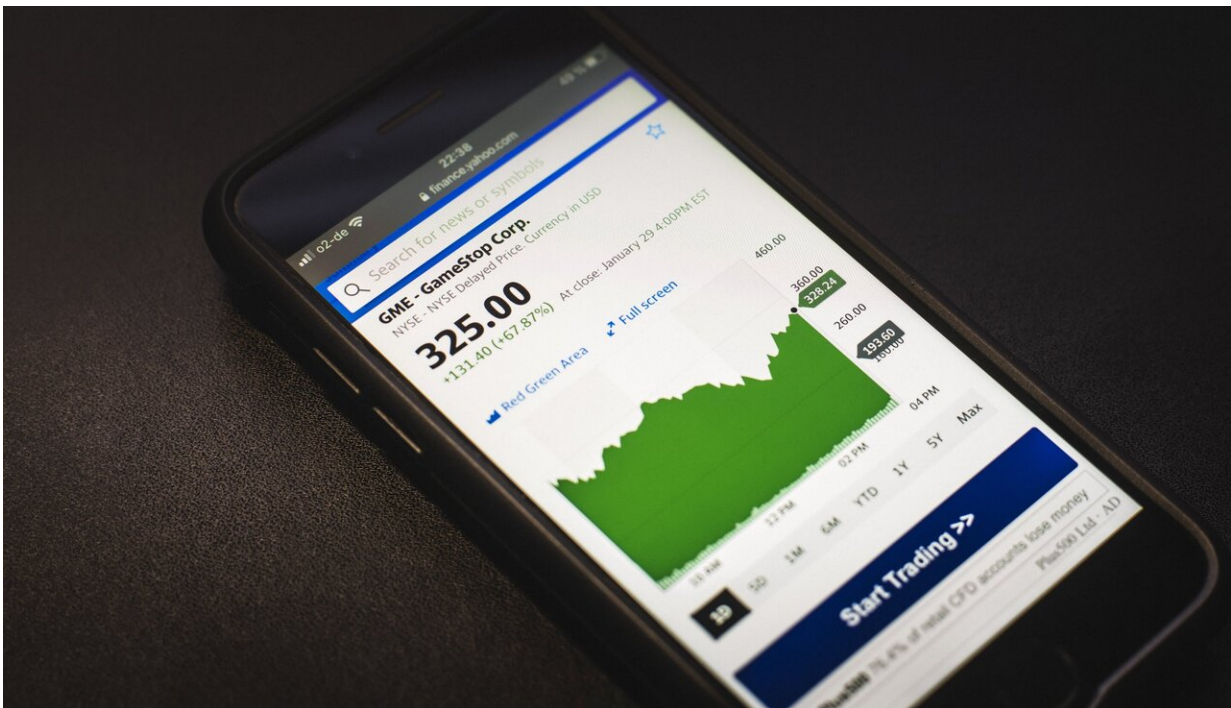


Reddit group founded on 'high risk' returns hits Wall Street with GameStop effort

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Credit: Unsplash/CC0 Public Domain

The first thing you spot on the home page of subreddit r/WallStreetBets is a banner featuring a cartoon character in a suit riding on a yacht, with a street sign reading "Wall St" sitting on top.

While the Reddit community might not look serious, its collaborative

investing strategy has captured the attention of Wall Street.

The subreddit has played a key role in the shares of struggling video retailer GameStop surging by more than 1,000% at times this week.

The Reddit revolt focused on a strategy called short selling, where [hedge funds](#) make money by betting that share prices will fall. These investors earn by identifying a stock expected to drop in value, then borrowing shares from another investor and immediately selling them. By the time they have to return the shares, they hope they're able to buy the stock at a lower price, to profit from the difference.

In this case, smaller investors banded together through Reddit to help drive GameStop shares higher. The result could hurt hedge funds that had planned on shares falling, instead, they have to buy back the stock at much higher prices.

"It's quite remarkable and myself, my colleagues and professional traders, we've never seen anything like it," said Matthew Lyle, an associate professor at Northwestern University's Kellogg School of Management. "There's some risks for some people, that's for sure, but it's just very curious this has been pulled off."

Jaime Rogozinski, who started the subreddit nine years ago, told U.S. TODAY, "It's absolutely fascinating to have this collective group of people that have managed to find organization out of chaos."

How WallStreetBets started

The WallStreetBets subreddit started in 2012 by Rogozinski while he was working at a large multinational bank in Washington, D.C.

Rogozinski said he was looking at a "high-risk high-return" strategy of

using the market as opposed to having a long-term, diversified portfolio.

"I had personal interest in it, and when I went to learn more about it and was unable to find any place online that wanted to do what I was looking to do and learn, I just created this forum and attracted people that were in my same mindset," said Rogozinski during an interview with U.S. TODAY.

Interest in WallStreetBets grew as more people wanted to cash in on the market in the same way. It also coincided with the rise in individual investing sparked by apps including Robinhood and Acorns, which allow people to invest smaller amounts of money.

"It's a combination between people finding out about this—and it turns out there were lots of people with that same mindset—as well as an industry that allowed easy access to this type of activity," said Rogozinski, who has not been involved with the subreddit since April of last year.

The use of apps like Robinhood has surged during GameStop's wild stock ride. On Apple's App Store, Robinhood is currently the most popular free app, while another trading app called WeBull is fifth, ahead of popular services like Facebook and Instagram.

As of Thursday morning, WallStreetBets has 4.9 million followers—with more than 1 million joining over the last day or so—many of whom have viewed this effort as a way to push back against the giants of Wall Street.

Who belongs to WallStreetBets?

There's not one typical profile of a member of the forum.

"WallStreetBets is really a loose affiliation of traders," Derek Horstmeyer, an associate finance professor at George Mason University's School of Business, told U.S. TODAY. "They often take directly different positions from each other—some long a stock and some short. It just so happened this time they all went the same direction on GME (GameStop)."

But don't confuse the Reddit trading group with amateurs.

"These are not basement-dweller trolls, these are smart people. Yes, they have their own vernacular that may be different than you are used to hearing," Dan McComas, former senior vice president for product at Reddit, told CNBC Thursday.

Ryan Zamo, 31, owns two businesses in Los Angeles and first found the WallStreetBets subreddit last summer. Zamo said he had been trading stocks for several years and stumbled upon the community when searching how to do options trading.

Zamo said members of the subreddit are well aware of the risks involved in stock trading.

"Literally it's called WallStreetBets, and it's just a lot of gambling," said Zamo. "But when I found it and why I stuck with it and why I love it is because it's actually really educational."

What is the Reddit group's mission?

McComas, who is now the vice president of product for video company Metal.tv, told CNBC that he is a member of the WallStreetBets forum. "With a movement behind them and their community growing, they are starting to spread out and look at organizations like (CNBC and) like other people involved in the institution of stock market trading and

realizing that they have power," he said.

With this "huge influx of people rallying around their mission," McComas said, and many "actually willing to put money behind their words, I think it is like a perfect storm of all things coming together."

To succeed, the group has to depend on fellow forum members who they likely don't know, Lyle said. Some may feel the urge to sell shares when they've got a hefty profit. "To hold this group together or at least get enough new people coming to keep it going is also remarkable," he said.

This "gutsy" effort appears aimed to "screw the hedge funds, for lack of a better word," says Lyle.

"People are rooting for wsb because it's not a big institution, organization, or even a hive mind," reads a tweet from the subreddit's Twitter account. "It's a gathering place of millions of unique individuals who are tired of being run over by the big guys and are each fighting back in their own way."

But the repercussions for the market remain to be seen.

"This will definitely clear out all short sellers of thinly traded stocks for a while," Horstmeyer said. "And in all, this is really bad for U.S. markets since it will just make our markets less efficient—short sellers are needed to correct prices and this is getting all short sellers out of the market."

As the stock fell below \$200 on Thursday, Lyle, the Northwestern professor, said he thought the end might be happening. But shares rose back up to \$250—and were at \$215 midday.

"My belief is that this is going to end with a pretty sharp price

correction," he said. "I'm often wrong, but that's my belief. I think it has got to end sometime soon, maybe in the next week or so. But I just don't know when."

While those supporting the Reddit group's mission have taken to Twitter with the hashtag #HoldTheLine, there's an inevitable ending when the music stops. That's because the strategy the group is using to increase stock prices is akin to a pyramid scheme, says Michael Pachter, managing director of equity research at Wedbush Securities.

"There won't be fundamental investors buying the stock at \$200 and then \$300 and \$400," he said. "The only way the [stock](#) goes higher is if the Reddit Army believes it can keep up squeezing the shorts and if the shorts keep shorting. ... that continued share price appreciation requires more investors to come in at ever higher prices."

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