

HEARING BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

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Testimony of Gabriel Plotkin,
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Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, I would like to thank you for this opportunity to share Melvin Capital's perspective on the recent trading activity in GameStop. I am the founder and Chief Investment Officer of Melvin Capital.

I am humbled by these unprecedented events. Many investors on all sides have experienced losses. I am here today to share my personal experience and to be helpful in this conversation.

I understand that part of the focus of this hearing is the decisions of stock trading platforms to limit trading in GameStop. I want to make clear at the outset that Melvin Capital played absolutely no role in those trading platforms' decisions. In fact, Melvin closed out all of its positions in GameStop days before platforms put those limitations in place. Like you, we learned about those limits from news reports.

I also want to make clear at the outset that contrary to many reports, Melvin Capital was not "bailed out" in the midst of these events. Citadel proactively reached out to become a new investor, similar to the investments others make in our fund. It was an opportunity for Citadel to "buy low" and earn returns for its investors if and when our fund's value went up. To be sure, Melvin was managing through a difficult time, but we always had margin excess and we were not seeking a cash infusion.

My Background, Melvin Capital

I am here testifying today far removed from my background. I grew up in a middle-class family in Portland, Maine. I went to a public high school. I studied hard and got into a good college. Upon graduation, I did not have a job. Today, I am married with four children and my time is spent with my family and on Melvin Capital, which I founded six years ago. I named Melvin after my grandfather, who ran a convenience store. I wanted the firm to represent his values – integrity, hard work, taking care of customers and employees, and commitment to excellence.

Melvin Capital manages a hedge fund. Investors such as academic institutions, medical research and other charitable foundations, pension funds, retirees and others invest with us. We have 36 employees and hundreds of investors, and I feel a personal duty to all of them.

Melvin Capital's "Long" / "Short" Investment Strategy

Melvin specializes in the consumer and technology sector, including companies like GameStop, AutoZone and Expedia. Most of our investments are "long" – in other words, we buy stock in companies that create jobs, grow the economy, and develop new products for consumers. We do

this after extensive fundamental research, sometimes literally for years. When our research convinces us that a company will grow relative to expectations, we make a long-term investment.

When our research suggests a company will not live up to expectations and its stock price is over-valued, we might “short” a stock. Like with our long positions, our practice is to short a stock for the long term after extensive research.

We also short stocks because when the markets go down, we have a duty to protect our investors’ capital. There are laws governing shorting stock, and of course we always follow them.

In addition, it is very important to understand that absolutely none of Melvin’s short positions are part of any effort to artificially depress or manipulate downward the price of a stock. And nothing about our short position prevents a company from achieving its objectives – it is just Melvin’s view about whether it will.

GameStop Position

Specific to GameStop, we had a research-supported view well before the recent events. In fact, we had been short GameStop since Melvin’s inception six years earlier because we believed and still believe that its business model – selling new and used video games in physical stores – is being overtaken by digital downloads through the internet. And that trend only accelerated in 2020, when, because of the pandemic, people were downloading video games at home. As a result, the gaming industry had its best year ever. But GameStop had significant losses.

January Frenzy Untethered to Fundamentals

In January 2021, a group on Reddit began to make posts about Melvin’s specific investments. They took information contained in Melvin’s SEC filings and encouraged others to trade in the opposite direction. Many of these posts were laced with antisemitic slurs directed at me and others. The posts said things like “it’s very clear we need a second holocaust, the jews can’t keep getting away with this.” Others sent similarly profane and racist text messages to me.

In the frenzy during January, GameStop’s stock rose from \$17 to a peak of \$483. I do not think anyone would claim that that price had any relationship to the intrinsic value of the company. The unfortunate part of this episode is that ordinary investors who were convinced by a misleading frenzy to buy GameStop at \$100, \$200, or even \$483 have now lost significant amounts.

When this frenzy began, Melvin started closing out its position in GameStop at a loss, not because our investment thesis had changed but because something unprecedented was happening. We also reduced many other Melvin positions at significant losses – both long and short – that were the subject of similar posts.

Looking Forward

I am personally humbled by what happened in January. Investors in Melvin suffered significant losses. It is now our job to earn it back. And while I do not think that anyone could have anticipated these events, I have learned much from them, and I am taking steps to protect our investors from anything like this happening in the future.

I look forward to answering your questions.