flow all of a sudden turning and buying derivatives on the downside when it's when, when the streets actually already short. And that could be a structurally really dangerous problem. And I know that may sound crazy, but it's a real thing that needs to be looked at and thought about. So, I mean, the SEC has a lot at least got to think about that. Right? If they don't say anything now, are they going to be doing this when the markets down or something is happening? So I don't know, there's a lot of underlying questions and things to think about here. You know, this is a brave new world with a new player that, you know, it's a little bit crazy, right? Do anything, and they're 20-off 25% of the market. And that needs to be understood, probably better regulated., I kind of digress. But you know, how to, you know, the big boys are, are definitely going to try and help stabilize things. I do think Ken is like, I think there are two different situations personally, I don't know for a fact. But I think Steve is probably more on the side of Melvin at this point. I think, I think Citadel took this as a hedge to their core book, and knew that they were getting structural edge in a business that they would have both sides of the trade.

Jeff Malec 40:55

That's what a lot of people just, it feels wrong, right, that Citadel can be the hedge fund, the market maker, the right, they've got like, all these all these different, somewhat conflicting positions.

Cem Karsan 41:12

It's not wrong. It's just smart. Right? It's just like, they are the system. Now. They are the infrastructure. You know, somebody's got to be and you know, he is bigger, faster, better than everybody else on the street.

Jeff Malec 41:24

But how does that like, it feels like at some point, that'd be like, they're too big, right? They're, they're too big. And they're too important to the system to be left to their own devices.

Kris Sidial 41:35

I mean, gonna have to prove that.

Cem Karsan 41:39

Is it monopolistic? I guess is your question. I don't I mean, I don't think yet maybe they're, they're really good.

Jeff Malec 41:46

Yeah, but maybe not monopolistic, but just too big to fail?

Cem Karsan 41:50

Oh, they're definitely that. But you're also probably too good to fail. Yeah.

Jeff Malec 41:57

Yeah, we got to be careful talking about them here in Chicago, they're, they're gonna come put a note on our door like, Hey, stop, stop talking about. So how does this tie into the overall market craze from what you're saying with like your dispersion trades? And right, this is the mother of all dispersions.

Kris Sidial 42:17

I wouldn't say it's, I mean, there is a sense of dispersion going on, I wouldn't say it's like the mother of all dispersion. It's not your regular vanilla type of dispersion. But I think it's going to impact flows on a on a big level. Just like what Cem and I were talking about today, right? Relative weakness in the market because of forced liquidation. Apple had nothing to do with this, right, like the large cap names SPX had nothing to do with this. But they're going to be impacted because those large funds needed to liquidate right. So they're going to sell off the large names to make sure that they have their capital, I have no clue as to how this is going to finally end, I do believe that, when it ends, it's going to be a big bang one way or the other, this isn't something that's just going to go away into the sunset. And it's like, Oh, we don't hear about them anymore. Remember those guys? Like, it's going to be something where there's going to be some sort of regulatory intervention, which, the more I think about it, I just can't see that happening. Because, again, you know, imagine trying imagine the SEC trying to bring these Wall Street back guys to court, it's, you know, billionaire hedge fund managers, versus the little guy, that is a horrible, that's, that's just a horrible image, that, you know, they're going to be portrayed to the media. Um, but, you know, as to what Cem was saying, I do see the other side of it, where, if the market starts to turn, I think some of these people will start understanding Oh, wait, we could buy puts, right now everybody's buying puts when the markets down 20% Okay, so then what is that gonna do? It's gonna cause it to be down 50% right? And then it's, it's tremendously reflective. Um, you know, from a regulatory standpoint, the SEC has done a lot that has shifted markets. And you know, I spoke about this in another, another interview, but since the Dodd Frank Act, right, dealers can't inventory that same amount of risks that they once were able. So, it causes this type of dealer gamma hedging, right back in the day, if you had, you know, 100 million worth of Apple, and this position is going against you, you could say, Hey, I'll take more Apple, right? Like, pre-2008, you were the trader on the desk at a large bank, you ran the show, now, can't do that. Apple goes against you 10% you're getting a you know, tap on the shoulder from compliance to say, Hey, what's going on with that position? You now need to hedge it, right? So, you create the reflexive dynamic, and that was from the regulatory standpoint, changing the market. Right? So, what are they going to do now from a regulatory standpoint that says, Okay, well now you know, dealer hedging impacts the direct flow of the market, now we need to stop that. So then are you going to allow banks to take massive amount of risks that they did pre Dodd Frank? You know, like, I don't see what direction that this could potentially go. But I just don't think that it's going to end in a, you know, just easy out the door fashion, it’s gonna be a big ending.

Jeff Malec 45:18

The law of unintended consequences rears its head again.

Cem Karsan 45:24

I think I want to say one thing to Kris's point, I think this is interesting. I think Dodd Frank had has clearly played a role in the regulatory landscape has made it so there's a bit less liquidity on one side. That said, I don't think this is a supply side issue in the sense that there aren't enough dealers, or enough people who are willing to take the other side is a little bit of that. I think it's a much more of a demand side issue, I think, Vol products have grown exponentially, the interest and understanding of them has grown exponentially, and I think it will continue to do so for several major reasons. One, we're becoming a much more quantitatively driven, investing world, everything is factor analysis, or, you know, some quantitative algo model and that, that has itself gone exponentially. And options and derivatives in general, are the perfect tool within that framework, because they allow you access to the complete distribution of outcomes. A stock is a very poor, you know, investment vehicle in the sense that, you know, it's a linear outcome of a lot of different scenarios and a lot of different information. In a world where you can glean information in real time and try and turn that into profit, you really want to be able to say, Okay, this limits the chances of a 20% downside of next stock, I want to take advantage of that information, right? Not just go, Okay, I'm gonna go buy the stock or sell the stock. I think this general understanding has, has the flexibility and power of derivatives has, has entered the broad market, and it's kind of I've said this before, but it's kind of flipped the script, where stocks, although they're still the primary investment vehicle, I think, you know, there's a long term trend towards a much more flexible, you know, full distribution of potential outcomes, which lies within the derivatives, that these things are priced, that are priced on top of this, you know, in a sense, the derivatives themselves have become the underlying. And you and I think that demand flow, you know, this market is not prepared for. I think that's the problem, you have a structural flow towards something that is way incredibly powerful, a much better product, but the world hasn't yet adapted to understanding how to manage and the regulatory framework hasn't been built to provide the liquidity for it. So, I think that's actually at the core of what's going on, I think, a crisis of sorts around this will eventually lead to better regulation and better, and, you know, that'll, that'll allow it to grow over time. But right now, it's a problem. And, and, you know, the SEC is afraid to come out and say something about this, but it's because they don't have the framework or the tool or the expertise, probably in house to fully come up with a, you know, a cogent framework to deal with what's secularly changing as well. A little bit of a tangent there. But I think that's actually what's really driving.

Jeff Malec 48:24

I like that. But theoretically, can the tail wag the dog, right, like, at some point to get to a point, say, there's no actual stock volume and it's all the options, which is, you know, never gonna happen. But just in that world, how can you price the index, right, it's the index, just hav the price comparatively at expiration?

Cem Karsan 48:44

You have embedded it within the options chain, you have, the underlying the underlying is one of the, is a set of two derivatives long a call shorter, put the same underlying is, is the stock value. You don't need a separate stock to price, the derivative, you can price it off of its own value. The people are really uncomfortable with it in terms of thinking about it, but there's nothing that says you need to have stock, that's just how things came about. But that was the natural cause and origin of valuation, because it was the idea of equity, right? And a business but in terms of, you know, financial market modeling, different potential distribution probabilistic realities of an asset. It's a, it's a very poor financial asset. And ultimately, you know, the derivatives that have been developed to sit on top of that are much better, real picture of reality.

Jeff Malec 49:38

It's almost like let's just create, we'll just have some random distribution on the computer and, and you can put derivatives on top of that, and trade those derivatives like, you know, you disconnect from that. And it's, it's just like you're saying, it blows your mind. I'm like, wait, how do you what do you mean, we can trade options without the underlying stuff?

Cem Karsan 49:55

But this is what's happening in the fundamental world, right? You have the ability to take advantage of all these little different things that and it's a much more flexible, much more intelligent kind of framework. And derivatives allow you the flexibility and to take advantage of all the different pieces and to plug directly into the model. So, it's an incredibly powerful thing. And for good reason it's growing in popularity and understanding. And but again, the system is not….

Jeff Malec 50:19

Right, I think we mentioned at the top of like crude oil going negative that is kind of a leftover of the old analog world and having to settle physical commodities. Right. So, it does create problems, if you have, the underlying has to be settled with the options. Like if that's disconnected, you get a more pure, actual price in that case, right? Crude is a perfect example of that.

Kris Sidial 50:41

Yep. And we're only talking about the listed option space, we didn't even get into the exotics, right, and the growth of structured products over the last year and a half. Right. So that that in itself is a massive beast that is consistently growing in a low-rate environment, right, that is the theme is that everybody is trying to hunt for yield, right, as rates remain low. And then the growth of exotic products have skyrocketed tremendously. And now we add a secondary layer of this on, right?

Jeff Malec 51:09

Give me an example of real quick of an exotic product.

Kris Sidial 51:11

Oh, you could just go with like a regular like auto callable, or let's just say like, you know, a double levered barrier note. So it's like, basically, the bank is long, a way out the money put on like, three year tener or five year tener so you can have like a worst of note, which is like three names. So like, let's say, Apple, Facebook, Amazon. And what it does the worst-of note tracks, the worst performer. So if it gets down to let's say, 25% is the you know, the barriers are 70, or 75%. barrier, if one of those stocks is down 25%, the note gets knocked in. Right. So, what I'm trying to say is that there are so many other avenues tied to this.

Jeff Malec 51:57

But real quick, they're selling those to retail…?

Kris Sidial 51:59

Exactly, yep, yep. Right. They're selling that to retail. Right. So, synthetically, retail is shorter put, right? That's, that's basically the structure of these things. And they're receiving some sort of a yield.

Jeff Malec 52:11

But with a fixed loss. But yeah, short put with a fixed loss.

Kris Sidial 52:15

Yeah. So this is a this is the thing I'm trying to say is that, as people are reaching for more yield, they're partaking in more of these structure products, that adds another overlay, because these exotic traders need to hedge up their book, right. So, you have another dynamic of people now having to force liquidate, but this is not from like a, you know, retail standpoint, this is a massive institutional standpoint. So, you know, you have the listed options, stuff, and now you have the exotic stuff. And you could see how this could be a very dangerous game.

Jeff Malec 52:47

And I want to circle back to that of like, how do you know where those flows are? When it's kind off book, right?

Kris Sidial 52:53

Oh, man, well, we're….I want to talk too much. [laughs]

Jeff Malec 52:58

Don't give away the secret sauce. But if you're a pure flow trainer, that seems like an issue, but you guys are saying not necessarily.

Kris Sidial 53:06

Yeah. So I mean, that's hard for to have a good look from a flow level, you can't get that real time. You know, that's more so like seeing some of the data on stuff that printed at what level. I think you have to track certain structures and certain names. But you know, it's gonna be hard to make a definitive model on something like that right now. But, you know, for us just having a good understanding as to, you know, some of the names that we track and where's a lot of the vega positioning at, it gives us some sort of a framework to say, you know, there's….

Cem Karsan 53:39

I was going to say, most prime desks actually provide some level of I mean, Kris can contest this, you know, for their, for their customers will provide kind of where the biggest gamma points are the auto callables where things were struck and what the general flow is. So, you can get some of that from your, from your primes from your dealers. It's a lot of that's publicly not publicly but generally passed around.

Jeff Malec 54:00

Yeah, trader water cooler talk.

Jeff Malec:

Last, I wanted to talk like you, could this be the death of like the passive thesis? Or where do you guys see that have thread of like, the whole world's going into target date funds, and basically everyone except the people we've talked about, is just plowing money into indices, US indices mainly, but does this become you know, hey, there's, you should be doing more complex stuff, more options? You know, does this start to lower the power of the passive thesis?

Cem Karsan 54:37

I don't think so. I've talked about this, I think people with you, but Mike Green and I have talked about this, the passive flows are another just like, derivatives are a secular trend, because there's a better product, right? Passive flows are a secular trend. It's an easier way for people to access the market and do it quickly. And, you know, it's as you know, but the reality Is those passive flows are currently tied to, to grow, right? And that's because of massive liquidity in the system. And, you know, I won't get into all the details. But you know, if there's free money, essentially your companies are best advantage to go for a moonshot where they can dominate the system without making cash flows, right, as opposed to getting current cash flow. So growth names are tied to passive, tied to momentum. In a world where the market declines, they're going to get taken down in the passive as well. And ultimately, the value, the thing that that performs in a decline, which generally be a value, name, or whatever, will, will eventually develop the momentum to be added into some of the passive vehicles and will ride a tide higher, potentially, the next time around. So, I think that the passive structure is a real trait of the markets and will only continue to grow I believe, in that it's not the only factor. And you know, but it will, ultimately, I think, if you get this hand off of what is in that passive pool, right. Now, essentially, all passive is a momentum vehicle, I think momentum is here to stay, but then that momentum can change from one, you know, area of the, of the value or growth or some factor to another.

Kris Sidial 56:27

Passive is not going anywhere, I'll be the first to say like that, especially like, as a millennial, myself, I know, straightforward, like passive is not going anywhere. Um, you know, the more some of these millennials become aware to some of the products that are out there, the more enticed they are to say, Oh, well, you know, I want a little bit of Tesla, Facebook, Amazon at the same time, right. And I could be in, you know, some sort of an app that basically takes a percentage of my, my salary and dumps it into these on a consistent basis. So passive from a millennial standpoint, right, you do have some stock pickers that are coming out the woodworks with this wall street bet dynamic and some of the other stuff. But the accessibility towards investing. And the framework to it is so easy right now, that passive will just continue to grow. And you know, a lot of millennials that I know, like, naturally, they just want things easy, right? Like, that's why all right, fast food, you know, gym, whatever, like, everything's easy and fast. Just give me give me give me a really easy.

Jeff Malec 57:32

Let me click on my phone and give it to me.

Kris Sidial 57:34

Right, exactly, exactly. Right. And it's the same thing with the investing thing, right? Not a lot of people want to take the time and say, Oh, I want to look into this company. Let me figure it out. It's just like, Oh, yeah, I heard a friend that said, Tesla's a good stock, I want to buy it. Okay. So, by the way, you know, this thing can put you in that that buys Tesla, Amazon, Facebook, the best names, right, the best names they call it. Um, so it's just, you know, from a behavioral finance perspective, I cannot see that this passive flow going away anytime soon. And especially because you look at the fact that the buying power of the economy is now shifting into the hands of the millennials, right? So, Millennials are inheriting money that their Boomer parents had set aside for them. Right, they are also becoming professionals in their field, right. So, you have millennials who are now accredited lawyers, traders, right? People own businesses. So, the buying power is in their hands. So, you know, the buying power is in their hands right now. It's, it's slowly transitioning. And the way some of the millennials think is more focused around risk, right? We're thinking in an innovative type of way where we want growth, like we want to be in things where I want it to grow, right? I want to make 600-700% on something, right, I want to be in something that's innovative and cool.

Jeff Malec 58:54

Right? So let's get almost to my point of like, in theory, you're only going to get 5/6% on these, right? If you bypass them in the end. Like this isn't enough. I need to go over to the wall street bets crowd. Well, 1.8 million in that chat room that whatever you got in the Reddit, three weeks ago, now it's at three something right? What if that said 30 million or 300 million? Right? Like how big can that that get?

Kris Sidial 59:20

Well look at the ARKK names, right? Yeah, look, look at how popular the ARKK names have been. Right? That's like a millennial type of product in my eyes, at least. Right? That is a way that you could have some sort of passive flows into those type of products and be super speculative. Um, so I completely agree with Cem and I know Mike has been behind this this this theme for a long time too, and I just can't see it going anywhere.

Jeff Malec 59:45

We'll see. Yeah, I agree. But I want to see like okay, there's 30 million people on Wall Street Bets like what are you doing? You idiot of making 5% a year over there. You can make you know, 500% over here.

Cem Karsan 59:56

I think the distinction is important that passive does not mean growth. Right, these names have gotten so stretched at the end of kind of this. At some point, the passive flows reach a point where things get so out of whack that it leads to, you know, something where things fall apart. And there's a period of underperformance of those, because they're forced liquidations and all those same vehicles that everybody was long. And then eventually, the thing that outperforms, that becomes a bigger part of the index, then, you know, will lead higher. I think it's important to not lose sight of the feds role, liquidities role in all of this, to emphasizing, you know, and reinforcing the value of growth. And I think, in a fiscal dominated world, or something where value becomes more….cash flow becomes more important, because money is not free, I think the passive might latch on to a totally different product.

Jeff Malec 1:00:48

Money, money is free, right? But let's talk about that real quick. Just your views on what does that look like? Right, is that how this ends? Is that where the music ends of the liquidity, fed provided liquidity dries up? I know, Cem, we've talked like they're out of bullets already. But now we moved into fiscal so…

Cem Karsan 1:01:14

It's not necessary that they're out of bullets, they're up against…

Jeff Malec:

They can manufacture bullets.

Cem Karsan:

They're up against people, right? Like politics matters. People matter. If you're in a world where it wasn't about human beings, and you were just maximizing for GDP growth they'd keep doing what they were doing what they're doing is, has created a…it's accelerated technologies, it's led to a bit of an industrial revolution, right? Corporations are doing better than ever. Right? Problem is it's tearing apart at the fabric of society. Inequality is a problem. It's on everybody's lips, right? It is. It's been a building kind of Zeitgeist. And it's here front and center. Everybody's talking about it, has been for years now.

Jeff Malec 1:01:58

But it doesn't seem the Fed cares about it. They're not giving any lip service.

Cem Karsan 1:02:03

That's not true. They're actually very clearly coming out and making commentary. You know, both the Fed and the Treasury in lockstep are making very clear commentary about wanting to shift to fiscal, about wanting to help under privileged groups about, you know, getting the money to the people who need it. And if you watch it Presser today, I mean, 75% of that was,,,,,

Jeff Malec 1:02:26

Right, what I meant more, is it..is it just lip service? Or do you think it's real?

Cem Karsan 1:02:30

I think I really don't think so. I mean, Janet Yellen, first tweet her like next five tweets were all about reducing this gap. And she's tied into the administration who has made this there. Now the new administration, which has made this their point and Powell has been very clear about the transition to fiscal being, you know, being time for a transition to fiscal. He's been beating that, you know, for about a year now. And he's been that's why they're willing to take inflation, they set the inflation expectations higher. You know, I think we, you know, they want inflation of 2-3%, you know, 3-4%, is what they're looking for at this point. And they, they want to reduce inequality, I guess we'll see, right? I mean, nobody believes it now. Because after about 20 years, everybody's shaking their head saying, you know, recency bias is like, how can that ever happen? Right? It's different.

Jeff Malec 1:03:21

That's the big question, can they improve the inequality by not just hammering the, you know, the 1% down, but by bringing everyone else up, right? That's the idea of…

Cem Karsan:

….Demand side economics as opposed to supply side, right? And that's going to hit mean, or that's gonna, we're no longer gonna be maximizing for GDP, we're gonna be maximizing for median income, which are very different things.

Jeff Malec:

But when it comes down to the individual stock level, and theory of like,

Cem Karsan 1:03:50

this is everything.

Jeff Malec 1:03:52

I mean, they're not gonna maximize for capital, right?

Cem Karsan 1:03:55

Now, when we talk about flows, you know, Kris, and I get talking about like, the flow flowing, you know, what product and passive flows and option flows, and whatever, all of that is coming out of one really big pipe. And that's out of, you know, government and the Federal Reserve and the Treasury. Right, and one way or another, that's how it gets to all these places, right? And then take one over here, and they’re going whooop, it's gonna change everything. And that's what we're saying. I mean, what you're saying get back to our original point, what you're seeing with retail is a direct….

Jeff Malec 1:04:26

….pipe just moving a little bit.

Cem Karsan 1:04:29

….a different place is driving is a major driver of what's going on right now. It's gonna change a lot of things.

Jeff Malec 1:04:35

Right, because how much of that pipe was there? What was the amount 2 trillion or what was the first stimulus man?

Cem Karsan 1:04:41

The first one was a 1.1 or 1.2. The second was 900. And, you know, now we're talking to 1.1 to 1.7 so. Right, I mean, that's people lose sight of how much money that is, like, you know, the New Deal in real terms was something Like $600 billion, our economy was a lot, the economy was much smaller, right? So, you have to kind of relative the size of the economy. It was, it was it was a lot bigger, but we just had all combined, all three of these will be three, whatever trillion and if you think that's the end of it, like, no way.

Jeff Malec 1:05:15

No way, well, which we talked about, to me, this is just gonna get people on the basic income trail, like, maybe they don't call it that, but there's like the annual stimulus or something, right? I'm just like, no, what are you doing? Look at this as great for the economy, everything's going up. You got to keep giving these people money.

Cem Karsan 1:05:34

10 years ago, 11 years ago, 2008 2010 fiscal conservatism, like the Tea Party was kind of, you know, it seems like millennia ago now. Now, it's, you know, we're in a UBI world where, you know, there is no real cost to this and, you know, in the short term as the dominant currency, because it

Jeff Malec 1:05:53

And then you buy some Bitcoin as your hedge in case it all blows up. Right. That's a topic for another day.

Jeff Malec

Cool. We'll wrap up. Kris, you got any other last thoughts?

Kris Sidial 1:06:10

I think, I mean, we covered a lot today. We touch a ton of topics. But I you know, I think right now, this is a race game. Right. And I think it's going to be very interesting to see how the Fed reacts, when, you know, it's time to actually really raise rates. And it's gonna be really interesting to see what the sentiment on the street will be like, when they actually do you know, it, could it be reflexive, where everybody immediately says, oh, my god, they're finally raising rates. I'm buying downside puts and right, and here comes some of this flow positioning that me and Cem always talk about where people are reaching for puts, and then, you know, that cascades 10% move down to like, you know, 25 or 30% move that I'm, you know, I'm not too sure. I'm honestly not too sure on. One thing that I do know, you know, in my years of trading is that, when things get one sided, it is always better to take the other side of the trade. And right now, seeing this dynamic of this huge new participant engagement. Yet, well, we haven't fully seen other soap opera is gonna play out, right, so we still have to see the full the full scope of it. But um, you know, I think, I think this whole dynamic that's going on, I think it could continue for a longer time period than people are giving credence to, I think, you know, maybe we could see six months of just this constant price action. But I do know, when it goes away, it's going to go away hard, whether it's people losing a ton of money, and, you know, a market, you know, tanking on something like this, or, you know, some sort of regulatory intervention that's impacting the actual microstructure. I don't think that this is something that's just going to go off into the sunset and just be very quiet. So I think people should be focused on their book, and they should be focused on you know, risk parameters and their book and, you know, their true risk, right, not their var that that that, you know, that says, Oh, that's what your risk is that and then, you know, AMC goes you know, 100% and you're down, you know, 90%.

Jeff Malec 1:08:25

Won't the dealers start pushing the option prices out if they haven't already. I feel like they just have to keep….

Kris Sidial 1:08:31

Well yeah, I mean, look at look at AMC, AMC. At the money one week out was trading at 1000 vol. AMC the one week at the money was trading, like what do you want to price it to? You know, like?

Cem Karsan 1:08:44

It's impossible to widen it.

Kris Sidial 1:08:48

Exactly. Exactly..people were still buying. And that's what I'm saying. Like, at this point, the vol are irrelevant. It does not matter. Right. What is the tell me that it is going to 1000 vol and 800 vol, right? 1005 1000 vols, the same thing?

Jeff Malec 1:09:03

What does that look like? That's like 100% out of the money or something or 200% and they're trading for 20 bucks or something? Specific to each stock, right? It's something insane, right?

Kris Sidial 1:09:15

Yeah, I can't tell you what the implied move is off top my head but yeah, it is it is insane.

Jeff Malec 1:09:21

Right. And they're the traders are looking at it like well, whatever, I lose 20 bucks. Who cares? Cem, any last thoughts?

Cem Karsan 1:09:31

Um, I mean, I've got a lot of them. But I, what I would, what I would say is the way the way this probably ends is, is in a decline in the market at some point, I think, you know, I think to Kris's point, I think we could get a lot more of this for a while and it could get very kind of 2000s on steroids, right?

Jeff Malec 1:09:52

And a lot more that means more GameStops, more AMC…?

Cem Karsan 1:09:55

More GameStops, more upside broadly, the market more, you know the craziest some of those names go And more than more than get that way more likely people are to buy the index and try and sell them and it becomes a much bigger game, right, that eventually unravels. I think you paired this, these goings on with, you know, what will eventually be higher rates on the back of it right? If everything starts appreciating assets, we reopen, you know, stocks are doing well, they have lots more money, you know, no more distressed assets. Right, you got to get higher rates. And so the higher rates are ultimately would kill these things. And, you know, that's how this thing ends, it's not new, it'll be different this time and its veracity to the upside, because of the derivatives will probably be just even worse on the downside, because of the leverage and the amount of overextension that we're, you know, we're experiencing, I will say that, you know, this long run and all this, you know, financialization that's been accelerated by really, free money for all this time, is going to ultimately end with the shift to fiscal with a monetary policy driven economy, you lead to deflation, and you can do an infinite amount of it, as long as I keep giving all my money to the sub point Oh, 1%. That doesn't lead to price inflation, you can keep rates low and create new technologies and new now deflationary mechanisms, globalization, you know, what the second, this gets to everybody's hands. And it's everybody starts buying stuff, and you go to a demand side economics, economics, if you worry about inequality at all, this can't…you can't keep doing monetary policy infinitely, the Fed has to worry about inflation. It's the one thing that puts them in the box. And so that's how this ends, ends with higher rates.

Jeff Malec 1:11:44

Which to me is why they'll never raise rates materially.

Cem Karsan 1:11:48

But, I think if inflation goes to 6%, they have to do something after it's part of their directive. And so dealing with inequality will lead to inflation, which will put the Fed in the box. It's the only thing that ever does. Higher rates will be the end to this.

Jeff Malec 1:12:04

In the penalty box, which box are they getting put in?

Cem Karsan 1:12:08

Jail cell …whatever, okay. They can't do it anymore.

Jeff Malec 1:12:12

There was only one way out.

Alright, guys, awesome. This has been fun. We'll put where to get ahold of you, although everyone knows already in their show notes. And then be sure to check out we've done a previous pod with jam on a Jia we got one coming up with Kris to dig in what he's doing an amorous group. But he's so good on these little one offs that we keep having them on before we get to his full stuff, but uh, I appreciate it. I think we're sending some snow your way. Kris. We just got dumped on here in Chicago. So good luck, man.

Kris Sidial 1:12:43

I didn't even know that. Really?

Jeff Malec 1:12:45

Yeah. We have like four or five inches, maybe four or five inches.

Cem Karsan 1:12:49

I got my son off shoveling for me for the first time.

Kris Sidial 1:12:51

Oh, that's nothing for you guys. You guys are used to like five feet of snow.

Jeff Malec 1:12:56

I was just telling someone that the other day Cem, I'm old enough now where I can send my son out to shovel. It's great. It makes me sad. But it's also great.

Cem Karsan 1:13:03

I'm feeling inflation at home. I had to pay him 15 bucks.

Jeff Malec 1:13:07

Oh, don’t tell mine that that I just told him that's his job. He's got to get out there and do it. Yeah. Cool. Thank you guys.

Cem Karsan 1:13:15

Thanks for having us, Jeff. Appreciate it.

Jeff Malec 1:13:17

We'll talk soon.

Get more information on the funds at Ambrus Group here and at Aegea Capital here.

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