Our Weekly Paid Newsletter

Richard Cluver Predicts

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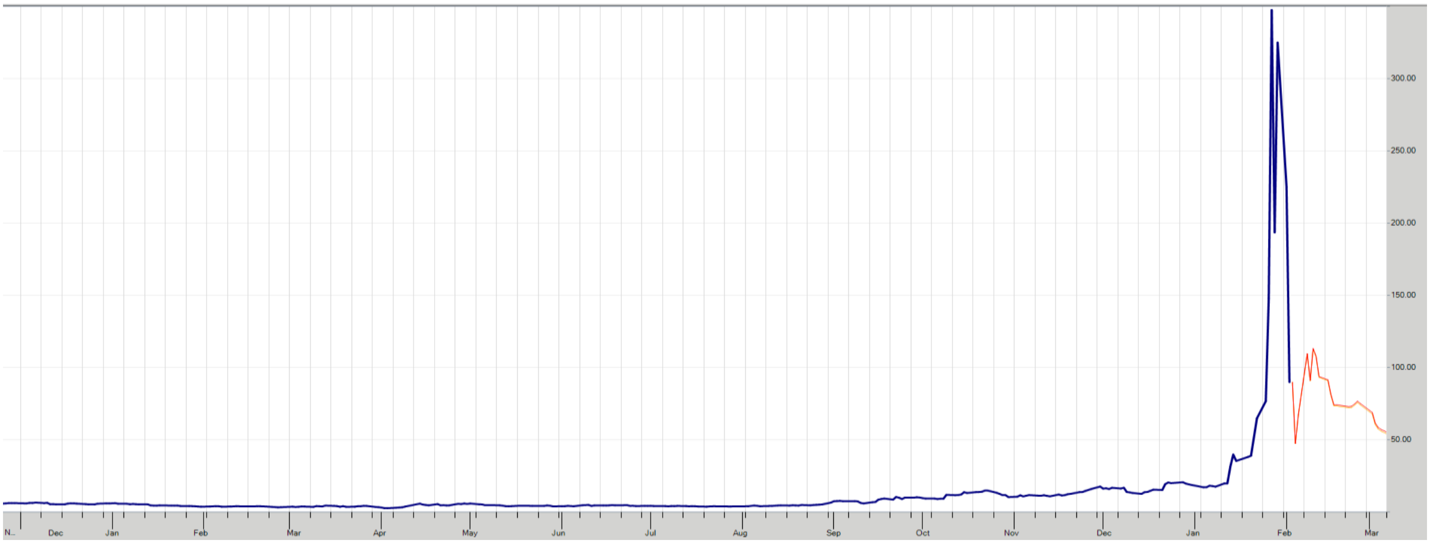
I have been warning about the current craziness of the world's share markets for several weeks now and nothing better epitomises the recent insanity on Wall Street than the events of the past week when something like 2.2-million small investors took on the seasoned professionals and won.

As encapsulated in my graph below, the world's biggest hedge funds and merchant banks have retreated licking wounds that will subsequently be costed in many billions of dollars while the little traders with their five-dollar bets are celebrating one of the biggest one-month share price gains in the history of Wall Street.



From a price low of $2.57 last April 3, the shares of GameStop soared to $353.83 on January 27 before falling this week to $90 in an unprecedented roller coaster the likes of which were last seen in the closing days before the great share market crash of 1929 which ushered in the Great Depression. It was repeated again in more modest fashion in the "Dot Com" bubble at the beginning of this millennium.

The real price action, of course began as far back as last August when the shares were standing at $3.99. It had doubled at $8.48 by September 17 and by the end of September the price had reached $10.06. It took another four months to double again to $20.03 on January 13 and doubled again by January 22 at $41.19. Then the craziness took over and the following day it reached $159.19. By January 27 it had doubled again to $380 and on January 29 it peaked at $483 before crashing back once more to a current $92.41.

Part of the problem that ended it was a technical one associated with the two-day settlement period required by the New York Stock Exchange which meant that RobinHood, the brokerage which has been pioneering fractional ownership of shares which has opened the market to countless small traders, ran out of cash to meet the settlement requirement.

It had to temporarily halt trading while it raised additional cash and, while this point was not understood by thousands of market newcomers, many believed they were being “robbed” as shock waves roared through this new community of Carpetbaggers who are reputed to be using Temporary Relief Grant money to fund their speculation.

As was the experience in May 1873 and again repeatedly over recorded market experience in 1890, 1893, 1896, 1901, 1907, 1929, 1937, 1962, 1971, 1973, 1982, 1987, 1991, 1997, March 2000, September 2001 and October 2007, small investors saw their overnight fortunes stripped from them.

After several of these, national economies were decimated and, after the worst of them in 1890, 1901, 1929, 1971, 1991 and 2007 the world was plunged into economic recession. No market scholars can, furthermore, ever forget 1929 market collapse which plunged the world into the Great Depression which was the cause of World War Two and only ended with the end of hostilities in 1945.

However, on every occasion it has ended badly for those who got lured into markets by the craziness of the moment. And if there is anything to be learned from it, it is that the wisest investors on most of these occasions sold out before the craziness reached its inevitable end because, although it is very easy to make money in times like these, nobody can tell you when it is going to end.....nor how it will end.....nor the social consequence in countries like South Africa where a decade of political cadre looting has created one of the worst unemployment rates in global history and left nothing in State coffers to fund relief.

Furthermore, the International Monetary Fund has just concluded a series of engagements with the South African authorities which ended once again with a stern warning about our profligate propping up of State-owned entities like SA Airways and our unsustainable Civil Service wage bill which is consuming more than a third of the national budget to fund the pay 1.3-million employees.

And once again there has been no evidence that the ANC, together with its Tripartite Alliance of labour unions and the Communist Party, has remotely understood that South Africa is in monetary crisis. That is why, though the Treasury has told them there is no more money – we even had to scratch to find the cash to pay for COVID-19 vaccine – alliance members are still threatening strike action in demand for further pay increases. Well, after all if the Government can find R10-billion to prop up SAA for the umpteenth time, surely, we have not run out of money?

But we have. You better believe it and Tito Mboweni’s budget at the end of this month will surely spell out how bad things really are. Hopefully he will also explain how he plans to re-build our economy with some radical departures from ANC thinking over the past quarter of a century. Somehow, he has to convince his party why he can no longer spend so much taxpayers’ money on Civil Service pay and why we instead need to fix things like our power generating capacity without which NO economic recovery is possible!

Oh, and another small thing, we can no longer afford a deficit!

Well, what are the facts? Data from Statistics South Africa’s Quarterly Employment Survey shows that average remuneration across 110 non-agricultural sectors and sub-sectors in 2018/19 was **just under R273,000**, compared with an estimated average remuneration of R352,000 for employees of national and provincial government. By National Treasury’s calculations, the actual average remuneration for these employees is **even higher – around R393,000**.

That's R32 750 a month for the average civil servant while the Private Sector which actually generates the profits from which the Government gets its taxes can only afford to pay its employees an average of R22 750. That's how out of kilter things have become in South Africa and why so many of our skilled people have been emigrating!

"We estimate that public servants in national and provincial government earn about 20% of all wages earned in the non-agricultural formal sector," Treasury said.

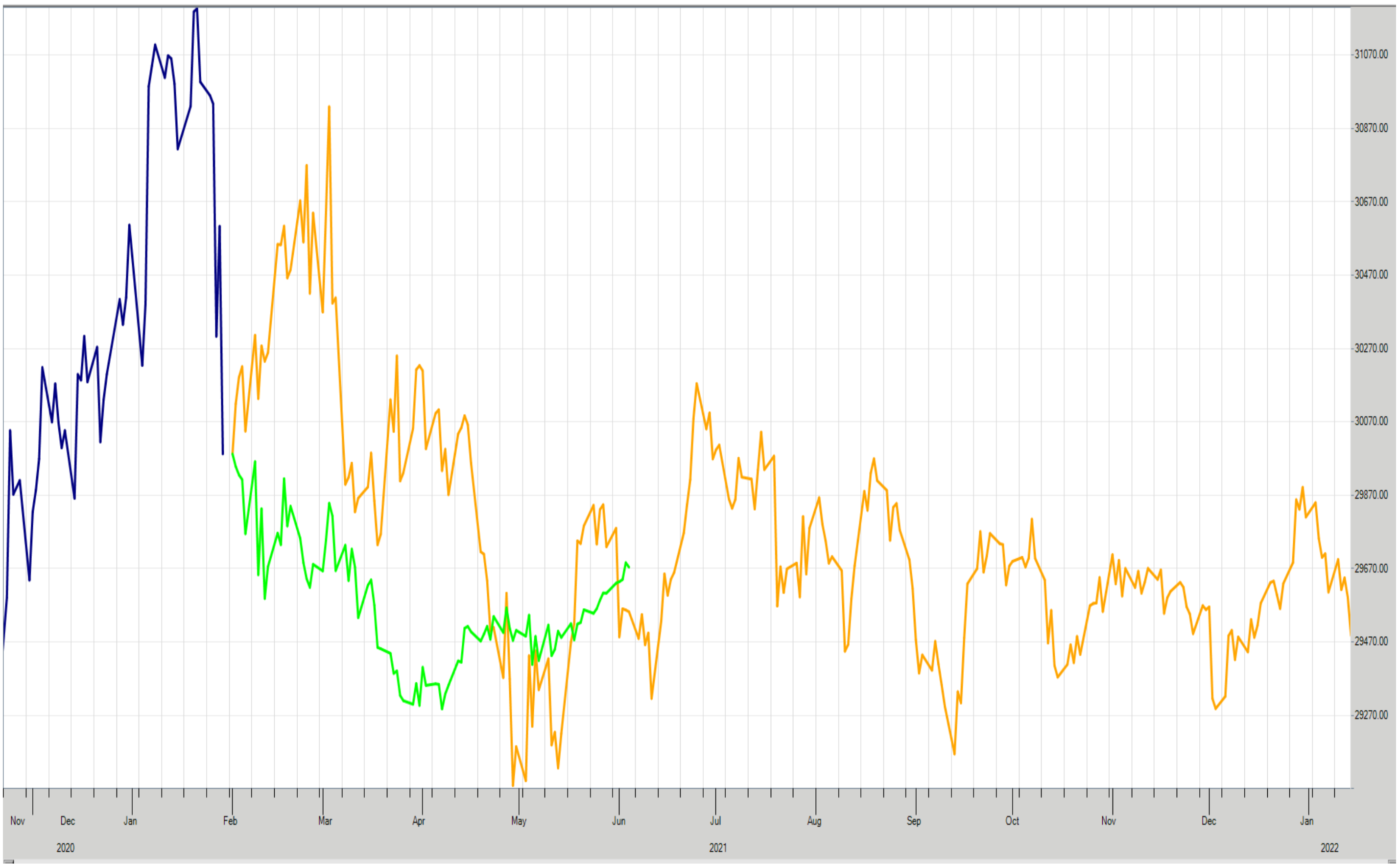
To put that number into perspective, there are now 6.5-million people unemployed in South Africa so, for every many woman and child on the civil service payroll, there are **another five** without any gainful employment whatsoever. That is the price of our misallocated spending.

South Africa's unemployment rate rose to 30.8 percent in the third quarter of 2020 from 23.3 percent in the previous period. It was the highest jobless rate since quarterly data became available in 2008, with more people searching for work amid the easing of lockdown restrictions.

Beset by COVID-19 and the government's inexplicable closure of beaches at the height of our holiday season together with equally inexplicable bans on tobacco and alcohol which have all but destroyed so many small businesses, one can only speculate upon the consequences if we now have to endure another share market crash! So, what are the probabilities of that happening?

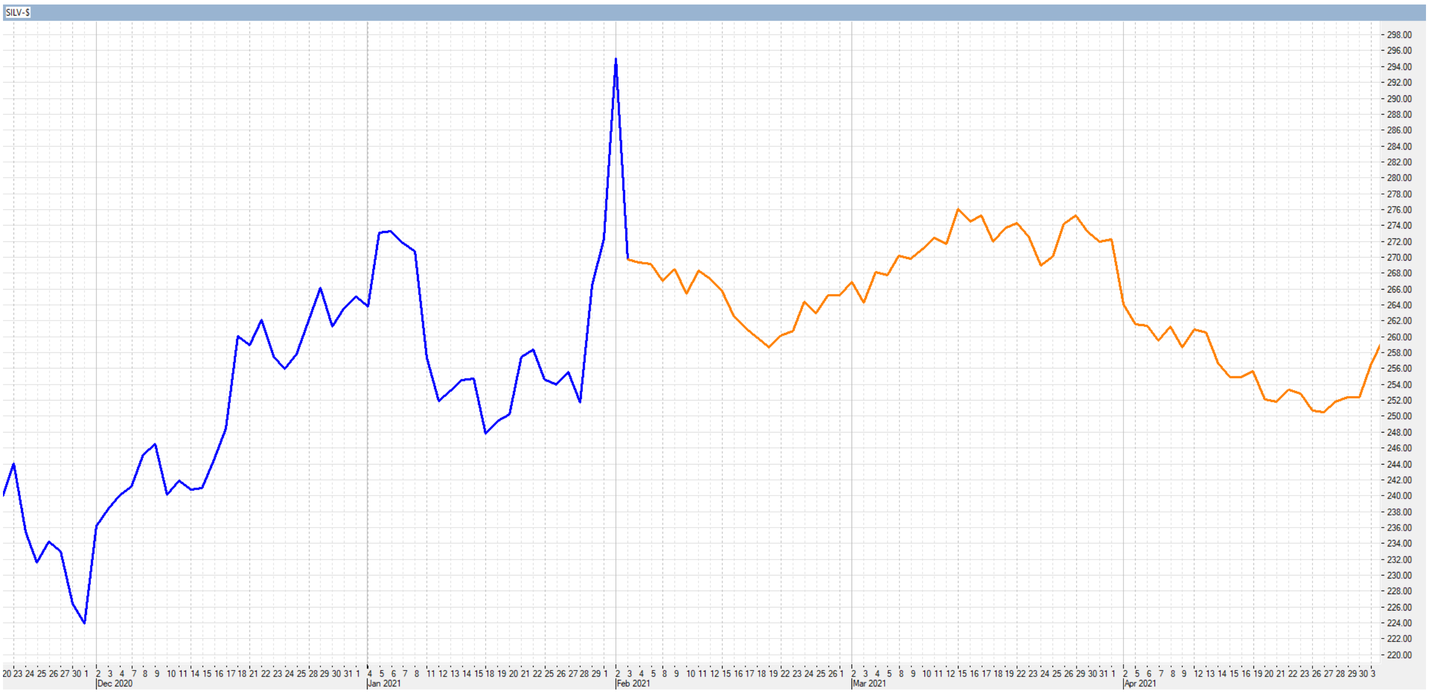
On the showing of this week's GameStop story, the probability is VERY high that a crash will come soon!

ShareFinder has for months been projecting a sharp decline on Wall Street as illustrated by the following graph of its oldest indicator, the Dow Jones Industrial Index and, as my graph below indicates, it is currently under way and, judging from the green short-term projection, is likely to continue until the second week of April. The medium-term (orange) projection suggests a brief recovery is now imminent but thereafter it expects the world's biggest share market to continue falling until the end of April before bumping along the bottom for the rest of the year:



Closer to home, our own Blue-Chip shares have enjoyed an excellent run lately and that could last a few more days but thereafter, if ShareFinder is correct, it is downhill for the rest of the year:

Meanwhile, speculative fever seems to have moved on to the metals market where silver has soared from $172.25 back in June to $280 in mid-August, back down to $216.98 in late September before soaring this week to $299.65 at a time when global economic activity is in recession everywhere.



Is this more craziness? You have been warned!

Do enjoy your weekend

The month ahead:

New York's SP500: I correctly forecast gains until late May and I continue to hold that view.

Nasdaq: I correctly predicted that the recovery had begun and see gains from here until at least the second week of April after which I expect weakness until August.

London's Footsie: I correctly predicted gains which I still see lasting until the first week of April.

Germany's Dax: I correctly predicted the beginning of gains until early April and I still hold that view

France's Cac 40: I correctly predicted a slight weakening which I still see lasting until mid-March ahead of the next gain to mid-April.

Hong Kong's Hangsen: I correctly predicted a very volatile declining trend until July which I continue to forecast. Within that I see medium-term gains until mid-March before the next down-spike.

Japan's Nikkei: I correctly predicted the beginning of the next up-phase which should last until late-March.

Australia's All Ordinaries: I correctly predicted the market was peaking ahead of a long volatile decline which I expect to last until late March followed by a strong up-tick to mid-May and thereafter a fresh bear phase until mid-September.

JSE Top 40 Index: I correctly predicted the start of a long declining phase until late-August.

ShareFinder JSE Blue Chip Index: I correctly predicted a decline which I expected to be over by the end of the January with gains thereafter likely until mid-February but then expect a volatile decline until the end of September.

Gold Bullion: I correctly predicted a continuing recovery likely to peak in December amid considerable volatility. Now I see a short-term decline until mid-February followed by gains until the first week of March when the next decline is likely.

The Rand/US Dollar: I wrongly expected three months of weakness. Now I see volatile gains until mid-October.

Rand/Euro: I correctly predicted resumed gains until October.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.03 percent. For the past 12 months it has been 93.49 percent*.**

Reddit vs Wall Street: Financial insurrection

BL PREMIUM

The GameStop phenomenon isn’t just speculation. It’s anger. Does it mean Wall Street is broken, or working as it should?

Like much of the rest of the world, SA’s financial commentariat has been captivated by the bizarre story of GameStop, a once barely known US video game retailer whose share price rocketed more than 1,700% last month.

Its incredible run has prompted a series of trading bans and responses from everyone from the US Securities & Exchange Commission (SEC) to US congresswoman Alexandria Ocasio-Cortez.

In SA the analysis has ranged from the bemused to the dismissive.

One local market analyst, interviewed by a popular business radio show, thought it was all about "game stocks" and dismissed it as mere "speculation" akin to the tulip bubble that occurred in the Netherlands in the early 1600s. But the truth is that the GameStop phenomenon has less to do with speculation and far more to do with anger.

It is financial insurrection.

But let’s take a step back to see how this all began.

A member of the popular r/WallStreetBets chat forum on Reddit caught wind that a hedge fund had shorted GameStop.

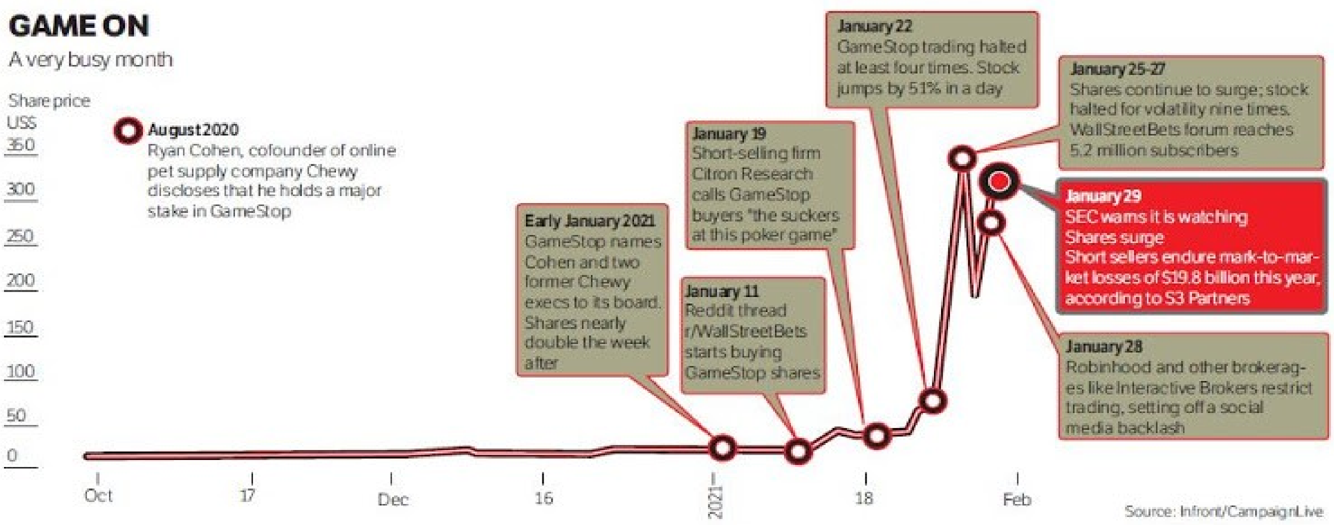
Members of the group — which now number 6-million — then banded together to deliberately buy up the stock, to force the hedge fund out of its short position.

Just as short sellers can benefit from a short if the share falls as expected, they can be hurt if the price rises. What the army of r/WallStreetBets retail traders were trying to do was deliberately inflict financial harm on the hedge funds.

Just how much financial harm is illustrated by Melvin Capital, which had bet against GameStop, among others.

The New York hedge fund saw its assets crumble $4.5bn last month to $8bn, after ending 2020 with $12.5bn under management. That was even after it received a $2.75bn capital injection from Citadel and Point72 Asset Management to enable it to close out its short positions.

Melvin’s losses are eye-catching, but, say analysts, hardly an indication that the wider market is teetering.



"It’s a great news story that makes for great copy, but it’s not investment," says Wayne McCurrie, portfolio manager at FNB Wealth and Investments.

"Retail traders might be ganging up on who they believe are the terrible people of Wall Street — the proverbial man on the street getting his own back — but you can’t do that to Microsoft or Alphabet. GameStop is a small, very illiquid share, which is why they were able to run up the stock. But it’s a very risky game and sooner or later some of them are going to get hurt."

To grasp the psychology behind the Reddit army’s motives you have to leave the cordon sanitaire of the mainstream business media and take a deep dive into the meme culture of Reddit forums and obscure online chat sites.

It is less the domain of the Financial Times (FT) and more that of ZeroHedge, the libertarian financial blog with a cult following.

Think of it as Fight Club meets high finance. The protagonists are not so much speculators as the heirs to the Occupy Wall Street movement who have realised that standing outside banks with placards has little impact. If you want to take on the people who control the crony capitalist system you despise, you have to hit them where it hurts most: their pockets.

In that sense short sellers make for an ideal and legitimate target.

Short-selling involves borrowing a stock from a broker with the agreement that you will return it later for the price you paid. In the interim you sell the stock on the assumption that some inherent flaw in the company’s business model will cause its stock to fall. When it does fall, you buy it back at the cheaper price, return it to the broker for what you originally paid, and pocket the difference.
Supporters of short-selling say it exposes charlatans posing as legitimate businesses.

Some have even described short sellers as heroes (think of Viceroy’s Steinhoff report). Critics argue that many short sellers are far from ethical and deliberately spread false information in an attempt to crash a stock so they can benefit from it (think of Viceroy’s Capitec report).

For the Redditors and their ilk, the issue is often more personal.

Many grew up in the midst of the 2008 financial crisis and saw parents laid off because the company they worked for had business model frailties. At the same time they saw the bankers who’d caused the crisis bailed out at the taxpayer’s expense.

It means that an entire generation of youth has now lived through at least two crises: the worst economic slump since the Great Depression, and a pandemic.

Many face grim job prospects and are drowning in student debt they have little prospect of repaying.

For many, concepts like homeownership or retirement seem like quaint notions from the 1950s. It’s not hard to understand why they’d battle to view short-selling as heroic.

If anything, they feel betrayed by the system — and now they want revenge. If that seems like hyperbole, consider the post made by one Redditor in the midst of the GameStop mania last week: "I remember when the housing collapse sent a torpedo through my family. My father’s concrete company collapsed almost overnight. My father lost his home. My uncle lost his home. I remember my brother helping my father count pocket change on our kitchen table. That was all the money he had left in the world. While this was happening in my home, I saw hedge funders literally drinking champagne as they looked down on the Occupy Wall Street protesters. I will never forget that.

"My father never recovered from that blow. He fell deeper and deeper into alcoholism and exists now as a shell of his former self, waiting for death.

"This is all the money I have and I'd rather lose it all than give them what they need to destroy me. Taking money from me won't hurt me, because I don't value it at all. I'll burn it all down just to spite them. This is for you, Dad."

One of the few mainstream articles to accurately capture the sentiment was written by Bloomberg columnist John Authers, headlined "GameStop is Rage Against the Financial Machine".

But rage doesn't exist in a vacuum and is seldom a one-way street.

When the GameStop mania was at its peak last week, popular trading app Robinhood briefly banned retail buyers from purchasing the stock. Discord also banned the r/WallStreetBets chat group, prompting Facebook and other social media platforms to follow suit.

The SEC then stepped in to say it was monitoring the situation.

To the army of retail traders galvanised by the GameStop phenomenon, this was just further evidence that the financial system is a manipulated farce designed to fleece the little guy and benefit the establishment.

Enter Dave Portnoy, Barstool Sports founder, celebrity blogger, and pied piper of the day trading movement.

He claimed that by deliberately closing off one side of a trade to allow hedge funds to close their shorts, Robinhood was stealing from the poor to give to the rich.

Dave Portnoy: pied piper of the retail trading Reddit army.

When GameStop's stock fell 44% during the trading halt, Portnoy appeared vindicated.

He called for "market manipulators" to be jailed. Even left-wing firebrand Ocasio-Cortez said the trading ban was "unacceptable" and called for lawmakers to investigate the issue.

But Protea Capital CEO and hedge fund manager Jean Pierre Verster explains that "the fact that all these platforms prohibited their clients is not because there was pressure put on them by hedge funds but because they needed to put up more capital at the clearing houses and couldn't".

Robinhood "faced sharp increases in demands for deposits at clearing houses where trades in stocks and options are processed", wrote the FT.

Robinhood was forced to raise $1bn in capital last week, and this week revealed it had secured a further $2.4bn to shore up its finances.

While the Wall Street establishment is still coming to terms with GameStop, the online army of retail traders were already plotting an assault on their next target: silver.

With wild claims doing the rounds on online forums claiming the silver market was being manipulated by the "billion banks", they began calling for the mother of all short squeezes on the metal.

As one r/WallStreetBets antagonist put it: "Why not squeeze $SLV [silver] to its real physical price. Think about the Gainz [sic]. If you don't care about the gains, think about the banks like JPMorgan you'd be destroying along the way."

(It didn't help that JPMorgan agreed to a $920m settlement with US authorities in September last year to resolve claims that two of its trading desks had been involved in manipulating the precious metals market over eight years.)

It wasn't long before the iShares Silver Trust, the world's biggest silver-backed exchange traded fund, recorded almost $1bn in inflows last Friday.

This week, silver prices surged, breaching $30 an ounce.

On Monday, #silversqueeze trended on Twitter and traders in physical supplies of the metal had to stop taking orders due to unprecedented demand for silver bars and coins.

At the time of writing, while many were still wondering how long the retail trading frenzy could last, GameStop had already slumped almost 50%.

"It's possible to distort a market even for a very long time but you can't keep it there indefinitely. Eventually the buyers will cash out and the price is going to drop. That's when it ends in tears," says McCurrie.

Ross Norman, a veteran precious metals trader, was equally leery: "It's a fool's errand, it's financial anarchy; somebody is going to get hurt," he told the FT.

One can already imagine the Reddit army's response… "OK boomer."

In our defence …

Who, asked Bloomberg's Erik Schatzker this week, are the villains in the GameStop story?

"When we get tagged as establishment, you can't get more inaccurate than that," replied Carson Block, the CEO of hedge fund Muddy Waters Capital, which has made a name for itself shorting companies in dubious financial health.

But, he said, "we realised things were radically different last year. We were short a near total fraud called GSX and got squeezed way up by what was a consortium of hedge funds that engineered this. The game's been different since Covid."

Jean Pierre Verster, CEO at Protea Capital Management and a long-time hedge fund manager, argues that the market is far from broken.

Robinhood's decision to halt trade to raise money was, ultimately, to the benefit of GameStop buyers, he says.

"If they put down more capital the clients could keep on trading. This is exactly the market working as it should — making sure that no participants in the value chain take so much risk that it imperils the whole system."

But what about the hedge funds, which portray themselves as sophisticated market participants — with fees to match. How did they get it so wrong?

In GameStop's case, the problem was that the short interest in the stock was more than 100% of the free float of the company.

"That sounds impossible, but the data you see from the exchange is not the full picture because not all positions are on the exchange," says Verster.

In the case of the two hedge funds that lost billions — Melvin Capital and Maplelane — “the only way they could incur such large losses is if they were not just short the stock, they were short call options too”, says Verster.

This is because, when you are short a call option, your losses become exponential as the share price rises.

The frenzied GameStop trading was probably further fuelled by the involvement of investment banks.

“My guess is it wasn’t just retail investors buying and hedge funds shorting,” says Verster. “It was also investment banks that were on the other side of the call options that the hedge funds had shorted. In other words, investment banks were buying aggressively to hedge their own call options.”

All these factors played a role in GameStop’s unbelievable share price surge.

Verster describes the frenzy as “the democratisation of a short squeeze — a large number of small participants who worked together. Each individual trader had a weapon that on its own could not cause mass destruction, but all of them in aggregate did.”

How this ends is anyone’s guess.

As for the reputation of hedge funds, Verster says they are not homogenous. “When you short a call option you need to be very careful, and what is clear is that these hedge funds failed in terms of their risk management.”

Giulietta Talevi

What happens now after GameStop, Robinhood hype – Dawn Ridler

by Justin Rowe-Roberts

The last year or so has been one of the most exciting times ever seen in capital markets. Stock markets endured the fastest ever bear market witnessed in history during the advent of the coronavirus pandemic. The market hysteria caused major indexes across the globe to drawdown between thirty to forty percent in a matter of weeks. The global economy came to a standstill due to the ensuing lockdowns enforced by governments to curb the spread of Covid-19. Many parts of the economy is still in recovery mode, however, the capital markets paint a completely different picture. There have naturally been sectors in the economy that have benefitted from the lockdown and ‘work from home’ environment, namely the high flying FAANG (Facebook, Amazon, Apple, Netflix, Google) stocks – the five most popular and best performing American technology stocks. These technology companies have led the charge in the biggest stock market reversal of all time, aided by unprecedented monetary and fiscal stimulus by central banks and governments across the globe. Stock markets have rarely been a proxy to the underlying economy but never has the disconnect between the economy and markets been so stark. The stock market continues to be buoyed by investor optimism and the recent euphoria caused by retail traders could be a sign of a market top. The pandemic has the markets looking confused and divided, with the ‘bulls’ optimistic that a vaccine-powered strengthening of economic activity will continue to support markets higher. The ‘bears’ are of the opinion that stock market valuations are simply not justified and the global economic recovery is going to long-winded. Regardless of what will play out, the next few months is set to be a ‘fasten your seat belt’ period for all market participants. – Justin Rowe-Roberts

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Unpacking the GameStop/Robinhood hype… and what it might mean for broader markets

By Dawn Ridler

Like most people who are watching markets, I have been watching the GameStop/Robinhood saga unfold with interest. My reaction started with Schadenfreude (delight in someone else's misfortune) – especially as the Hedge Funds with their avaricious billionaire owners were getting shafted, but as this unfolds I am increasingly concerned about potential long-term fallout. Is this just a temporary flutter, or could it bring down this long running, frothy bull market, despite the billions central banks are pouring into the markets to stop just that from happening?

There are a couple of things you need to understand so that you can wrap your head around this issue.

- **'Shorting'**. This is when an investor sells a share (usually) they do not own but 'borrow' (scrip lending is big business), because they think the price is going to fall. This is pretty transparent, you can find how many shares are shorted by going to that counter on most of the platforms. This is the preferred method of making money by Hedge Funds. 'Ordinary' investors buy and hold shares (even if that is just for a few hours – the ambit of day-traders). Short-sellers then hope to buy back that borrowed share at a lower price. This 'market' is created because the borrowed 'share' (or digital equivalent) has a time frame before it has to be returned (obviously there is a small 'lending' fee). In practice, this loan time period is indefinite (with more fees rolling over), unless the person loaning the share calls it in. The Short-Seller then waits for the share to fall, buys it at the lower price then settles the trade, taking the difference. These short markets can be stopped by regulators, but this intervention is uncommon. Unless short-sellers are forced by the lenders to return their shares (unusual but not impossible) this impasse could last indefinitely. The Reddit thread is currently imploring retail investors to 'hold'. Who will blink first?

Read also: Longing the shorts as retail traders target Steinhoff revival

- **'Hedge Funds'**. Classically these investment houses live and breathe shorting and have made massive profits from doing just that. Right here in South Africa we have been on the pointy end of short-sellers, specifically thanks to 'Viceroy Research". These fellows short a stock then 'talk it down' with adverse research reports. Seriously dodgy. While Hedge funds have been the losers here, there are other major corporates (even affiliated to the Hedge funds involved) that are making huge money from this 'flutter'. Hedge funds have gained a modicum of respectability in the last decade, and you may even find them in your Unit Trust/Mutual funds. On the whole though, it is the one-percenters that usually invest in hedge funds. This has become a war between 'Boomers' and 'Millenials'.

- **Stock Markets are not and never have been rational nor reflective of true valuation**. They are the collective result of thousands of often irrational beings and what they think the share is going to be worth in the future. Rationality and Value are not something that you can regulate or control. This story has certainly exposed some weaknesses right across the board. RobinHood (RH) and other low/no fee brokerages came under huge flack for stopping purchases of GameStop and other shorted stocks, but allowing sales. This was incredibly badly communicated, and while the underlying reason may have been too much risk for RH it looked as though it was playing into the hands of the Hedge Funds.

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- **Options**. These are used as ‘insurance’ (and classified as a derivative). You can buy an ‘option’ to invest in a stock, at a given price – but you can choose not to (if for example the price drops and you can buy on the open market for less). This is a sane and tested way to hedge bets and is being used (belatedly in this instance) by the Hedge funds to try and stem their losses.

- **Margins and Margin calls.** This is the vulnerable underbelly of RH and other low or no cost platforms. While many retail investors start off just using cash, they are quickly lured in to ‘borrow’ money, at a price, to “leverage” their position (as high as 1:30). That is why you’ll see ‘paper profits’ but those loans have to be paid off. The obvious danger of leveraging your position is that the price drops and you have to pay back the loan – from profits that have now evaporated. As the price drops, the brokerage/market maker will then ask you to make up the difference – called a margin call. It is one thing for professionals to leverage their position, but when ordinary people with a hot stimmy cheque in their hands (and little else) play with leveraged positions they can lose way more than they ponied up in cash.

Robinhood is a free trading platform (they make their money from scrip lending, lending money for margin calls and various other transactions with market makers). Their raison d’etre is to ‘democratise’ finance (whatever that means these days in the US). Bitcoin is another finance ‘democratiser’. There has been a massive surge in day-trading during the pandemic, fuelled not just by stay-at-home boredom, but funded by the stimulus cheques. Agism has crept into the rhetoric now, with Hedge funds called ‘boomers’ and the Reddit investors ‘kids’.

What happened: a bunch of day-traders on a Reddit tread called WallStreetBets (social media platform) started buying up stocks most shorted by hedge funds (not just GameStop) and this went viral, pushing the price up. (GameStop is a dated retail outlet company that just has not kept up with technology changes and was destined for the scrap heap anyway). The price went up from $20 on the 12th of January (bottoming out in July last year at around $4) to the $400 range by month end. Where is the problem? The hedge funds had massive short positions on GameStop, probably close to or over the ‘short float’ (the total number of shares available to trade – dodgy at best) , but now the price was 10 or more times or more than they sold them for. The Hedge funds have lost billions – boo-hoo, right? Unfortunately, there are plenty of other ‘Boomer’ Billionaire companies that have done just fine thank-you.

This is obviously classic share price manipulation – but how can you regulate hundreds of thousands of day-traders that come together in a flash-mob intent on scalding (perceived) greedy fat-cats? Robinhood and other low/no fee platforms have halted trading (and restarted hours later after a huge backlash) in GameStop and others – ostensibly because of the risk to their platform (they have to provide regulators with proof that margin calls are adequately covered and have other capital requirements). RH quickly secured a $1bn line of credit from major banking institutions. Short-squeezes are not new, it is just happening in a new way.
The ‘short squeeze’ has already extended to another 50 shorted shares, and commodities like Silver are starting to get attention. The Silver punt is completely different, and while it is bumping up the price, is unlikely to end the same. Silver is not shorted (it is net ‘long’) and mostly traded as futures or ETFs.

So, why am I concerned? It isn’t so much the ‘democratisation’ of finance, nor making fee-free investment platforms available to the man in the street, nor is it the populist mentality. It is the ‘mob rule’, ‘herd mentality’ and feeding-frenzy that can can be whipped up in a crowd just using social media. A single tweet by Elon Musk has boosted the price of Bitcoin by 16% in a day. This is social media hype and amplification is how the attempted coup/insurrection happened on Capitol Hill – and what it is best at is destroying trust in institutions. All you have to do is rally a mob against a cause – ‘stolen election’ or ‘fat cat hedge funds’ and away you go. Obviously, people end up losing money, or their lives, even if that was never the original intention. The American version of Democracy is in some serious need of an overhaul but is never going to happen. Voting boundaries are carefully drawn up between Dems and the GOP which is why there is a such a close election every time and has little to do with ‘one man one vote’. The GOP leader, Kevin McCarthy, went down to Florida to ‘kiss the ring’ (not my words) of the king-maker and insurrectionist in chief. A QAnon conspiracy theorist (Marjorie Taylor Greene) is not only in the Senate (with a 75% majority behind her run for the seat) but has also been nominated onto a prestigious school committee. Is it little wonder that in this hot mess, social media hype rules?

What are the potential dangers of this little episode? If this crashes, lots of retail investors, especially if they have been sucked in by greed into leveraging, can lose all their money and loads more. The shorted companies that have had their share price boosted are probably taking full advantage of it, knowing it can't last. Hedge funds are haemorrhaging money. The loss of trust in the stock market is possible – but is it likely? More regulation is going to be very difficult. Shorting might become less popular, and Hedge funds will protect themselves against populist short-squeezes and we'll all forget about it and move on.

The only recommendation I can make to readers of this blog is that if you do your own trading, either restrict your exposure to funds you can afford to lose, or do some serious up-skilling into the use of derivatives, leveraging and how markets work and diversify.

Fund SA vaccine plan by cutting waste

OUTA

Raising funds for the Covid-19 vaccine is an opportunity for government to show South Africans that it is serious about reducing the cost of a bloated government, unprofitable SOEs and recovery of funds lost to corruption.

Obtaining the necessary funds to pay for South Africa's Covid-19 vaccine and roll-out plan is paramount and urgent, however, funding by way of increasing taxes should be regarded as the worst and last-resort option.

Unfortunately, South Africa has exhausted its emergency reserves, largely as a result of poor leadership decisions, corruption and excessive expenditure on failed SOEs during the Zuma era, which has given rise to excessive tax hikes and VAT increases over the past few years to finance the state's affairs, long before the arrival of the Covid-19 pandemic.

"How is society expected to take government seriously when on one had it plans to bail-out a failed state airline with more than R15bn, whilst crying out for tax increases to vaccinate the nation and bring an end to the pandemic in South Africa?" asks Wayne Duvenage, OUTA's CEO.

South Africa's tax base is diminishing and overtaxed. By trying to squeeze more blood out of this stone, the state will merely drive further investment and savings offshore, which is counterproductive for attracting investment, spending and improving business confidence.

Obtaining the required quantities of the vaccine is essential for the survival of our economy and the nation as a whole. Widening the budget deficit, borrowing from international donors or funding organisations might be considered better options than raising taxes, although these are also dangerous routes to follow under our current conditions.

The state must demonstrate its competence and ability to find these funds, in a manner which citizens can respect.

Some ideas of where the state can obtain these funds for the vaccine are:

- Place an immediate ban on purchasing vehicles, property and other assets for political office-bearers, at all levels of government.
- Merge a number of ministries and possibly departments and reduce the bloated size of government, along with the high salary costs for the taxpayer.
- Reassess the SOEs. There are more than 300 SOEs, many of them superfluous and running at a loss, so this is an ideal opportunity to make decisions on cleaning out the rot and to sell off the non-essential entities that add no real value to South Africans. This will save the taxpayer further bailouts as well as generating income for the vaccine plan.

- Work harder to recover approximately R11bn of state funds from CRRC (the Chinese SOE involved in helping loot Transnet on the locomotives contract, see **here**), Swifambo (the PRASA contract for too-tall trains) and HSBC bank, which was directly involved in laundering revenue from South Africa for corrupt purposes. There are many other cases of excessive corruption and overspending reported by civil society, the media and the Auditor-General which provide the state with opportunities to recover revenues.
- Excessive spending of state office rentals with the private sector, whilst Government offices remain empty and in disrepair. This is an ideal opportunity for the state to compile a comprehensive audit of its own empty offices, begin terminating leases due to expire and move state departments back into the offices they already own.
- Reassess the viability and impact of some lockdown restrictions on businesses. The loss of excise duties from the alcohol ban needs to be revised.
- Call on MPs to introduce acute awareness and oversight of wasteful and dishonest spending by Cabinet and members of parliament. In 2020, OUTA reported on the failure of MPs to block state capture (see **here** and **here**) and reiterated in **comment on the MTBPS** the need for more efficient and effective spending.
- Cut the budgets of those government departments with high irregular expenditure that adds up to billions of rand each year.

Robinhood Tries to Make People Hate It Less

Francis Scialabba

When Robinhood and other online brokerages restricted buying on certain highly volatile stocks including GameStop and AMC last Thursday, the internet went ballistic.

Lots of folks immediately assumed the company curbed trading to "protect" naive retail investors from hurting themselves. And more nefarious rumors spread that panicked hedge fund managers secretly worked out a deal with Robinhood leadership to halt trading on GameStop.

Robinhood's vague statement Thursday morning and a CNBC interview with CEO Vlad Tenev that evening did nothing to douse the fire.

So what really happened?

Over the weekend, Robinhood tried to explain: Basically, the company was concerned that it wouldn't have enough money to fulfill its IOUs. Without getting into too much detail (you can do that here if you want), a trade you make on Robinhood isn't actually *settled* until two days after you press "buy" or "sell." In the interim, Robinhood and other brokerages provide collateral to a third-party, the Depository Trust and Clearing Corporation (DTCC), to cover your transaction.

Last week, because of the tremendous volatility around certain stocks and the volume of trading, Robinhood needed to deposit *10x* as much money as it typically does—money Robinhood wasn't sure it had. So it shut down buy orders on those stocks, tapped hundreds of millions in credit, and raised $1 billion overnight.

- What happened to Robinhood happened to other brokerages, too. The CEO of Webull, a Chinese-owned trading platform that also restricted trading on "meme" stocks, said, "It wasn't our choice...this has to do with settlement mechanics in the market."

Bottom line: What's that saying about there's no such thing as bad publicity? Well, it definitely applies here. Robinhood was downloaded more than 177k times last Thursday, twice its download rate the previous week. That day, it also recorded more daily active users than all of its competitors combined.

Tired: GameStop Wired: Silver

Amateur investors on Reddit have a new target for speculative trading: a white, lustrous metal known for its electrical conductivity called silver.

Prices shot up around 7% when trading opened yesterday evening to their highest level in five months. Ahead of the trading window this weekend, demand for silver bars and coins was so enormous that several websites including Apmex, which Bloomberg labels "the Walmart of precious metals products in North America," were unable to process transactions.

The storm had been brewing for a few days. Last week, as we were all focused on stocks like GameStop, users on r/WallStreetBets were also rallying traders to buy the precious metal, sending March silver futures up more than 5% for the week.

Why silver? Bloomberg has some insight: "Market manipulation has been the rallying cry of conspiracy theorists in precious metals circles for decades, if not centuries. With their constant railing against banks and big government colluding to mask inflation, it was only a matter of time before they and retail investors raging against the financial machine joined forces."
