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## **OP-ED: Bubble or nothing: The saga of the GameStop trading frenzy**

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A variation on the old investment strategy of short selling took on new dimensions as new traders took control. What brought about the market turmoil? Several factors were influential.

One factor was growth in the number of investors. In the past year, more new investors opened accounts – at least 10 million – faster than ever before.

Additionally, a shift to no-commission trading unlocked a wave of activity. With coronavirus-related lockdowns in place, people had little else to do. There were no major sports to bet on, so the stock market took its place. Trading activity started to surge. Recently, equity volume was triple the amount as on an average day in 2019.

Individual investors have always been small fish compared to the sharks of Wall Street: hedge funds. Before the pandemic, activity from individuals (“retail investors”) made up about 15 percent of daily trading volume. Now, it consistently makes up more than 20 percent. A single trader, from his basement office, led the change in this increase. Why?

Social media has given investors message boards and group consciousness, and that has evolved into market action. A single investor working on a social media platform called Reddit targeted a single stock with enthusiasm: GameStop. Convinced that GameStop offered opportunity and noting that some very big players had large short positions, he attacked with a relatively small commitment. One day he bought \$53,000. By using options, he amplified his bet and made as much as \$46,000 in a single day. Over the next year and a half, by using Reddit as his message board, “Roaring Kitty,” as he called himself, promoted the company and enthusiasm grew.

Encouraged by friends and GameStop’s rising stock price, Roaring Kitty definitely felt that he was part of something big. “Everybody thinks I’m dumb,” he said. “I think everyone else is dumb.” Besides, if you are living at home and your folks are paying the rent, what does it matter if you lose everything?

The group grew with Roaring Kitty’s enthusiasm and betting. When big hedge funds weighed in with short sales, the “Redditors” focused on the short sellers. When a trader is short a stock, rising stock prices are especially scary, and the shorts were under pressure to buy in order to cover their short positions, further upping the stock price. The stock soared ... and the value of Roaring Kitty’s

holdings briefly reached \$48 million. Roaring Kitty's influence grew, and his followers were making money too, reinforcing their community. "We were all making money together," Roaring Kitty said. "We paid off our student loans and in some cases our houses."

An analyst at one research firm predicted the fall of GameStop stock and was mocked on the Reddit forum. He and his family were harassed so much that he closed his short position, and said he would no longer comment on the stock. "I had no idea what I had set off," he said.

The chase was on. Other highly shorted stocks were targeted. After 20 years of selling short seller's research, Citron withdrew, and went over to long only research. Short sellers closed out their positions, publishing their decisions as a kind of white flag.

Because of the community effort on a small number of stocks, the impact was powerful and small, struggling companies' stock prices suddenly rocketed to new highs. The shorts flinched and the Redditors claimed the battle ground with new victories.

Calls went out for more regulation, but the market was doing what it should be doing: providing a place where people could buy or sell securities. Or was it? Were the Redditors market manipulators? Were they spreading false information?

Trading platforms such as Robinhood fell under the microscope. Maybe Robinhood fueled the action by introducing commission-free trading and an easy-to-use trading app. Was the group action unlawful? It would be very hard to regulate. Will losses spread to trading platforms such as Robinhood? We don't know how this effort will turn out, but probably the best advice is to stay out of the way.

Many lessons can be learned. We have seen violent market volatility in the past few years. Do not be distracted by short-term headlines. Stay focused on your investment goals and the fundamentals of the market.

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