

# ECONOMY

Trading markets have for ages been chock-full of stories such as GameStop's



THINK STRATEGICALLY:

## The Market's Reality Distortion Field

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### Reddit, Robinhood & GameStop Reality Distortion Field will end Badly

The reality distortion field concept was initially used by Guy "Bud" Tribble, the vice president of software at Apple, while a member of the Macintosh project in 1981, to describe Apple co-founder Steve Jobs' charisma and its effects and impact on the developers working on the project. Tribble quoted an episode of the TV series Star Trek "The Menagerie," which describes how aliens would create a new world through mental force.

Through the creation of a Wall Street reality distortion field by Reddit, Robinhood trading app has turned the stock market into a speculation paradigm. Small retail investors and hedge funds faced off over the computer game company GameStop, turning what at best was a struggling retail-store stock that traded on Jan. 5 at \$17.25 per share, rising through the distortion field to close at \$325 on Jan. 29.

The initial key to this fight between retail investors and hedge funds is the latter's strategy of actively shorting stocks to hedge, or protect, portfolios. As activist hedge funds utilize

shorting the stock, you will buy the stock at a lower price.

This is where it gets interesting. Retail investors who follow the WallStreetBets thread on Reddit, mostly using Robinhood began mortal combat with the hedge funds shorting stocks. The reality distortion field was complete.

### How can this occur?

The new normal for many broker-dealers is zero commission on trades; then you have hundreds of thousands of retail investors who, because of the pandemic, are working from home and glued to their computers for hours on end.

Why not begin to implement a big-versus-small combat to raise the value of a particular stock?

In this case, GameStop (GME) and meanwhile caused billions of dollars in losses to the "smart money" hedge funds. Well, it appears the retail investors have the upper hand.

### What is GameStop?

GameStop is a U.S. multichannel video game, consumer electronics and services retailer. The company operates across Europe, Canada, Australia and the United States. It sells new and

second-hand video game hardware, physical and digital game software and gaming accessories, mainly through GameStop, EB Games, Micromania stores and international e-commerce sites, gamestop.com, ebgames.com.au and micromania.fr.

The company has been closing stores since 2018, and last year alone closed 450 stores. When added to the 600 stores that had closed previously, the total is 1,050 fewer stores.

Sales have been falling steadily, at a rate of 29 percent since 2015. GameStop has also been recording losses during the past four years; during 2019, it lost \$470.9 million.

As you can see, this is a retail store facing the same woes most of the retail sector has been facing and by no means

is a growth story that would warrant such high valuations to its stock price or so much market attention, for that matter. Trading markets have for ages been chock-full of stories such as GameStop's that have led people to lose their life savings.

Some of the most famous include Tulip Mania, the Dot-com Bubble and the Housing Market Bubble; these bubbles happen because of the mixture of funding access with euphoria. In the end however, this is a limited market situation that will not last.

As I said, the GameStop bubble will end badly for most investors; do not be tempted to follow the herd and acquire this stock, particularly at the current price.

### Week in Markets: Wall Street Engulfed by Speculation, Uncertainty

The U.S. stock market ended the week and the month with historical losses, the worst since October. Wall Street has been inserted between factions of traders who have caused undue volatility in specific sectors of the market. Usually, an increase in volatility would signal investors to reduce their risk; we use the Chicago Board Options Exchange's CBOE Volatility Index (VIX), or "Fear Gauge," a measurement of the expected volatility. The index recorded a reading of 32.4, which is higher than the long-term average of 19.8.

Recent Key Economic Indicators:

Real Gross Domestic Product (GDP): increased at an annual rate of 4 percent in the fourth quarter of 2020, according to the "advance" estimate released by the Bureau of Economic Analysis. The result for the full year is a contraction of 3.5 percent, missing expectations as worsening coronavirus numbers slowed the recovery.

U.S. Initial Claims for Unemployment Insurance: fell to 847,000, down 7.33 percent from 914,000 last week.

U.S. New Single-Family Houses Sold: rose 1.57 percent to 842,000, up from 829,000 last month.

U.S. Durable Goods New Orders: fell to 0.16 percent, compared to 1.21 percent last month. This is lower than the long-term average of 0.31 percent.

Wall Street Summary for Jan. 29:

The Dow Jones Industrial Average closed 29,982.62, down 1,014.36 points, or 3.27 percent.

The Standard & Poor's 500 closed at 3,714.24, down 127.23 points, or 3.31 percent.

The Nasdaq Composite Index closed at 13,070.69, down 472.37 points, or 3.49 percent.

The Birling Capital Puerto Rico Stock Index closed at 2,004.62, down 157.44 points, or 7.28 percent.

The U.S. Treasury 10-year note closed higher, at 1.11 percent.

The U.S. Treasury 2-year note closed at lower, at 0.11 percent

### The Final Word: The Birling Capital Puerto Rico Bank Index Reports 4Q Earnings

The Birling Capital Puerto Rico Bank Index (BCBI) had a solid year in 2020 among the top three Puerto Rico shareholders. Let's examine their performance from March 31, 2020, to Jan. 29, 2021. The BCBI's return was 62.93 percent in those 10 months.

The BCBI is made up of the following institutions:

First Bancorp. (FBP): Achieved a return of 71.05 percent; closing price on Jan. 29, \$9.10. Net Income for 4Q2020 was \$50.1 million vs. \$28.6 million; Full-Year Net income of \$101 million in 2020.

Popular Inc. (BPOP): achieved a return of 62.14 percent with a closing price on Jan. 29 of \$56.75. Net Income for 4Q2020 was \$176.2 million vs. \$168.4 million; Full-Year Net income of \$507 million in 2020

OFG Bancorp (OFG): achieved a 53.67 percent yield, with a closing price on Jan. 29 of \$17.11. Net Income for 4Q2020 was \$21.7 million vs. (\$2.6) million; Full-Year Net income of \$68 million in 2020

In all, the Puerto Rico banks realized collectively \$676 million in net income. We suggest that investors re-examine their stocks in the BCBI, as they deserve a fresh look as they rebalance their portfolios.

*Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.*

Weekly Market Close Comparison	1/29/21	1/22/21	Return	YTD
Dow Jones Industrial Average	29,982.62	30,996.98	-3.27%	-2.04%
Standard & Poor's 500	3,714.24	3,841.47	-3.31%	-1.11%
Nasdaq	13,070.69	13,543.06	-3.49%	1.42%
Birling Puerto Rico Stock Index	2,004.62	2,162.06	-7.28%	-1.98%
U.S. Treasury 10-Year Note	1.11%	1.10%	0.91%	0.10%
U.S. Treasury 2-Year Note	0.11%	0.13%	-15.38%	0.15%