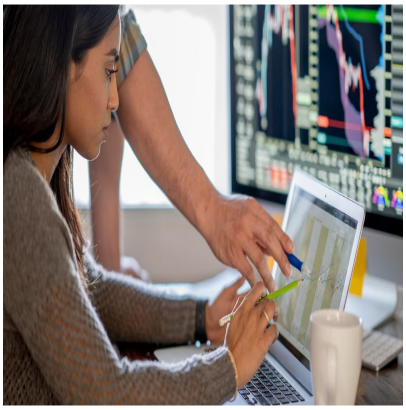

Why BlackBerry (TSX:BB) Stock Jumped 7.85%

Description

Just when you think the short-squeeze game is over, **BlackBerry** (TSX:BB)(NYSE:BB) stock jumps, reviving enthusiasm. On July 28, BlackBerry stock jumped 7.85% after falling below $13. If you think there was some news responsible for this jump, that is not the case. Options trading is once again the driving factor, and this time, it is the gamma squeeze.

BlackBerry stock's 7.85% jump: It's not news but a squeeze

Yes, there was a rumour that Onward Mobility might be building BlackBerry smartphones. But this rumour was not strong enough to push BlackBerry stock up 7.85%. The smartphone business has left the BlackBerry building for good.

For a 7.85% jump, it has to be a squeeze. A squeeze happens when the market makers make a forced trade to hedge their position. When market makers buy, they buy in bulk. By market makers, I mean institutional investors — mainly hedge funds.

BlackBerry stock first came into the limelight in the January short squeeze. **AMC** and **GameStop** were other stocks that garnered attention as meme stocks. Although the first short squeeze ended, it revived traders' interest in the stock. In hopes of another short squeeze, investors started buying call options.

I will give you a sneak peek into what's happening in the options world.

Setting the stage for gamma squeeze

Many retail investors learned about shorting a stock through the subreddit WallStreetBets. This got them interested in options trading. In options, every contract is of 100 stocks and has a strike price and maturity. This strike price is what the buyer expects the stock price to be on the date of maturity.

Most hedge funds do not expect BlackBerry's stock price to rise significantly. Hence, they sold many call options with a higher strike price, hoping that they won't be exercised. As option sellers, they are under obligation to sell stocks to the call options buyer if the stock hits the strike price. Until the option is exercised or matures, it is an open position. A high open position creates an opportunity for a squeeze.

Now, what happened was the short squeeze attracted too much attention, and investors flocked in to buy call options creating high open interest. Hence, these hedge funds buy some BlackBerry shares in the market to hedge their open interest if the probability of the option getting exercised increases. This creates a sudden jump in the stock price. Once the options expire, hedge funds no longer need BlackBerry shares, and they sell them, causing a sudden dip.

This move by the hedge funds is called a gamma squeeze. The thing with a gamma squeeze is the timing. You never can tell when the stock will rise or fall.

How to play the BlackBerry gamma squeeze

Now, you may wonder how to make money from the gamma squeeze. First, you need to see if there is high open interest. If yes, you know there is room for a squeeze. The next stage is to check whether the squeeze will be upwards or downwards. In the case of BlackBerry stock trading on the Toronto Stock Exchange, a safe range would be below $14. If the stock is trading above this price, there is a higher chance of dip rather than rally.

You can buy the stock when it dips below $13.5 and hold it and sell if there is a squeeze. Now, there is a possibility that the gamma squeeze may fade, and you might be stuck with BlackBerry stock. So, only buy the stock at the price you would have purchased for a long-term investment.

A Foolish thought

BlackBerry is a good long-term stock, but your returns depend on the price at which you buy. Do not buy the stock above the $13.5 price. But if you are in for the long term, I expect the stock to fall to $11 once the gamma squeeze fades. You have to decide whether you want to play the gamma squeeze or go in it for the long term.

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