

Bill Gross Releases Investment Outlook, "Game(Stop), Set, Match"

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Bill Gross →

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LAGUNA BEACH, Calif., Jan. 29, 2021 /PRNewswire/ -- Legendary bond and fixed income investor, William H. (Bill) Gross today released a new Investment Outlook, "Game(Stop), Set, Match". In his second Investment Outlook of 2021, Mr. Gross writes that this week's GameStop trading frenzy "has few parallels and is indicative of prior mania tops as far back as the South Sea Bubble of 1720," and "this apparent budding crisis needs regulatory warnings and mainstream media alerts as to the dangers this week, both to overall markets and individual investors."

Full text of Bill Gross January 29, 2021, Investment Outlook:

Game(Stop), Set, Match*

The current GameStop short squeeze resembles the populist political uprising characteristics of recent U.S. and other foreign elections. While the Capitol of Capital has not exactly been stormed as in recent weeks, the will of the "common" investor has imposed significant hurt on short selling, "unpatriotic" hedge funds that have long profited at retail's expense, not only with their 2/20 fee structure but their financial clout to drive equities up or down and to issue capital calls if only to stay alive to rule another day.

My heart has been with Main Street for many years and there is no doubt that billions of dollars have flowed if only temporarily to the good guys. But the government cavalry is on the march and deservedly so. The volatility has spread from GameStop to other heavily shorted stocks, to

the current darlings called SPACs, and on Wednesday perhaps to the overall market. There is justification to the cries from Senator Elizabeth Warren and future SEC Chairman Gary Gensler to control this new form of social media investing which in and of itself seems democratic, legal, and a wonderful invitation for groups of "investment clubs" to innovate.

Still, a GameStop price move from 20 to 350 during one month in January based not on financial fundamentals but technical momentum has few parallels and is indicative of prior mania tops as far back as the South Sea Bubble of 1720, in which the stated offering prospectus of the day issued a purpose and use of funds for a "venture which we presently know not." You could find the same or similar language describing a modern-day SPAC.

As proof of the price overreach during Wednesday's trading session, annualized volatility for both put and call options with 6 and 13 day expirys were trading at 750% volatility, a level in my memory never previously exceeded. A 750% volatility for 6 and 13 day options implied a 1 standard deviation move (up or down) of 395 points for the period, implying there was a 66% chance of GameStop reaching 760 or declining quickly to near zero. Because the stock price had doubled over the past 24 hours, to some Robinhood traders that seemed reasonable but to me it resembled a mania of epic proportions. A 750% vol was indicative of a modern day Marie Antoinette, telling the masses to "eat cake" because there was no bread and potatoes on the menu, the sustenance of life.

During those Wednesday hours, investors buying 750% volatility options and who were rooted on by several prominent investors like Elon Musk who should know better, were the fish at the poker table, not part of an educated investment mob storming the Capitol of Capital.

In the short and long run, investing well depends not just on the fundamentals of quarterly earnings reports but in this case the astute calculation of value embodied in fairly accurate option models that alert investors to improbable if not outlandish expectations. This apparent budding crisis needs regulatory warnings and mainstream media alerts as to the dangers this week, both to overall markets and individual investors.

* Title provided by Amy Schwartz

About Bill Gross

Bill Gross has been a pioneer in fixed income investing for more than 40 years. He co-founded PIMCO in 1971 and served as managing director and chief investment officer until joining Janus Henderson Investors in 2014. He retired in 2019 to focus on managing his personal assets and private charitable foundation. Throughout his career, he has received numerous awards, including Morningstar Fixed Income Manager of the Decade for 2000 to 2009 and Fixed Income Manager of the Year for 1998, 2000 and 2007. Mr. Gross became the first portfolio manager inducted into the Fixed Income Analysts Society's Hall of Fame in 1996 and received the Bond Market Association's Distinguished Service Award in 2000. In 2011, Institutional Investor magazine awarded him the Money Management Lifetime Achievement Award. Mr. Gross oversees the \$390 million-asset William, Jeff and Jennifer Gross Family Foundation, which annually donates more than \$21 million to non-profits involved in humanitarian causes, health care, and education. For more information or to view Investment Outlook archives, please visit <https://williamhgross.com>. For information about Mr. Gross's philanthropic activities through the William, Jeff and Jennifer Gross Family Foundation, please visit <https://grossfamilyfoundation.com/>

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