

Episode 114: Wall Street War Games with The Bill Walton Show Team

- Speaker 1: [00:04](#) Welcome to The Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.
- Bill Walton: [00:24](#) Hi. Welcome to The Bill Walton Show. I'm Bill Walton. Today, we're going to have a conversation with some of the members of our team, Frank Wazeter, Alyona Wazeter, Greg Corombos, Rich McFadden, if Rich shows up. Rich is a little late. He's always a little late, but hopefully he'll join us because he always has interesting things to say. Today, we're looking to find out what's really going on with GameStop and with Reddit and with the struggle of good versus evil with short sellers on Wall Street. Did I mention Greg? Greg Corombos, there you are.
- Greg Corombos: [01:06](#) You did mention me. You forgot Brian.
- Bill Walton: [01:09](#) I forgot Brian McNicoll. All right. Well, you know, guys, I'm just learning how to do this five-way.
- Frank Wazeter: [01:23](#) Frank, you've been following this closely. Could you give us an overview about what's happening here, because this is in real time?
- Frank Wazeter: [01:23](#) Yeah. Essentially, back in July, some of these Redditors, these guys deep in the video game community figured out that there was some weird stuff going on with GameStop. There's this video going back to it where they put together this nice, big, detailed thesis and said, essentially, there is more shorts, meaning more borrowed shares to be sold, than there are available shares of this company on the market. Sooner or later, this is going to go sideways. If we just invest in it, we'll make money out of it.
- So they start this process in July, and then things start to explode by January. Then all of a sudden it comes out that, as it turns out, one of the biggest investors was Melvin Capital, that was shorting the stock. Within a couple of days, it just comes out they lost like \$2.9 billion. They've got to go to Citadel, which they had had a relationship with, to get more capital because they only had about \$12.5 billion, so they're looking at losing a quarter of their whole net worth. Then this leads to news coverage, more people jump on it, so the stock price rockets

from about a \$5 point to, at some point, about \$420. At the end of it, Melvin is losing \$6 billion on a bad bet, and it just creates all this chaos.

It came out that Citadel had been buying user data from Robinhood, and Robinhood had branded themselves as democratizing finance. Throughout this whole-

Bill Walton: [03:24](#)

Robinhood is an online broker, and you can trade through them without paying a fee.

Frank Wazeter: [03:29](#)

Correct. Their big thing is commission-free trades, and you can buy fractional pieces of shares. So they have this PR nightmare because them and a bunch of other brokers all of a sudden have fear that they can't cover this tremendous amount of volume of people buying up GameStop. As a result, they have to lock down and restrict buying and selling. They said for a period of days, "You can only sell. You can't buy anything." Then, afterwards, they say, "Well, you can buy, but you can only have one share. You can only have five shares."

Throughout all of this, you see this big, massive media campaign saying how bad Reddit is, and they're trying to ruin the market; they're a bunch of degenerates; they're doing all these nefarious things. Meanwhile, Financial Times even comes out and says, "Oh, the Redditors are a bunch of alt-right white supremacist guys." Then the Reddit guys called them out on it. Financial Times has a disclaimer on that article where they had to retract it because they had zero basis whatsoever for saying that.

Then you see just this glorious amount... Elon Musk coming out and tweeting about it. You see Chamath Palihapitiya, which is a venture capitalist out of California, who wants to run for governor there, or seeded that he wants to run for governor there-

Bill Walton: [05:04](#)

We hope he does.

Frank Wazeter: [05:05](#)

Yeah. He's my superhero. He had a great interview with CNBC where he's just... CNBC is towing the line of Melvin Capital and Citadel over there, and Chamath is saying, "It's totally hypocritical for you to say that what the Redditors are doing is bad, when we all know that these guys have idea dinners and things like that where they get together." You see what starts as a big, massive misinformation campaign-

Bill Walton: [05:37](#) Yeah, there's the underlying reality... Well, in Wall Street, there really is no underlying reality. What you think is true depends on where you sit, and that's the reality of Wall Street. To just amplify a bit, Reddit is an online app, and they've got subgroups in Reddit. I just found this out. I joined. The subgroup that's focused on this group of stocks is called WallStreetBets. There were a couple hundred thousand people in it, and now in the last six months, it's grown to two and a half million.

Frank Wazeter: [06:14](#) It's up to 8.2 million now. They got like two million people in the past 24 hours.

Bill Walton: [06:23](#) Brian, you've done some-

Brian McNicoll: [06:26](#) Well, yeah, you were talking about the reaction. The thing that has caught my attention is the reaction from society at large, the media and so forth. You're searching for bad guys here, and the media is standing up for big institutional investors against young rebels. I'm not sure either of those images work. Obviously, there are some institutional investors, on one side of this, are the ones taking the bath, but as you said, Frank, the characterization of who the people profiting from this right now are, they just basically made up bad stuff to say about people. There was a guy on MSNBC saying, "These are guys who sit in their basement playing video games. They should go out and get girlfriends and lead productive lives." They're participating in the market-

Bill Walton: [07:33](#) How do they know it's not the girlfriends doing the trading?

Brian McNicoll: [07:35](#) That's right. Yeah. The worst thing is this guy just acted as if it was all guys and no women took part in this. The characterizations were ridiculous.

Bill Walton: [07:48](#) Let me provide a little context, and then I want to hear Greg and Alyona's points of view. Context is this. This strategy of shorting public companies has been around for decades, and it's been a specialty of a subset of hedge funds. Hedge funds have got all sorts of different trading strategies, long-short, short only, etc., and the momentum traders, and so on and so forth.

There's Rich McFadden. Hey, Rich. I'm glad you got up.

Rich McFadden: [08:20](#) I'm here for you, man.

Bill Walton: [08:21](#) Okay. Hey, we need you.

Anyway, so this has been around for years. The short way to describe it is there's a strategy called short and distort, which is where you take a position in a stock and then you get out and tell a story that makes it sound much worse than it is. The hedge funds have been very good at picking companies that have weaknesses, whether they're regulated by the financial regulators or, in the case of biotech companies, by the FDA, where there's a complex company, hard to understand, and easy to distort the true picture.

Well, in the case of GameStop, it was a bricks-and-mortar retailer of computer games. Frank, you guys know a lot more about this than I do. But it wasn't really going anywhere, and they've got to figure out what to do with, what, 5,500 locations, 6,000 locations? It's not a growth business on paper. This was one of the targets. Then another target was AMC Theatres. We all know the theaters have been dark for six months because of the pandemic lockdowns. So the hedge funds have been good at targeting this.

What I think most people don't know is that, 25 years ago, in 1996, there were twice as many public companies traded as there are now. There were roughly 7,500, almost 8,000 companies. That number has dwindled to about 3,400. Part of the reason is the complex regulatory environment that public companies are in, and it's expensive to be public. But also, the small and mid-cap companies are incredibly vulnerable to somebody taking a big position in the stock and either driving it down, that's more often the case; sometimes they try to drive it up. They did this with impunity for the last 20 years or so.

Now, all of a sudden, on the internet, in Reddit, in this team of, what are we calling ourselves, WallStreetBets, there were a group of small investors that decide, "Well, we're going to take the other side of the trade, and by the way, we can all communicate with each other." The hedge funds do their dinners where they exchange ideas, and they do a lot more than that. They collaborate on who's going to do what, when. But now the little guy is doing that.

The hedge funds are a \$3 trillion segment of the market, and the hedge funds have become very ensconced. They're part of the establishment now. In fact, there's this notion of regulatory capture, where if you're regulated by an agency in D.C., the industry works to get the regulator on their side. I think hedge funds have largely done that with the SEC. The environment is such that-

Brian McNicoll: [11:21](#) They acted in secret regulation, right?

Bill Walton: [11:24](#) Yeah, and they're cruising along.

Brian McNicoll: [11:24](#) Barrier to entry.

Bill Walton: [11:24](#) They're cruising along, making money. They're taking stocks out via short-selling year after year, and now we've got this new thing. I think it's terrific.

Rich McFadden: [11:37](#) What's the danger there, Bill? What could this new scenario of these Robinhoods running around fighting the big guy, what kind of chaos could they create because they don't maybe know the system as well as the big guys that are manipulating it every day?

Bill Walton: [11:56](#) Well, the thing that's happened in the last five years, 10 years, certainly the last few years, is that the information advantage that hedge funds and institutional traders had has virtually disappeared. With the internet and 24/7 communication, chat boards, things like that, the edge that you might've had when I was on Wall Street in the '70s and '80s and part of the '90s, it's a totally different landscape. If you go onto the Reddit site, you see a lot of these people are writing very thoughtful papers about what this company is really worth and what it isn't worth. That's a good thing. That means you've got more people in the market deciding what things are worth.

The bad thing is, if you're one of these smaller traders, is you're putting your own net worth at stake. You could lose all your money playing this game. But I think they know that. The chat on Reddit is great fun. Frank, you want to give us some example of dialogue on Reddit?

Frank Wazeter: [13:15](#) Maybe this makes it a little bit easy for mainstream media to villainize them, but there's a very unique culture that goes on that's very deeply steeped in video games, where it's funny to be stupid or to do dumb things, so it's incredibly "vulgar." They'll refer to themselves constantly as dumb, retarded, autistic apes. It's hilarious to be autistic, meaning that they're obsessing over something to a point well beyond what's reasonable. The whole idea at this point is that it's not even about making money for a lot of them. It's like, "Yeah, okay, if we made a little bit, it's fine." But they're saying, "We've got diamond hands. We're going to hold it until the stock reaches 10,000 in price."

My favorite quote of all time is one Redditor comes back and says, "Melvin Capital is learning not to fuck with weaponized autism." This is the humor. Like I said, it's incredibly vulgar. It's off-the-wall. If you're not part of the culture, why is it cool to refer to yourself as these people? But this is a millennial group segment that mostly grew up playing video games together and is used to getting together in a group of strangers playing World of Warcraft or online games and doing coordination amongst 40, 50, 100 strangers like it's no big deal, like, "We're just going to do it." It's like getting together and playing baseball.

- Bill Walton: [15:01](#) That makes them a very worthy adversary of the hedge funds.
- Frank Wazeter: [15:05](#) Yeah.
- Bill Walton: [15:05](#) Greg, got a thought?
- Greg Corombos: [15:07](#) A couple of thoughts here. First of all, interesting bedfellows on the reaction to this. Elizabeth Warren, who has been hating Wall Street and the big banks, all of a sudden talks about the need for regulation. All of a sudden, she's not on the side of the little guy anymore. You've got the Shark Tank guys like Kevin O'Leary and Mark Cuban out there cheering them on all the way. Dave Portnoy of Barstool, who is putting together this small business relief fund, thinks it's a great thing.
- Before we all cheer the storming of the Bastille here, Bill, you've been on the institutional side before. While I'm sure you don't like a lot of the regulations, they do provide guardrails of what you can expect. If you were still really actively in the game and in that business, how would you have reacted to all of these people coming in and trying to uproot the market like that?
- Bill Walton: [15:58](#) Well, I was in the private equity world, so I wasn't as much involved in the day-to-day trading, thank goodness. That's an incredibly tough, tough, tough game. I think back then, and even now, I'd welcome more people coming into the market.
- I think the risk here, Rich, to your question, the risk is we get regulatory overreaction. Time after time after time, we've had regulatory overreactions. The first round, we had Sarbanes-Oxley. Then, later on, after the 2008, 2009 meltdown, we had Dodd-Frank. What that's done to the capital markets, as the guys who run these big organizations, like Jamie Dimon, will say, of JPMorgan, "The regulation has created a moat around our business model," the capital needed and the regulation that you're going to have to put up with. To start a small bank,

you're going to have to fill a stack of forms out that run about three or four feet high, and you're going to need more capital than ever. It's really shut down new entrance into the traditional banking businesses.

Then what's happened, and that relates to what's happening with Reddit, is we've got a lot of fintech companies, a lot of companies that are operating outside of that, and they're doing a lot of innovative things, which I think is all good. I think the benefits of the small investor coming in with eyes open... And if you read what they're saying, they're not wearing pink rose-colored glasses. I guess that was the word, if I can date myself. They see what they're doing, and they like taking them on. The risk is a regulatory overreaction.

I think the thing that's interesting is there seems to be a political aspect to this where you've got the hedge funds, and the hedge funds I think are now part of the establishment... Remember, the 10 largest hedge funds, if you ran one of those, the guy or gal, I think they're all men, who was making the least amount of money last year was paid \$377 million. To be in the top five, you were making \$750 million a year. With that kind of money, you can guarantee that they're using it to buy political influence, to make sure that the regulators see their model in the same way. They can hire the very best lawyers, PR firms.

I was kidding with Frank on the way, I guess that technically I could be a member of this elite, but I'm kind of loving seeing the elite being gored here because-

- Rich McFadden: [18:58](#) I think you should join the Reddit group. I think that would be amazing.
- Bill Walton: [19:00](#) I did.
- Rich McFadden: [19:00](#) Oh, good.
- Bill Walton: [19:01](#) I did. I joined this morning.
- Rich McFadden: [19:05](#) Oh, good. That's awesome. I love it. The thing that i love about all of this is the same people who hated Trump are the people who are like, "Yay, the little guy," where Trump was all about the little guy and fighting the establishment. I want people to wake up and understand that they hated Trump for the reason that they love what's going on. The disconnect there boggles my mind. I just don't get that.

Brian McNicoll: [19:43](#) Yeah, on top of that, you think about all the things that Facebook and Twitter did to Trump when he was in office. What they were trying to do is get regulated. They were trying to bring on a regulatory environment over them that would create barriers to entry. You have Parler and all these things. They're racing around trying to keep any of that from getting caught up, because if they can get their regulatory regime in place before a rival comes up, a rival won't be able to come up.

Rich McFadden: [19:43](#) Yeah, that's a good point.

Bill Walton: [20:20](#) Let me tie that in... The ratings on Google for, gosh, what's our company here?

Frank Wazeter: [20:30](#) Robinhood.

Bill Walton: [20:30](#) Robinhood. The ratings on Google for Robinhood, they went from five stars to one star. The reason that happened was-

Rich McFadden: [20:39](#) Of course they did.

Bill Walton: [20:40](#) ... that they stopped trading. They said, "Look, you can sell, but you can't buy." That's not exactly being a market maker. All the small investors came on Google and started rating them, and they went from five to one in a heartbeat. Then Google came in and intervened and erased all the negative reviews. Now, what was that?

Brian McNicoll: [21:10](#) They don't want to be looking like they're picking winners and losers. We all know they're willing to do charades that we all realize are charades. They have no compunction about that.

Bill Walton: [21:24](#) Well, they used to say you're not paranoid; they really are trying to come after you.

Brian McNicoll: [21:29](#) Yeah, that's right.

Bill Walton: [21:31](#) It feels a little bit like that. I don't know how Google felt like they needed to intervene here, because in defense of what Robinhood had to do, there is a potentially good outcome here. Stock markets have a very, still, antiquated trading system based on the way things were done in 1920 or '50 or '60, where you get a two-day settlement and there's lots of capital involved in being a middleman in this world. Robinhood really did need a couple billion dollars that it didn't have, and they could either stop trading or they could go out of business. So what they did-

Rich McFadden: [22:13](#) It wasn't the man coming down, telling them to stop this. It wasn't the hedge funds telling them to stop it. It was a monetary reason. Their bank account was short, and they couldn't do the payouts.

Bill Walton: [22:25](#) That's putting the best light on it. That's the reason. Now, if you go on to Reddit, that isn't what they think.

Rich McFadden: [22:32](#) Right. That's the story I had heard, is that the hedge funds came in and said, "You've got to shut this down."

Bill Walton: [22:38](#) Well, I think they may have, because the hedge funds may be invested in some of the venture funds. This is all very incestuous, guys. They all own the same stuff.

Frank Wazeter: [22:48](#) If you start doing the connections, you've got some people that are long on it, short on it. On the one hand, they lost all this money, and then on the other hand, GameStop is still owned 86% by institutions.

Rich McFadden: [23:02](#) Bill, why is shorting the market even legal? Explain why that's allowed. I don't understand that.

Bill Walton: [23:11](#) Well, I think it's a good thing, ultimately, because it allows... If you believe the market functions to set prices and you want to get an efficient way to figure out what something is worth, being able to buy it only sends one signal, but if you can go in and you can sell it by borrowing somebody else's stock, which is how the short-selling works, although sometimes there's something called naked short-selling, where you sell it short but you don't even have the borrowed stock, which is illegal-

Rich McFadden: [23:48](#) How is that even possible?

Bill Walton: [23:50](#) Well, do we have a couple hours? It's complicated, but it's not that hard to do if you know your way around Wall Street. Short-selling, essentially it's like, why do we have options? Well, you want to be able to make a market in something without having to have physical ownership of it or take physical possession. Short-selling, as long as you've been kosher and borrowed the stock and are playing by the rules, I think that's okay.

Now, Frank pointed out the short interest in GameStop. It had 50 million shares outstanding, and I think they were 65 million short. If you've got 50 million outstanding... There's a lot going on there that is way outside the rules.

I think in the short run, in small quantities, short-selling really is very good, but this one got really out of hand. But it's not like what the Melvin guy is... I think he lost, what, \$3 billion? He went from \$12 billion to \$8 billion on his hedge fund. I mean, he's still got \$8 billion left, so he's not that unhappy, but-

Frank Wazeter: [25:08](#)

Well, then there was another \$3 billion that he owes back to Citadel, where they helped him stay liquid.

Bill Walton: [25:15](#)

Well, and also, he traded away a lot of the revenue of his firm to get that money from Citadel. These guys don't give you the money. They cut a deal. I think he cut a tough deal with Citadel. I don't know the details.

Rich McFadden: [25:30](#)

In your mind, what's the long play here? Ideally, in Bill Walton's mind, how does this play out to where it helps us all, helps our 401(k), because really that's all we care about. I want to know that my 401(k) is going to be good in 10 years, 15 years.

Bill Walton: [25:47](#)

Well, I think the thing that's happening here is that there's a lot of transparency when you look into what's happening with Reddit and the WallStreetBets group. You can see their thinking, their talking with each other. They're totally transparent in terms of how they're looking at the trade. On the other side of it, if you look at the hedge funds, they don't disclose anything. If you're running a public company, which I had the privilege to do for 14 years, you're going to have to report everything you know about that company every 90 days because of the quarterly disclosures, so there's lots of transparency there.

One of the good possible outcomes here is they're going to be forcing more disclosure of what hedge fund positions are and a closer look at naked short-selling, which has been a problem for 30 years, and it still is a problem and needs to be looked at again. The risk here is we get the same reaction, Elizabeth Warren calling for more regulation. I think AOC actually was on the side of the Reddit people, and then when she found out that Ted Cruz agreed with her, she changed her mind and then accused Ted of trying to murder her. Was that before or after?

Brian McNicoll: [27:09](#)

A little bit of a drama queen. Yeah.

Frank Wazeter: [27:12](#)

Yeah. That was, I think, some spat they got into a week or two ago or something like that.

Bill Walton: [27:17](#)

Yeah, but the funny thing is that we're... The thing you know about the markets is they change so quickly. Even as we're

sitting here February 2nd, and I'm going to give it a date because it matters to the story, is that GameStop is, what, at 380 bucks last week?

- Brian McNicoll: [27:38](#) Yeah, and it's at 225 now.
- Frank Wazeter: [27:40](#) It closed the week at 325.
- Bill Walton: [27:42](#) No, I think it's traded down below that. I think it was down 35% this morning, wasn't it
- Brian McNicoll: [27:46](#) Yeah, it got crushed again this morning, but I think it opened at 225 or something-
- Frank Wazeter: [27:53](#) The current trading price right now is 118 on GameStop.
- Rich McFadden: [27:58](#) 118? Wow.
- Bill Walton: [27:58](#) It's down almost 60%, 70% from when...
- Rich McFadden: [28:04](#) From its high.
- Bill Walton: [28:05](#) Yeah.
- Rich McFadden: [28:06](#) But is it still up from where it was before all this started?
- Alyona Wazeter: [28:10](#) Yeah.
- Frank Wazeter: [28:10](#) It's still up.
- Bill Walton: [28:12](#) It was seven bucks.
- Rich McFadden: [28:13](#) Right. There you go.
- Bill Walton: [28:15](#) The argument people have, "Well, this price has moved way beyond the fundamental value of the company." The issue with that is you never really know what the fundamental value of a company is. It's sort of, who is to say? That's why you have a market.

The other thing, back on to the hedge funds, is a huge percentage of hedge funds trade just on momentum. They don't care what the underlying asset is. All they want to know is what direction is it moving, how quickly is it moving, and how they can get a position in order to make some money. They're willing to make pennies on huge piles of capital because it adds up. The people that have criticized the Reddit people saying, "Well,

they're bidding it up way beyond the fundamental value of the company," they knew that. I think they were playing the same momentum game the hedge funds were playing, except they were playing it long and some of the hedge funds were playing it short.

Brian McNicoll: [29:12](#) That's a big theme of this, is that these are guys doing what gets done to us all the time. It goes on all the time. It's just different people doing it now.

Rich McFadden: [29:23](#) Let me ask you this. Is there a possibility that internet investment groups like this end up running Wall Street, they become the hedge fund managers, they become the powerhouses on Wall Street, guys sitting at home in their robes and pajamas who play video games all night, then they're going to run Wall Street and a big portion of our economy?

Bill Walton: [29:46](#) You mean they're not going to live in Greenwich, Connecticut, and-

Rich McFadden: [29:50](#) Nope.

Bill Walton: [29:51](#) ... have private estates?

Rich McFadden: [29:52](#) They're going to live in their mom's basement.

Frank Wazeter: [29:56](#) There's way too much vulgarity for classical society.

Bill Walton: [30:00](#) Here's the thing that's mystifying about the hedge funds. Rich, you may be right. Where I'm going with this is that hedge funds, when they were a smaller piece of the market, really did quite well. You got a lot of bright people, and they would produce returns that were 5%, 10% better than, say, the S&P. That's because they had a bigger landscape to get their investment ideas from, and there were fewer players, and they had some differentiated advantages based on information. They'd hire people to do research into things that none of us much think about. They made more money. Good.

Fast forward to the last five years, maybe the last 10 years, hedge funds have trailed the market by 2%. If you were in the S&P 500, you've gotten about 9% now, maybe 10% based on the numbers I'm looking at. Hedge funds did seven and a half percent. So you ask yourself, why are we still in hedge funds? I'm still in some. It's because you're looking backward at how well they did 10 years ago.

Then the other thing that's extremely annoying is that \$370 million that the top people are getting paid, they're getting it because they're getting 2% on their investable assets and they're getting a 20% carry on the profits. Compare that 2% on your hedge fund to a no-load mutual fund. I think people are going to start asking the question, why are we really paying it? The way hedge funds I think have become less important is people started paying more attention to how they're actually delivering results.

Now, I've got to drop a footnote to this. If you take something like Renaissance Technologies, which has developed an incredible algorithm to trade, they've been turning in returns 50%, 60% for a couple of decades. When I talk about the run-of-the-mill hedge fund, I'm not talking about the people that have really figured it out. But you can't get into Renaissance. You can't get into it. I can't get into it.

Maybe what ought to come out of this... We've got six of us on the phone here. Maybe we ought to get our own little section of Reddit.

- Greg Corombos: [32:25](#) I'm in.
- Frank Wazeter: [32:26](#) Not a bad idea.
- Greg Corombos: [32:26](#) Count me in.
- Bill Walton: [32:30](#) What else should we talk about with this? It's a fascinating-
- Rich McFadden: [32:35](#) Can I ask a question about something you said a little while ago about the stock market having 50% less members or traders than it did 10 years ago or something? What's the trend there, and where does that go? What's the danger of there not being a Wall Street someday and the implications of that?
- Bill Walton: [33:00](#) Well, there are four, five, or six drivers. One is that it's... It started with Sarbanes-Oxley, I think, although it's hard to put a precise date on it. But when Sarbanes-Oxley was passed, your reporting requirements and the things you had to do to be public, it got a lot more expensive.

Then at an earlier point in time, the small market makers, there were a lot of small brokerage firms. We had a rule where you could get... They were charging a quarter of a point to make a trade or an eighth of a point to make a trade, and then the SEC and the regulators in their wisdom said you could only make a

penny a trade. Going from getting that bigger amount to just a penny, and then even less, making a market in small-cap stocks wasn't a good business anymore. So it was expensive to be public; nobody wanted to make a market in your stocks.

Then the other thing that happened, as I pointed out, is it's a tough world out there. It's a predatory world. You've got to produce results. That's where the hedge funds made it very rough on these smaller companies. You miss a quarter, and they'll take you all the way out. You just don't want to be public. That's the negative.

The positive, in terms of where these companies go, is you've got the rise of the venture capital industry. A lot of the big tech companies that used to go public right away, like Microsoft did, Microsoft went public, I don't know, at some low valuation like \$100 million or \$50 million, something like that, which in that world is small, which meant that the public investors got a big ride on the future growth of Microsoft. I think they went public within about three or four years. I'm fuzzy. I'm not precise about these numbers. But Facebook, they waited eight years to go public, and the venture funds that had the big investments made most of the money in that. Then Facebook goes public, and the public investors only get to play at a much, much higher valuation.

I was looking at something. Some people say this might dwindle down; the only thing left are the huge S&P 500 companies. You've got a feeding system where companies go from private equity or venture capital, and they get big there, and then they go public only after they've taken most of the profitability away from it. I don't know, but that seems to be where it's going.

- Brian McNicoll: [35:42](#) Does it, though? Aren't we always predicting that the big are going to eat the small, only to find out that the small find a way to survive?
- Bill Walton: [35:52](#) Well, that's, I think, the lesson here, is that if you look at what's happening with these small traders and with the markets that are being made here and the information that they're sharing with each other, I think it's possible that we could end up with a resurgence of smaller companies with these smaller groups of investors, assuming the regulators let it happen.
- Frank Wazeter: [36:16](#) Also, here's a good stat. The DART, the daily active retail traders, individuals, in 2019, was about 10% of all the daily stock market activity. In December 2020, that number is up to 25%. You've got more individual investors now, more than ever.

I think as you see more and more the barrier to entry in terms of zero commissions across the board... I remember when I started on TD Ameritrade, just to make one trade in 2007, you'd have to spend \$6.25, and that was on a discount. You really had to think about what you were doing, especially if you had a small amount of money. But now if you don't have enough money to buy Tesla, you can buy one eight-hundredth of a share in Tesla if you really wanted to.

I think you're going to see a lot more of this momentum in things like that going back and forth as people say, "Yeah, I can actually get into this, and it's not this big, scary thing." Everyone always says, "Oh, you're going to lose your shirt. You're going to lose your shirt. It's terrifying. It's scary." It's all this kind of good stuff. "Give your money to the bank because they know how to handle it better." I think a lot of people are starting to realize that you don't have to be as smart as everyone thinks you've got to be to at least say, "Hey, I want to participate."

- Bill Walton: [37:54](#) The guys on Wall Street are not that much smarter. Maybe they're not even smarter at all.
- Rich McFadden: [37:59](#) I think we got that proven this past week.
- Alyona Wazeter: [38:03](#) I honestly think fundamentally there will have to be a change, going back to GameStop and the amount of short positions that Melvin had. Correct me if I'm wrong, but the only way that massive of a position would work is if no one would know about it for as long as possible.
- We're talking about a group of people who grew up on going to GameStop and choosing their games, whether it's Pokemon or whether it's more shooter games. It doesn't matter. They grew up on it. Now all these guys are in their 20s and 30s, and they're online 24/7 consuming massive amounts of information, partially because of COVID, but partially because that's who they are, because that's where they feel the most comfortable. That's their home. They sit there and they find all of these things, and that information is public. They just went for, "You only live once, and let's fix this part." For them, it was very unfair and something that they felt like needs to be fixing, and they went for it. I honestly believe that this is a first situation of many coming up because of how abundant the information is and how easy it is to find now.
- Bill Walton: [39:57](#) I so agree. When I ran my public company, I had a dual with a short seller. Boy, I wish I had Reddit then, because the problem was you didn't have any way to develop a constituency on the

other side of the argument. If we could achieve one thing out of this, I would say that word is transparency. Now you've got millions of people that are beginning to trade in this, and they've got information, but yet you've got this class of investors, the hedge funds, who have no transparency at all. There would be, I think, a real populist, maybe that's the wrong word, but a real demand for transparency for everybody in the market. If everybody has got the same transparency, a level playing field, it's a better market. More people can participate and feel like they're getting a fair shake.

- Brian McNicoll: [40:51](#) I think a lot of what's getting argued now is that what these people did was wrong. What they did to the institutional investors was wrong. There's no wrong. You know what I mean? [Crosstalk 00:41:08].
- Bill Walton: [41:08](#) The institutional investors can take care of themselves.
- Brian McNicoll: [41:11](#) That's right. The amount of people who are crying for them and trying to protect their rights and plant the flag and-
- Bill Walton: [41:18](#) Well, here's the other thing. In the journalism business, in the Financial News business, CNBC, Wall Street Journal, New York Times, Bloomberg, whatever, they trade in information. What the hedge fund world does very effectively is they feed these guys information and stuff about this company or this story or this CEO, and so they develop tremendously strong relationships with the reporters and the on-air people. When you watch CNBC, you can watch them react to who they're really hearing from. Who they're hearing from are the big institutions and the hedge funds.
- Frank Wazeter: [41:59](#) Well, and you see that, on Monday, all of the news agencies were sitting there saying, "Oh, Reddit is targeting silver now. Reddit is going big into silver." That's the next big hype train and everything like that. Then if you read Reddit, literally everyone on Reddit is saying, "We're not saying anything about silver. We don't have enough money to move that market. We don't have anything like that. In fact, Citadel Capital is the fourth-largest shareholder of silver. This is not something that we're doing. We're only doing GameStop and AMC. Anything else is bots and fraudulent and not endorsed by us," not that they're endorsing anything anyway, but not one of the plays that they're making.
- Bill Walton: [42:47](#) Okay. Well, to be continued. This sage is not going to end today. It's going to go on for a while, and there's a lot more that we'll be able to get into. Any other last thoughts anybody has, wants to...

If not, thanks, everybody, for listening. I'd love to hear what you think. Let us know on Twitter and Facebook, where you can find The Bill Walton Show. For previous episodes, you can also find us on Apple Podcasts, Spotify, YouTube, and of course, at thebillwaltonshow.com, where I hope you will subscribe to the show.

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