Reminiscences of a Stock Operator: The Volkswagen Chronicles, Ten Years Later

In the spring of 2008, things were already wacky at Volkswagen. In a structure that still exists today, they had ordinary shares (with voting rights) and preference shares (without them). Porsche SE was buying up the ords in what appeared to be an attempt to takeover VW at the time, and their activities were leading to a *crazy* premium for the ords over the prefs.

By late August, the prefs were trading at €100 per share, but the ords were twice the price at €200. Consequently, nearly everyone and their brother were short the ords and long the prefs, in what some viewed as a riskless trade. We, however, were not short. It felt like such a consensus trade and we knew that Porsche were suspiciously adept at playing the markets (and playing market participants).

For a while there, everything was upside down.

But then, just three weeks later, the premium was over 3x (the prefs were at €90 and the ords at €270). That was enough for us to eliminate our "be anti-consensus" requirement, and we threw in the towel and got short in late September in two tranches at €261 and €278 – with the underlying value (represented by the prefs) nearly 70% lower.

Meanwhile, remember that it was September of 2008 and the overall market was *imploding*. We were experiencing extreme volatility in *everything*. But nothing compared to the VW ords. We traded it around a bit, and by the middle of October – despite the fact that the market was throwing up on itself – the ords had surged up to €400 per share, now over 4x higher than the prefs share price. We in fact shorted more of the ords at €407 on the 16th.

Then the ords finally started to break, and just a week later, the spread was collapsing. The ords had been cut in half (down to €200), and the prefs were sitting at €85, so still a crazy premium. So on that Friday (the 24th), we felt like this madness was on its way out, and we would soon return to normalcy. We thus concluded it was safe to size up, and we tripled our size and shorted two more tranches, one at €233 and one at €206.

Then, over the weekend, Porsche SE dropped a bomb.

They issued a press release stating that they had control (via option and swap positions) of an additional 31.5% of the company through option positions, in addition to the 42.6% they already held. This got them to approximately 75%, which not only effectively meant they had a domination agreement (aka they owned VW), but that given the 20% stake already held by the state of Lower Saxony and more by other long-term shareholders, there basically was no float left for the most heavily shorted company in the world.

Ferdinand Piëch, then the Chairman of Porsche SE, and a notorious hater of hedge funds, was revelling in the schadenfreude, and had the audacity to state this in his press release on Sunday the 26th:

> Porsche has decided to make this announcement after it became clear that there are by far more short positions in the market than expected. The disclosure should give so called short sellers — meaning financial institutions which have betted or are still betting on a falling share price in Volkswagen — the opportunity to settle their relevant positions without rush and without facing major risks.

Yes he very graciously gave us "an opportunity to settle (our) positions without rush or facing major risks."

In other words, when the markets opened Monday morning, there was a buying *frenzy*. "Frenzy" isn't even a strong enough word. It was a full-blown financial panic, but one that took the price higher, not lower.

The stock closed Monday at €519, and by the middle of the day Tuesday, it was ticking over €1,000, up 385% from where we had shorted it two days earlier. At that point, VW was the largest company in the world, with a $420 billion market cap, bigger than Exxon. Before you ask, Apple was $75 billion, Google was $110 billion, and Amazon was just $30 billion. Yes, for a brief moment exactly than ten years ago, Volkswagen was 14x bigger than Amazon.

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