Is What’s Driving Bitcoin’s Rise Any Different From the “WallStreetBets” Phenomenon?

Description

Cryptocurrencies are certainly interesting to write about. That said, Bitcoin has probably lost its place as the most speculative way to invest right now. We’ve got a new game in town called a short squeeze.

In this article, I’m going to talk about thinly traded assets and short squeezes. I’m going to try to tie together the parabolic stock price increases we’ve seen of late with what we’ve seen for a long time in cryptocurrencies.

Why a stock’s float and trading volume matter

A stock’s float refers to the percentage of its total shares that are available to be bought or sold. At any given time, a certain percentage of stock can be locked up. Whether this is in the form of restricted executive compensation or just the fact that long-term investors have held onto said stock for so long that it’s effectively off the market, only a certain percentage of any given company’s stock actually trades every day. Some companies will have a very small float.

Thinly traded stocks are those with few buyers and sellers on a given day. The “bid-ask” spread on these stocks can often be much higher than those with tremendous volume that are more accurately priced.

In the case of the targets the Reddit “WallStreetBets” group has gone after, these have typically been thinly traded, low-volume stocks that have a high percentage of the outstanding float shorted. In a recent article, I described what short-selling and what a short squeeze are. For those who’d like to learn more about these phenomena, I’d highly recommend reading it.

Essentially, the WallStreetBets group has targeted stocks that have been heavily shorted and initiated a squeeze. They’ve forced the price up by buying up so much of the float that short-sellers have to buy back their positions at market prices (which have skyrocketed). This has caused massive losses for short-sellers but has also added more fuel to the fire. As short-sellers cover their positions, they’re buying more stock on the open market. This continues the parabolic upward move we've witnessed in so many of these stocks, such as **BlackBerry** recently.

Bitcoin's rise could be quite similar in many respects

One of the common theories around why the price of Bitcoin has gone so parabolic in recent years centres on another theoretical finance concept. This is not likely an asset that has been "squeezed." Rather, some think that large holders of Bitcoin (whales) have "painted the tape" with digital currencies.

What this means is that a small float of Bitcoin could be traded among whales to prop the price up over time. Think of a stock with 1,000 shares. If three individuals own 950 shares and decide to hold these forever, only 50 will ever trade. If one whale decides to sell 50 of his 950 shares to the next for $1 more, the price of that stock will have to increase. This could be repeated continuously in a circle, with the increased cost each time only $50. However, each whale will see their portfolio jump in excess of $300 each and every time a transaction occurs.

Since it's widely believed so many of the early crypto adopters own a large percentage of the outstanding Bitcoin, this is a realistic explanation of how these assets could be manipulated higher. Furthermore, since we don't know who's buying or selling these digital currencies, it's impossible to know what's going on in terms of daily transactions. If anything, the stage is perfectly set for the tape to be painted. Of course, this is all just speculation.

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