Game over for GameStop's wild Wall Street ride?

3 February 2021, by Daniel Hoffman

GameStop's share price soared last week after a group of amateur investors organizing on the online platform Reddit joined forces against big hedge funds

What a difference a week has made for video game retailer GameStop, which soared on Wall Street in January only to plummet some 70 percent since Monday.

So is it game over for the stock market saga, which saw amateur investors challenge hedge funds with billions of dollars in assets?

Here is a look at theups and downsof GameStop's recent fortunes:

Why is GameStop stock falling?

GameStop, a well-known retail chain whose business model of selling games on discs has been overtaken by the internet, has seen a precipitous drop in value that is the flipside of its incredible 400 percent surge last week.

The stock had soared after a group of amateur investors organizing on the online platform Reddit joined forces against big hedge funds betting on GameStop's decline.

This dynamic clearly lost momentum at the start of the week, partly due to funds liquidating their positions in the stock.

Quincy Krosby from Prudential Financial noted that at the end of last week "in the broader market... there were individual names in every sector, where the share price was down, disproportionate to where the sector was."

"That suggests very clearly that it was a result of forced selling by hedge funds. So anything they could sell in order to make up the difference of covering their shorts," she said, referring to bets on a stock's decline.

Other factors may also have come into play, including fear of action by regulator Securities and Exchange Commission (SEC) in the face of extreme market volatility or also the limits imposed on transactions by certain brokerage platforms.

Other stocks that were the subject of a speculative frenzy similar to GameStop also sank on Tuesday, in particular AMC cinemas.

The price of silver, which had reached an eight-year high on Monday after benefiting from the interest of budding investors, was down too.

The role of small investors?

Even if GameStop's rise shows signs of coming to an end, the impact of small investors is more pronounced than ever.

Pandemic stay-at-home orders had already contributed to a boom in amateur investors and users of free market trading app Robinhood, but the users are far from homogeneous.

"Day traders aren't all just angry 25-year-olds.

Experienced professionals have joined the fray," Krosby said.

Professional or not, these investors have been able to exploit loopholes in the market to trap hedge funds at their own game.

Some high finance players nevertheless believe that this strategy is doomed to failure in the longer term.

"The victims in the GameStop experiment have and will continue to be the Robinhood investors storming the gates of capital markets... without the size, the endgame plan, and the mathematical option pricing expertise to succeed," said investor and fund manager Bill Gross.

'Bubble' risk?

The panic that gripped Wall Street last week also rekindled discussions around the possible bursting of a market bubble.

Some observers believe the stock market has been overvalued for months, with the health of many companies on Wall Street not reflecting their actual performance.

The Federal Reserve's accommodating policies like low interest rates have flooded the markets with liquidity, and the US government's stimulus measures allowed a substantial amount of money to circulate on the stock market.

The Fed's measures are intended to bolster the pandemic-hit economy and to encourage investment, but a change of course could prove risky.

"Most strategists would say that it (the bubble) will burst when the market believes that the Fed is going to begin tightening," Krosby said.

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