DAVID VERSUS GOLIATH ON WALL STREET? | BY ERNST WOLFF

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By ***Ernst Wolff.***

Last week, Wall Street experienced turbulences that attracted a great deal of attention worldwide. Individual stock prices shot up to record levels, crashed a short time later, and then caused price fluctuations on an unprecedented scale. The mainstream media immediately disseminated the following version of events: Large groups of small investors had gotten together via trading apps like Robinhood and WallStreetBets, cornered greedy hedge funds through targeted stock purchases, and thus thrown down the gauntlet to the market giants.

The Crowd versus Big Money - that sounds like a Hollywood-worthy confrontation between David and Goliath and makes people sit up and take notice. But unfortunately, this portrayal of events doesn't have much to do with reality. It is in fact a set-up in which David's bitter end is pre-programmed.

Let's take a closer look at what is going on:

In recent years, more and more commission-free trading apps have come onto the market, making it very easy for young people in particular to trade stocks online. This trend has increased significantly over the past year. During the lockdown, many young people, some of them unemployed, have started speculating. This has created a market that has now surpassed the one-trillion-dollar mark in the U.S. Alone. Since most of these newcomers, called neotraders, have virtually no idea of the speculative business, the providers make platforms available on which the individual user can look up how his fellow traders are trading. This often leads to a kind of swarm formation, which drives up the price of individual shares.

Because of the naivety of those involved, this sometimes takes on bizarre features. For example, the shares of the US car rental company Hertz suddenly rose by almost 1500 percent after its bankruptcy last summer because a swarm of RobinHood traders had jumped on it. In the past week one could observe now a similar phenomenon, which had however substantially larger effects and created therefore lots of attention: Traders of WallStreetBets and RobinHood drove the share prices of the companies GameStop and AMC in insane heights.

Neither company is bankrupt, but they are in deep trouble: GameStop is a stumbling retail chain for video games and equipment whose business has been going from bad to worse for years, and AMC is a movie theater operator deep in the red because of pandemic measures. There is a reason why this action has received considerably more attention than the Hertz case: powerful hedge funds had previously bet with large sums on falling prices of both companies and got into turmoil because of the sudden price increases. One of them, Melvin Capital, floundered so badly that two others, Citadel and Point72Asset Management, which would have been dragged down with it if Melvin Capital had defaulted, had to rescue it by contributing $2.75 billion.

Both RobinHood and WallStreetBets then imposed trading restrictions that not only slowed the rise in stock prices, but led to sharp declines. This helped the short sellers, but at the same time hurt the new traders and generated a shitstorm against the operators of RobinHood and WallStreetBets on the Internet. This quickly fizzled out, however, as the price gradually recovered and the trading restrictions were at least partially lifted again, and then turned into the opposite: since last Friday, more and more new interested parties have been registering with the platforms in order to trade as well, as they quite obviously believe the mainstream media's version of the David versus Goliath battle and would like to be counted among those who will defeat the unloved Goliath and can also rake in a lot of money in the process.

It is quite obvious that the digital-financial complex is working out a plan in the background, the goal of which is to let even more money flow into these platforms in order to further fuel the financial markets. The fact that amateurs almost brought down ripped-off Wall Street professionals here turns out to be complete nonsense.

On the one hand, no one should believe that Wall Street is so stupid as to allow the mass of the now more than 15 million traders of RobinHood and WallStreetBets to go unobserved without constantly monitoring and manipulating their platforms. On the other hand, one only has to look at the business connections in the background to know that there are close ties between the operators of the platforms and the hedge funds. For example, the hedge fund Citadel, which has come to the aid of Melvin Capital, is one of RobinHood's clients and is unlikely to be interested in letting the profitable source of money dry up.

Moreover, one should know that GameStop's largest shareholders, with a total of 26 percent, are BlackRock and Fidelity, two asset management companies that manage more than ten trillion dollars of ultra-rich investors, and to whom the price increase has brought rich profits. Incidentally, all RobinHoders should be reminded that just a few weeks ago, the operators of their platform were ordered by the U.S. Securities and Exchange Commission (SEC) to pay a $65 million fine for lying to and defrauding their customers for years by not having their brokers execute customer orders at the best possible prices and sharing the resulting price spreads with them, to the detriment of their customers.

But which larger game is being played here?

To answer this question, one must look at the recent evolution of the global financial sector. Since the crisis of 2007/08, the system has been kept alive only by constantly injecting new money while simultaneously cutting interest rates. Since interest rates have now reached zero, there is therefore only one remedy left: ever new injections of money. Until now, these have been injected into the monetary cycle by the central banks in the form of so-called "rescue packages". Since last year, however, things have been different. Because of the rampant disease around the world, countries have been making ever-larger aid payments to ordinary citizens, issuing checks of $600 a week in the U.S., for example.

At the same time, big donors have sponsored advertising campaigns for the new trading platforms, so much of this money has gone into speculation and driven the financial markets. This trend is expected to be fueled even further in the U.S. this year: There is currently talk of weekly payments of $2,000 to a total of nearly 100 million U.S. Citizens.

What exactly does all this mean?

Quite simply, the trading platforms like RobinHood and WallStreetBets are in no way there to get the big guys in the business into serious trouble. On the contrary, their job is to suck up the money generated by the state in the interests of the digital-financial complex and channel it into the financial casino, the very basin where the sharks of the digital-financial complex are already waiting for their prey.

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Thanks to the author for the right to publish the article.

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