

More GameStops possible as small investors flex muscles

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Pedestrians pass a GameStop store on 14th Street at Union Square, Thursday, Jan. 28, 2021, in the Manhattan borough of New York. GameStop and a handful of other stocks whose meteoric rise last month shocked Wall Street began falling back to Earth this week. But the campaign that briefly pushed GameStop up by 1,600% at the expense of hedge funds that were betting it would lose value, known as "shorting," could be a blueprint for similar efforts with other companies' shares, some analysts say. (AP Photo/John Minchillo, File)

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"The cat's out of the bag on the populism message-board trader," said Ross Mayfield, investment strategist at Baird. "I think it will pop up again, where and when and in what (stock) I'm not sure. I do think the larger movement is here to stay."

Some other deeply shorted stocks include Ligand Pharmaceuticals, Bed Bath & Beyond and Macerich Co.

The GameStop episode is "a wake-up call that is likely to permanently affect the business models of institutional investors," analysts at Barclays Capital wrote in a research note this week.

It's unclear whether the frenzy over these stocks is over, or has merely eased after Robinhood and other online brokerages restricted some types of trades in response to the overwhelming volume.

AMC Entertainment, another stock hyped by investors on Reddit and other social-media sites, lost nearly 47% through Thursday, while headphone maker Koss Corp. slid 70%. GameStop is down 83% this week.

GameStop's unlikely gains were the product of a tug-of-war between small investors and big institutions. Citron Research, Melvin Capital and other big hedge funds lost an estimated \$5 billion betting that GameStop would fall, according to analytics firm S3 Partners last week.

Smaller investors meanwhile rallied to the stock. People on Reddit forums like WallStreetBets hyped the effort, even though individual investors could face significant losses if GameStop continues to plummet.

The forum has around 8.4 million subscribed accounts, more than four times the number at the start of 2021. A year ago, the forum had just 814,000 members.

"We do see that the little guy is flexing their muscles," said Pauline Bell, analyst at CFRA Research. "Retail investors now have tools to band together and move the markets."

Some investors bought GameStop to make money while forcing losses on big Wall Street institutions. Others were happy to support a retailer where they have fond memories of buying video games. The mall-based retailer got a new CEO last year, and is trying to adapt to consumers' switch to online game purchases.

Another factor that can make stocks an attractive candidate for a "short squeeze" is how heavily hedge funds are betting that the stock price would decline. At the end of January, GameStop was the most shorted U.S. stock, with nearly 90% of its shares having been sold short, according to FactSet.

Regardless of which stock is hyped next by Reddit, the strategy will only succeed if enough investors agree to buy the stock. The recent surge in new accounts subscribing to WallStreetBets suggests the number of potential participants in another stock-buying campaign is massive and growing.

"As more retail investors get drawn into WSB, the clout of retail options investors also grows," the Barclays analysts wrote.

Still, Dan Egan, managing director of behavioral finance and investing at Betterment, a financial advisory company, expects there will be less interest in stock trading among many individuals when the pandemic ends. Many newcomers to online trading were drawn to it last year in part because they were stuck at home during virus lockdowns.

"As vaccines roll out and things return to some sense of normality, people will decide there are more entertaining things they can do with their time than spending it on their phone trading stuff," Egan said.

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