



Epsilon Theory  
***Hunger Games***

February 3, 2021

---



***And may the odds be ever in your favor!***

---

You have been told that investing in the stock market is like betting on a sports game.

You have been told that you are a SPECTATOR in the game of markets, that you are WATCHING a game being played out in front of you by lots of different companies.

You have been told that you should make 'bets' on those companies based on how well you think those companies can play the game that you are watching. The companies will play the game and they will keep score by 'beating' or 'missing' on revenues and earnings and the like, and then that score will determine whether or not your bets pay off.

You have been told that the better you are at 'analyzing' the teams playing this game, the more 'due diligence' you put into studying the teams playing this game, the more money you will make with your bets.

You have been told that everyone can win with their bets, that this is how you, too, can achieve the wealth that you *deserve*.

You have been told that the odds are ever in your favor.

*You have been told this for your entire life.*

***More and more, you suspect this is a lie. But if it is a lie ... what then? What meaning exists in the stock market if this is a lie?***

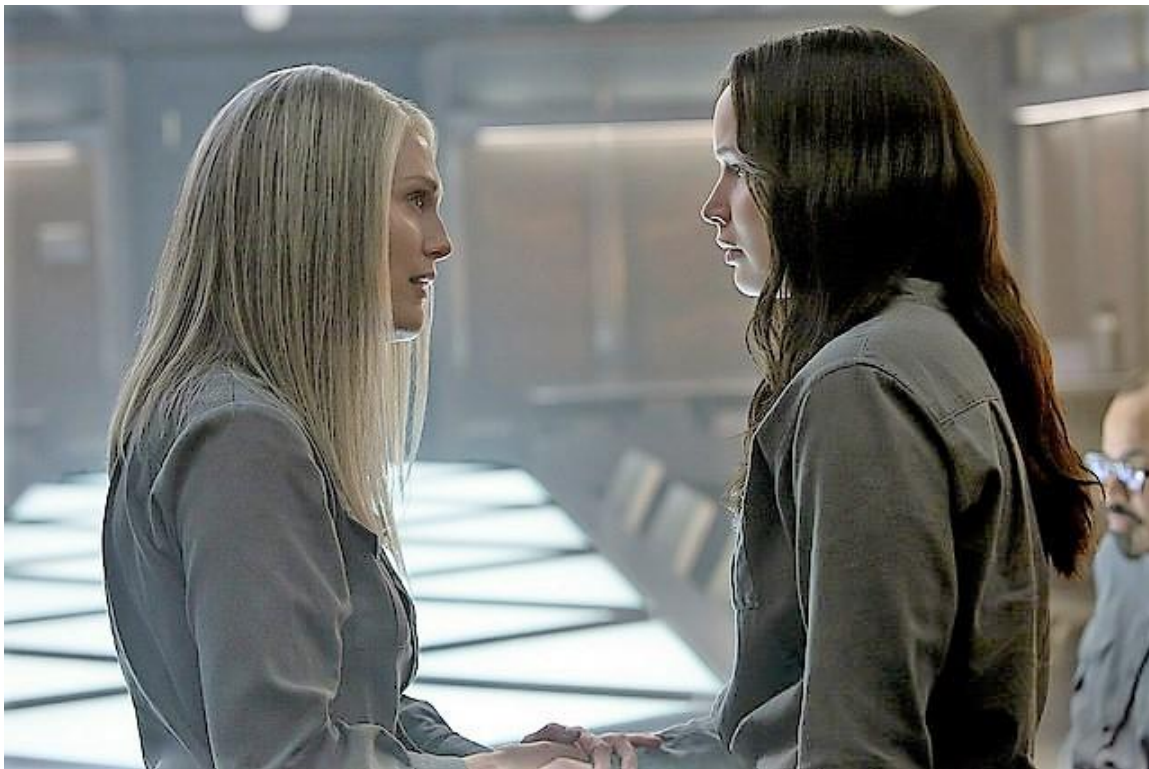
Over the past few weeks you have been told a new story. A brave story. A story of heroes. A story of meaning.

You have been told that by banding together and acting as one, you can “democratize” the stock market.

You have been told that you can slough off your market oppressors who “want companies to fail”.

You have been told that you can be a PARTICIPANT in the game of markets, that you can storm the playing field of companies, that you can take matters into your own hands and rescue a promising company under unfair attack.

*And, yes, make some good money in the process. Why not? Seems only fair.*



President Chamath Coin enlists Katniss to the cause.

***Today, as you see the collapsing stock prices of the companies you supported, you suspect that this was a lie, as well.***

And you'd be right.

Neither story is true. Neither story has EVER been true.

Both of these stories are narratives for our very own Hunger Game, a spectacle that chews up the participants in the arena while delivering enormous profits to the networks (media, financial and political) that put them on. Media networks count their profits in eyeballs, in the attention the Games garner. Financial networks count their profits the old-fashioned way, in the sheer volume of dollar-generating order flow the Games produce. As for politicians, they get their most valuable coin of the modern realm – an issue. The wackos on the left get to propose insane transaction taxes. The wackos on the right get to tell us how much liBeRtY we are enjoying by giving Ken Griffin all of our money. The very serious centrists get to tell us about how we need “a national conversation” about the T+2 settlement issues raised here.

And what about the rest of us? What about all of us reading story after story about the “Reddit Revolution” and what this all means for us?

*What do WE get out of the Hunger Games?*



***We are entertained.***



**This:** the events of last week, with Gamestop soaring to \$400/share and a subreddit chat group being the focal point of the “revolution” and Robinhood shutting down trades at the height of the frenzy and every hedge fund in the world degrossing at a mad clip and the usual Caesar Flickermans in politics and media trumpeting out a bullshit narrative of the little guy sticking it to The Man ... *changed NOTHING*.

You were played. Again.

**Also, this:** the events of last week, with Gamestop soaring to \$400/share and a subreddit chat group being the focal point of the “revolution” and Robinhood shutting down trades at the height of the frenzy and every hedge fund in the world degrossing at a mad clip and the usual Caesar Flickermans in politics and media trumpeting out a bullshit narrative of the little guy sticking it to The Man ... *changed EVERYTHING*.

We had TWO Emperor’s New Clothes moments last week. Two moments that individually come around every 20 or 30 years. In one week.

**What is an Emperor’s New Clothes moment? It’s when the *meaning* of a social institution changes on a dime. It’s when the *common knowledge* of a social institution – what everyone knows that everyone knows – changes on a dime.**

I’ll express these two Emperor’s New Clothes moments as memes, which seems only appropriate.





Last week's events accomplished every goal set out by the orchestrators of the Reddit Rebellion.

**Goal #1:** Melvin Capital's *ridiculous* short position was obliterated, and there was much rejoicing by the usual Wall Street suspects who had set up their long positions in hopes that this narrative snowball they rolled down the hill would create just such an avalanche.

**Goal #2:** Both retail order flow and target stock volatility grew exponentially, creating windfall market maker profits. Sure, things got a little dicey there with that whole Robinhood clearinghouse thing, but all's well that ends well.

But accomplishing these goals came at a price. The curtain was pulled back on what Wall Street really is, and The Man behind the curtain was revealed for everyone to see.



***We all see it. We all see it.***

Here's the first thing we all saw:

We all saw that the thing that determines whether or not our stock market bets pay off is ... other bets. We all saw that there is no "game of companies" taking place independently of our bets. We all saw that our bets, in and of themselves, can win the "game", with absolutely zero input from the "team" that is supposedly out on the "field".

What happened last week would be exactly like New York Jets fans getting together and deciding "hey, if enough of us bet on the Jets to beat the Patriots, that will CAUSE the Jets to beat the Patriots." Insane, right?

But that's exactly what happened.

***Because unlike football, the bets ARE the game.***

This is Secret #1. This is what Stevie Cohen and all the hedge fund masters of the universe know that you don't.

---

## The bets ARE the game.

*(shhhhhh)*

---

Here's the second thing we all saw:

We all saw that the rules of the game can be changed without warning if the game isn't working out for the owners of the game. We all saw that the dominant retail broker platform (and non-dominant ones, too) were told by trading settlement rules makers to shut it down for a day. No warning. No hearing or discussion. Just a phone call that they were on double secret probation and could either come up with billions of dollars in cash ... NOW ... or shut it down.

What happened last week with Robinhood would be exactly like if the referees who were working that Jets versus Patriots game – the one that the Jets were miraculously winning – decided at halftime that the Jets would not be allowed to have the ball on offense in the second half unless they ponied up a couple of billion dollars in an escrow account. Insane, right?

But that's exactly what happened.

***Because unlike football, the referees OWN the game.***

In this game, it's not the people who make the biggest and most profitable bets who have the most money and the most power. No, it's the referees. And by referees I don't just mean the

people who adjudicate the rules at the settlement clearinghouses. They're basically the equivalent of, say, college football referees ... an important but not *that* important subset of all referees. No, I want to focus on the equivalent of professional sports league referees, the top of the referee hierarchy, if you will. I want to focus on the people who place the ball on the 40-yard line or the 41-yard line in the Super Bowl, on the people who whistle a charge or a block on Lebron's drive, on the people who call balls and strikes on Gerrit Cole. And who call the shots at the settlement clearinghouses, too, if you wanna know the truth. I want to focus on the people who *adjudicate the bets* and take a small fee from every transaction for their trouble. I want to focus on the market makers.

Last year, **Citadel Securities**, the market maker division of Ken Griffin's financial empire and the largest market maker that executes retail trades, made \$6.9 BILLION in net trading revenues. That's more than twice their prior best year. They did this without taking ANY market risk. NONE.

Every time you push that button on Robinhood to buy something, Citadel Securities matches you with the seller and tells both of you what price you got. Every time you push that button on Robinhood to sell something, Citadel Securities matches you with the buyer and tells both of you what price you got.



And in that infinitesimal point in time when there is a tiny difference between what a buyer bids for a security and what a seller asks for a security, an infinitesimal point in time when Citadel Securities is BOTH buyer and seller of that security, an infinitesimal point in time that exists for EVERY market order that has ever occurred in the history of man ... Citadel Securities is there.



They pocket that tiny difference. Not so tiny in the case of options. Definitely not so tiny when volatility spikes and that bid/ask spread widens dramatically. That's what a market maker does, and that's why they are the masters of this game. They literally *make* the market.

*Citadel Securities doesn't care if you're buying or selling.*

**Citadel Securities only cares that you ARE buying or selling.**

And you are. Business is good. Everyone all of a sudden wants to download that Robinhood app and start trading. You may have noticed that there are a lot of media stories about that.

Virtually all of the Robinhood orders go through Citadel Securities. Why them? Because they pay Robinhood top dollar for it. That's how Robinhood makes money. Not by charging you a fee on your transactions, but by selling your Flow to Citadel Securities. What's that line? When the product is free, yada yada yada.

Know who else Citadel pays top dollar to? Janet Yellen.

For the nanosecond that Janet Yellen was between jobs as Fed Chair and now Treasury Secretary, **Citadel paid her \$810,000 to deliver three speeches**. Apparently that first speech was so riveting that they needed two more.

And you thought your ten-bagger in GME was a good investment. Imagine spending \$800k to be best buds with the person who regulates your \$7 billion in annual revenues.

It always amazes me how cheap it is to buy political influence. The best investment on Earth.





This is Secret #2. This is what Ken Griffin and all the market maker masters of the universe know that you don't.

---

## Market makers OWN the game.

*(shhhhh)*

---

Is any of this stuff illegal? Probably not. Maybe. I dunno. But here's what I'd be asking if I were a Congressional staffer trying to figure out how to make my boss look good.

First I'd swear in CEO Vlad of Robinhood and ask him the following question:

*Sir, are your internal controls so poor and your understanding of markets so rudimentary that you found yourself in violation of capital posting requirements to such a degree that your only option was shutting down client trades OR did the National Securities Clearance Corporation (NSCC) raise their capital posting requirements to a shocking and unprecedented level without warning?*

Now, the answer to at least one side of this question must be yes. Maybe the answer to both sides is yes. But at least one MUST be. And if the answer to the latter side of the question is yes ... well, then we need to ask the NSCC some questions. Start with the people who were on the phone with Vlad. I bet he remembers their names. I can promise you his lawyers remember their names. Work backwards from there. How did this decision to give Gabe and Stevie and all the other HF titans on the wrong side of this *ridiculous* trade a day to trim their sails and throw their ballast overboard come about? How did this process begin? Who made the first call?

I suspect many people will need to "refresh their recollection" of these events. Ah, well.

And then I call CEO Vlad of Robinhood back for some follow-up questions.

Because you see, *mirabile dictu*, in the days immediately after this extortionary rules change and emergency shutdown, Robinhood got \$3.4 billion in new capital. Hmm. If a prime broker had pulled this stunt in institutional world, it wouldn't have survived a single day. But Robinhood gets BILLIONS in more capital, more capital than it had ever raised in all of its investment rounds before. Combined. Hmm.

Per **Matt Levine**, "the VCs got a substantial desperation discount. (They bought convertible notes that 'will convert into equity at a \$30 billion valuation — or a 30% discount to an eventual valuation in a public listing, whichever is lower.')

Per **the WSJ**, “New and existing Robinhood shareholders participated in the deal, which is structured as a note that conveys the option to buy additional shares at a discount later, a person familiar with the matter said.”

So here are my follow-up questions for Vlad.

*Sir, Bloomberg describes your latest financing round as being priced at, and I quote, a “desperation discount”. Who are the new participants in this financing, sir? Were the participants or the terms or any other aspect of this financing discussed alongside your negotiations with NSCC for permission to resume trading? And before you answer, sir, I would remind you that you are under oath.*

And that’s when this gets interesting. Because *of course* the capital raise was part of the negotiations with NSCC, and *of course* the “new participants” will include a friend of Ken or a friend of Wes or a friend of Stevie, if not an outright market maker affiliate.

And the beat goes on.

Honestly, though, the investigations and legal issues around last week are a sideshow. None of these post mortems are going to *change* Wall Street. What happened last week wasn’t some aberration that can be *reformed* or *punished* so that we can return to some mythic Wall Street that never existed in the first place.

***What happened last week IS Wall Street, and government regulators have ZERO interest in changing it.***

All this “concern” that Janet Yellen and regulators suddenly have for the little guy, all of this “worry” that retail investors are getting themselves into trouble ... bah! ... complete theatrical horseshit. The only worry regulators had was degrossing contagion and whether they needed to step in to ensure big financial institutions (including hedge funds) didn’t go belly-up from all of their suddenly excessive risk.

So nothing changes, right?

Not if you expect Janet Yellen and Ken Griffin to do the changing.



***President Griffin's Snow's Second Panem Address: "Unity"***

*Well, screw that.*

We're never going to get change in Wall Street from the top-down. We're never going to get change from "reform". We're only going to get a change in Wall Street by the way that true and lasting change *always* comes, from the bottom-up and from individual action. The time to take that action is NOW. Why?

***Because we all saw what we all saw last week.***

That's what it MEANS to have an Emperor's New Clothes moment, to have a sudden shift in our common knowledge about the stock market. The common knowledge that the market is a derivative reflection of some real-world game of companies is gone. It's over. It can't be saved, no matter how many times ~~Jim Cramer~~ Caesar Flickerman says otherwise. There's no more shushing and whispering about the two Big Secrets of markets. Everyone knows that everyone knows that 1) The bets ARE the market. 2) Market makers OWN the market.

***Because we all saw what we all saw last week.***

There WAS a revolution last week, just not the revolution you heard about. There was no 'Reddit Revolution'. That's not a thing. It's just another story spun by those who would use you for fodder or feed. Or flow.

**There was a *Common Knowledge Revolution* last week – the only revolution that really matters over the long haul – and that is what changes everything.**

This is our chance to mobilize a critical mass of citizens, our chance to break out of the Sheep Logic that has gripped us for so long. It won't be our only chance. But it's a good one!

*I don't want to democratize control over Wall Street.*

***I want to diminish Wall Street's control over democracy.***

---

*I don't want to open up Wall Street to the little guy.*

***I want to reduce Wall Street's power and control over the little guy.***

---

*I don't want to create a new viral narrative of meaning for Wall Street.*

***I want to vaccinate against the faux narratives of meaning that Wall Street constantly evolves.***



How do we do all that? Through policy action, investment action and personal growth. All are easier as a team. All are easier as a pack.

---

**Policy action:** We take every opportunity to press legislators and regulators to take leverage out of financial institutions. All of 'em. Every chance we get. And yes, I understand full well that taking leverage out of Wall Street means getting off zero interest rates. Yes, please!

---

**Investment action:** We take every opportunity to put our money where our mouth is. We invest to achieve fractional ownership positions in real-world companies with real-world cash flows. We invest in public markets as a transmission belt for placing our private capital with management teams who can utilize that capital to more productive ends than we can. You know, what a stock market is supposed to do. When it's necessary to sit down at one of the casino tables that modern markets have become, we are armed with tools to measure and calibrate the narratives that determine price and flow around those tables. Even if it's the only game in town, we refuse to be the sucker at the table.

---

**Personal growth:** It's the question I posed earlier. It's the only question that really matters.

***But if it is a lie ... what then? What meaning exists in the stock market if all this is a lie?***

Meaning is found in calling a thing by its proper name. Meaning is found in the *choice* to engage with that properly named thing in the fullness of your identity and human autonomy.

**Clear eyes. Full hearts. Can't lose.**

Or in full-blown Zen koan mode, my all-time fave ...

Tanzan and Ekido were once traveling together down a muddy road. A heavy rain was still falling. Coming around a bend, they met a lovely girl in a silk kimono and sash, unable to cross the intersection.

"Come on, girl," said Tanzan at once. Lifting her in his arms, he carried her over the mud.

Ekido did not speak again until that night when they reached a lodging temple. Then he could no longer restrain himself. "We monks don't go near females," he told Tanzan, "especially not young and lovely ones. It is dangerous. Why did you do that?"

"I left the girl there," said Tanzan. "Are you still carrying her?"

— Nyogen Senzaki, *Zen Flesh, Zen Bones: A Collection of Zen and Pre-Zen Writings* (1957)

It's the hardest thing in the world, right? To let go of all those thoughts and narratives that have been drilled into our heads for as long as we can remember. To let go of the narratives that we have been carrying around like so much dead weight for YEARS. To see the market with fresh eyes and yet not give yourself over to bitterness, but to engage with the market for the good that presents itself *on its own terms*.

On its own terms.

It's not easy. It's a two steps forward one step back sort of thing. I struggle *every day* with this letting-go process, especially with the "no bitterness" part, and I'd like to think that I'm more of an adept at this than most. But it's so worth it. It's so *necessary* if you're going to invest a part of your life towards playing the game of markets.

This is the biggest game in the world. If you are a game player – as I am – you cannot resist it. The question is ... can you survive it? I don't mean financially. You'll be fine. I mean, can you survive it with your autonomy and your authenticity and your honor intact?

**I think that Epsilon Theory can help you do that. I think we can help you see markets for what they are. Not what you've been told they are, and not what you would like them to be. But what they actually are. And then how to engage with that reality with a full heart. Together.**

This is what we DO. This is what we've done **from the start**.

We call it **The Narrative Machine**.

And we believe it's our best shot at understanding a world that cannot be predicted, **but can only be observed**.

Because markets are not a clockwork. **Markets are a BONFIRE**.

Yes, we think this leads to **specific investment strategies**.

But more importantly, we think this leads to a strategy for LIFE. For making our way in a fallen world, where the electorate is polarized, the market is monolithic, and everyone seems to have lost their damn minds.

**It's not an Answer. It's a Process.**

**The Long Now** is going to get worse before it gets better, and there is strength in numbers. Watch from a distance if you like. But when you're ready ... **join us**.

Yours in service to the Pack. – Ben

## DISCLOSURES

This commentary is being provided to you as general information only and should not be taken as investment advice. The opinions expressed in these materials represent the personal views of the author(s). It is not investment research or a research recommendation, as it does not constitute substantive research or analysis. Any action that you take as a result of information contained in this document is ultimately your responsibility. Epsilon Theory will not accept liability for any loss or damage, including without limitation to any loss of profit, which may arise directly or indirectly from use of or reliance on such information. Consult your investment advisor before making any investment decisions. It must be noted, that no one can accurately predict the future of the market with certainty or guarantee future investment performance. Past performance is not a guarantee of future results.

### **Statements in this communication are forward-looking statements.**

The forward-looking statements and other views expressed herein are as of the date of this publication. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. Epsilon Theory disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein.

This information is neither an offer to sell nor a solicitation of any offer to buy any securities.

This commentary has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Epsilon Theory recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.