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THE STORY BEHIND THE GAMESTOP STOCK BOOM

Social traders battle funds But the bubble risk is high

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The image used on social media is of a rocket taking off. This was what happened with GameStop, a Texas-based multinational operating in the videogame sector, which suddenly saw its stock price snowball. At the beginning of the month, it was worth $19, reaching $347 at the end of the month. In one year, it grew by 1,700%. How? A fierce group of Redditers, (Reddit is a site halfway between a social media platform and a forum) decided to purchase shares in the company, which is currently in a structural crisis—in the past year, it has had to close many of its 5,000 stores, even some in Italy—just when major investment funds were betting on its collapse. The intervention by the small traders, who were organised in a sort of online infantry, sent various hedge funds into tilt, including Citron Research and Melvin Capital, which had to backpedal and begin buying stock too, thus creating an upward spiral that could soon turn into a bubble ready to pop. To the point that United States Secretary of the Treasury Janet Yellen decided to shed light on the stock market's activity around GameStop and other companies experiencing short selling. “It’s like the velociraptors in Jurassic Park; they get smarter, and eventually they hop the fence”, explained Howard Lindzon, an expert in financial markets, while speaking about these new brokers. “The mainstream will realize finance will be revolutionized from the bottom-up”, stated Alexis Ohanian, Reddit cofounder. In fact, a series of posts—including one from Elon Musk, the founder of Tesla—was enough to strike an unprecedented knockout blow for Wall Street white collars, even if this “narrative” risks being at odds with the fact that Blackrock, the biggest investment firm in the world, also holds 13% of GameStop, a share purchased at 173 million that is now worth 2.6 billion. “What we are seeing for GameStop, but also for AMC, BlackBerry and other US stocks is a ‘revolt’ by the retail public organised on social networks against hedge funds cast as the bad guys”, explains Angelo Meda, Head of Equities at Banor SIM. “Through this coalition, amplified by interest rates at zero, the mountain of cash available on the markets—thanks to the policies of the central banks—and platforms like Robinhood, which turn stock trading into a game without costs, similar to a casino, there is now pressure on unsustainable purchasing for some stocks, forcing those who were positioned downward to hedge the positions due to the losses created”. A sort of David versus Goliath, a tale that may not, however, have a happy ending. “Who will win?” Gerardo Marciano, CEO of Proiezioni di Borsa, explains: “Be careful. These small traders are not like the 300 Spartans who defended Athens from the Persians in the Battle of Thermopylae. They too are skilful speculators. Reality tells us that price hikes of this nature are always followed by adjustments that could be much more violent than the upturn in recent days. In similar cases, a number of stocks, following heavy downturns and subsequent upturns, have immediately experienced serious losses, devastating investors who jumped on the bandwagon at the last minute”. When will this wave end? “It will most certainly end soon”, concludes Meda. “On one hand, the SEC and the US Treasury have shed light on this kind of transaction. On the other hand, the capitalisations achieved by these companies, without fundamental justification, lead us to think that shareholders will sell their stocks”. Yesterday the stock collapsed, losing over 50%.