GameStop's Biggest Short-Seller Got Destroyed in Q1

Description

GameStop (NYSE:GME) shareholders were elated last Friday, when their arch rival — hedge fund **Melvin Capital** — posted a 49% loss for the first quarter. While the fund did manage to return 22% to shareholders in February, it wasn't enough to make up for big January losses. In this article, I'll explore Melvin's first-quarter results and what they could mean for investors.

Melvin's first-quarter results

According to *Bloomberg,* Melvin Capital's first-quarter results broke down as follows:

- January: -53%
- February: +22%
- March: -7%

The most significant loss posted in the quarter was, of course, the January loss. In that quarter, the fund's AUM shrunk by more than 50%. The company did get a $2.7 billion capital infusion from investors who wanted to save the fund, but that was little consolation to those who held at the start of the year.

GameStop investors were predictably overjoyed at Melvin's losses. Seen as the main rival of "WallStreetBets" in the GameStop drama, Melvin has become a very unpopular firm among Redditors. When news of Melvin's 49% loss broke, WallStreetBets was replete with comments like "51% more to go" and "GME, we're all rooting for you!" Since then, the euphoria has calmed somewhat, but Reddit posters remain very bullish on GME stock.

Why Melvin got destroyed

It would appear that Melvin Capital's GameStop short squeeze fiasco was responsible for the bulk of its first-quarter losses. This can be inferred by the fact that the worst loss of the quarter occurred in January, when fund holdings slid 53%. The fund actually did okay in the two months that followed.

Melvin Capital covered its short position in GameStop early, so the stock wasn't affecting its returns at any point beyond the beginning of February. Also, it was widely reported in March that Melvin saw a 50% decline in the value of its holdings because of GME. Again, that supports the theory that most of the last quarter's loss was due to GME.

A Canadian play similar to GameStop

If you're looking at the GameStop short squeeze and wondering whether similar plays can be found today, you may be in luck. While GameStop has been treading water for the past month, there is one Canadian stock that looks similar in some was to GameStop in January.

That stock is **BlackBerry** (TSX:BB)(NYSE:BB). BlackBerry rallied alongside GameStop in the meme stock craze of January and February. At one point, its stock went as high as $32. Today, it trades for just $11.42. That's certainly not a great result, but the stock *is* still up slightly from *before* the meme stock rally. And it may have further to go.

For the past several years, BlackBerry has been consistently growing its software revenue. In its most recent quarter, it posted positive adjusted EPS and revenue growth. Just recently, it signed up **Volvo** as a customer for its QNX software. Depending on how its AI software investments play out, BlackBerry could easily turn it around and return to the kind of status it had when it was at the top of the smartphone game. Such an outcome is a longshot, but many investors believe it has a chance of happening.

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