

Reversion to the Meme

Image: KnowYourMeme.com

“A gold mine is a hole in the ground with a liar standing next to it.” - Often attributed to Mark Twain (a great line, no matter the source)

Hopefully, everyone reading this edition of our *Evergreen Virtual Advisor (EVA)* is aware that I recently completed a book titled [Bubble 3.0](#). It continues to be my strong conviction that this third version of speculation run amok has been the biggest of them all (dotcom and housing being the first two).

Further, I'm convinced that it's in clear deflation mode. One of the aspects of Bubble 3.0 – the actual, not the book – that I particularly noted as utterly surreal was the formerly astounding \$17 trillion pile of negative yielding bonds. (For the four or five of you who missed that chapter, this is where the bond holder pays the issuer rather than vice versa.) That number is now down to around \$3 trillion, mostly domiciled in Japan, where some, apparently, still have a yen for negative interest rates. Ergo, what I referred to as the “Biggest Bubble Inside the Biggest Bubble Ever” has lost some serious helium. That most rich country government bonds still provide deeply negative yields net of inflation doesn't bode well for their future returns, either.

However, in the stock market there is likely nothing that more powerfully underscored what I, and others, have referred to as Bubble 3.0's “Peak Insanity” phase than the meme stocks during last year's first half. Regular EVA readers are aware that I repeatedly called them out for what I believed they were during those months of sheer lunacy: basically, guaranteed losers for all the Kool-Aid-imbibing HODLers. In other words, those committed, like kamikaze pilots, to holding on for dear ~~death~~ life, hence the acronym.

As we return to our normal *EVA* publication schedule, I thought the perfect article for this resumption is a *Guest EVA* (remember those?) by a new friend and someone I admire very much. For all of you Substackers out there — now, I hope, most of you — that would be the investment newsletter world's [most famous Chicken, Doomberg](#). If you haven't read his excellent work, this is your golden opportunity. And, as it turns out, gold plays a most significant part in this extraordinary tale of the latest in what appears to me to be borderline securities fraud, though I have doubts about the “borderline” part. Regardless, the blatant promotion of a recent transaction by one member of the ultimate meme mania duo has produced another rocket ride for HODLers. As I've often written, the last one left a plethora of them poorer but, apparently, not wiser.

The meteoric meme stock in question is that of the ubiquitous AMC Theaters. If you weren't aware, AMC rose from around \$2 per share at the start of 2021 to nearly \$60 by last June. This was despite barely staying one step ahead of the bankruptcy courts. It also continued to gush out a torrent of red ink despite the resounding success of *Spider-Man: No Way Home* and clever marketing ploys such as accepting Bitcoin for tickets, along with providing free popcorn.

Its CEO is the now very high-profile Adam Aron, who is extremely hard to miss on CNBC(except when his attorneys yanked him off last week before he exposed himself to more potential legal liability). You have to give Mr. Aron credit for exhausting every possible gambit to keep his company out of chapter 11.

It certainly worked out wonderfully for him as he was able to off-load \$42 million of his own once-nearly worthless shares to the Robinhood/Reddit HODLers. AMC itself also was able to sell some 330 million new shares in 2020 and 2021 to his adoring fan boys and girls. This influx of \$1.9 billion allowed him to pay off some of AMC's crushing debt burden and, mostly, to fund the on-going operating losses. Despite those capital raises, AMC's net debt is now about 80% higher than it was in late 2019.

Amazingly, Wall Street estimates AMC will continue to lose money again this year, not to mention 2023 and 2024, as well. Even more astoundingly, this has not stopped America's Meme Company extraordinaire from making one of the most unusual investments in the history of the movie theater industry.

Per this Doomberg article, it has invested \$28 million dollars in a troubled gold mining company, Hycroft, that has already gone through bankruptcy under a former name. As you will read, Mr. Aron has managed to whip up enough enthusiasm among his fanatical followers to allow this entity to sell nearly \$139 million of stock. No doubt, most of that was bought by the same "Memers" who have been once again piling back into AMC.

At one point this year, AMC's stock had plunged from around 27 on December 31st to under 14. But the news of the company's mining adventure caused it to perform another one of its moonshots. Earlier this week, it vaulted to just over \$30, more than doubling from its March 14th low.

AMC's terrible meme twin, GameStop, has performed a similar ~~logic-defying~~ jaw-dropping recovery. Like AMC, it was cut in half from 12/31 to 3/14 but since then it also doubled. And it didn't even need to announce a gold mine deal to catalyze the upside explosion. In this case, it was Chairman Ryan Cohen's announcement of a \$10 million stock purchase, at around \$100 per share, that lit the rocket fuse. Of course, when GME hit \$190, he was up almost \$9 million in little more than a week.* You have to admit, getting in early and pumping these things is an easy way to produce obscene profits.

As a result of these dual doublings in just two weeks, a combined \$16 billion market value gain occurred. Not bad for a couple of companies whose main shared trait is excelling at losing money, something they've been doing for years. For sure, what this illustrates is that Bubble 3.0, while coming down to Earth under gravity's pull, is still capable of some serious pyrotechnics.

For AMC, it's already sitting on paper gains of around \$60 million between the stock it acquired and the warrants it received in its new business venture. Yes, Hycroft has doubled, too, since early last month and is actually up a cool 700% from March 1st just prior to when this creative transaction was announced. But, hey, making \$60 million when you can get your fanbase to pump in \$139 million in mere days still seems like a great deal for Hycroft. Somehow, I suspect it's not going to turn out quite so swimmingly for all those Adam Aron acolytes who bought Hycroft stock... and a most unprofitable hole in the ground.

*Note: I am personally short both GameStop and AMC.