

The hedge fund behind Game Stop mania

In January 2020 Melvin Capital Management LP (Melvin), one of the high-profile hedge funds shorting Game Stop (GME), was down -53%. Does this mean the fund's manager, Gabriel Plotkin, is a bad money manager? Let's analyze Melvin Capital's historical 13F filings and find out.

I will also introduce you to EDGR (www.edgr.io), a system which tracks funds and their high conviction positions.

About Melvin Capital Management

Gabriel Plotkin, from Melvin, had an awful January 2021. In fact, it was his worst start to a new year since founding Melvin in 2014. In 2020, Melvin managed ~\$11 billion and business was booming. By the end of the year the fund returned ~+51%. A year before, in 2019, the return was ~+45%. Melvin was printing money because Mr. Plotkin is a very talented money manager.

Mr. Plotkin began his hedge fund career with Citadel LLC (Citadel), a well-known firm in Chicago. Later in his career, he moved to SAC Capital Advisors (SAC) in New York. At SAC, Mr. Plotkin was a star fund manager who managed ~\$1.3 billion in mostly consumer stocks. In 2013 SAC Capital was forced to close amid an insider trading investigation (a fascinating account of this investigation can be found at [Tipperx | Tom Hardin](#)). Shortly thereafter, Mr. Plotkin founded Melvin with support from his former employers, Ken Griffin of Citadel and Steve Cohen of SAC. Mr. Griffin and Mr. Cohen are giants in the hedge fund world. Both are multi-billionaires, philanthropists, political influencers, and have an ego to match their investment prowess. A backing from such influential people put Melvin and Mr. Plotkin on Wall Street radar.

The Game Stop Nightmare Trade

Melvin runs a long/short strategy. Such a strategy is an old horse for many hedge funds, where managers shine by making calls on which stocks will go up and, at the same time, which will go down. Shorting stocks is very difficult and dangerous. The stock that one borrows to short can go up in value infinitely and thus produce an infinite loss. In a fund like Melvin, with billions of dollars under management, small positions will not move the needle for the performance of the overall portfolio. In short, each position needs to be "punchy". So, when Reddit traders decided to go all-in on GameStop (GME), unfortunately for Melvin, the loss was a real punch to the gut.

Let's do some very rough math. Let's assume that a \$10 billion fund has 100 positions, both long and short (weighted equally). Thus, each position has 1% weight with \$100M in market value. When GameStop ([GME](#)) went from \$18 a share to \$325 in two weeks, a 1% \$100M short position would generate a ~\$1.6B loss! Since Melvin lost -53% in January 2020, we could reasonably assume that GME made up much more than 1% of Melvin's portfolio. It's no wonder that after GME's meteoric rise, Melvin needed a fast cash infusion, which it promptly received from the same seeding partners Mr. Cohen and Mr. Griffin.

Although GME turned out to be a nightmare for Melvin, this was far from the case in the years prior. Mr. Plotkin is a consumer stock specialist and early on he identified a problem with GME

being a brick-and-mortar enterprise which was far behind the cloud-based internet gaming phenomena. Public filings show that Melvin had 11,000 Put options on GME as of December 2014. In early 2015 GME was trading at around \$36, compared to March 2020 where it was trading around \$4. Ironically it seems that GME was actually a very profitable short position for Melvin, for quite some time.

Replicating Melvin's 13F's

Does shorting GME automatically make Mr. Plotkin a bad stock picker? Far from it. The long positions disclosed on Melvin's Form 13F is very valuable for any investor who follows equities. I've calculated an average annualized return from Melvin's top positions (by market value as reported on Form 13F) for each reporting period starting in February 2015 and ending January 2021.

- 20% annualized return for top 3 positions
- 16% annualized return for top 5 positions
- 18% annualized return for top 10 positions
- 17% annualized return for top 20 positions

During the same period of time, SPDR S&P 500 ETF Trust (SPY) which tracks S&P 500 stocks returned about 11%. In other words, if one is to buy top X positions based on what Melvin publicly reports, rebalances quarterly in February, May, August, and November, then expected annualized return would be in high double digit.

Melvin stock holdings of interest

Let's take a look at some of the stock Melvin currently owns. The first stock I would like to talk about is Fiserv, Inc. (FISV). It's a relatively under the radar company based in Milwaukee, Wisconsin. However, I'd wager that you deal with it almost every day. The company offers electronic payment, e-commerce, credit card processing, and other payment solutions. It has "touchpoints" with nearly 100% of U.S. households, boasts 1.4B global accounts on file, and processes 12K transactions per second (www.fiserv.com). On Melvin's Form 13F, the stock first appeared in August 2019. Out of 34 analysts which follow the stock, 24 have a "Buy" with zero "Sell" recommendations. Having +90% of shares held by institutions, e-payments growing, and strong management team (Frank J. Bisignano became Fiserv CEO in 2020, after Fiserv acquired First Data Corporation in 2019) the company should continue to grow and do well. Melvin's most recent Form 13F filed for Q4 2020, shows that the fund has approximately \$1B position in Fiserv. It is interesting to note that Mr. Plotkin is a huge fan of payment processing companies because MasterCard (MA) and Visa (V) are in the top 10 of his holdings with \$1.1B and \$788MM market value respectively.

Two other stocks which draw attention are Expedia Group Inc (EXPE) and Booking Holdings Inc (BKNG). Both are consumer discretionary, online travel names which have been hurt because of COVID travel restrictions but had a remarkable recovery as of late. Both stocks are trading at a all-time highs. 13F's show that Mr. Plotkin has been a fan of Expedia for some time and the latest

13F report show that Expedia position market value in Malvin is approximately \$1.5B. Booking Holdings has approximate \$780MM market value.

Lastly, I would like to mention Atlassian Corp PLC (TEAM). This technology company is headquartered in Sydney, Australia and develops software products for enterprise project management. Public filings show that Melvin increased their holding in Atlassian by +540% from Q3 to Q4 2020 and for approximate market value for Atlassian in Melvin portfolio is \$470MM. Another company which caters to enterprise software management and Melvin's top position is ServiceNow Inc. (NOW).

While researching this article, I've noticed that Mr. Plotkin's stock selection process includes a very important element which any successful investor should try to emulate as well. He seems to identify important secular and macro trends first, and then establish concentrated positions in stocks which can benefit from those trends. For example, in fintech and e-payments, Mr. Plotkin owns Fiserv, MasterCard, and Visa. In online travel, he owns Expedia and Booking Holdings. In enterprise software management he owns Atlassian and ServiceNow. In online e-commerce retail space Melvin owns Amazon, MercadoLibre, and JD.com (not mentioned above but are in the top 25 Melvin's holdings).

FISV	Fiserv, Inc	FinTech
MA	MasterCard Inc.	
V	Visa Inc.	
BKNG	Booking Holdings Inc.	Online Travel
EXPE	Expedia Group, Inc.	
NOW	ServiceNow, Inc.	Enterprise Software
TEAM	Atlassian Corporation Plc	
AMZN	Amazon.com, Inc.	E-Commerce
JD	JD.com, Inc.	
MELI	MercadoLibre, Inc. (MELI)	

Stocks may change from quarter-to-quarter, from one 13F to another, but trends usually last for much longer periods of time.

Conclusion

I've demonstrated that tracking Melvin's Form 13F public filings can yield insights into the stock selection process by a very good stock investor, who up until GME never seemed to make a single misstep.

At the same time, I have to caution you to conduct your own analysis because Form 13F information is dated and form positions may be completely different from actual holdings which are not publicly disclosed.

My calculated and estimated performance numbers are based on the data sourced from 13F Forms and market data from IEX Cloud (iexcloud.io) stock pricing provider. The returns I've calculated may be completely incorrect, may differ from the actual performance numbers, and in no shape or form reflect on Malvin Capital Management LP. I have no association with Melvin Capital Management LP, nor any financial advisory firm, broker, or fund.

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