

TRANSITIONS

THE WINDFALL AND DANGERS OF MEME STOCKS

On Monday, February 1, 2021, retail and institutional investors alike, awoke to the jubilation of cheers for GameStop across Reddit's chatroom, WallStreetBets, with boisterous and vociferous chants of "buy high, sell low!" a contrarian investing strategy, alongside thousands of visual stimulations of diamonds and rocket emojis. What followed was days of pandemonium between retail and institutional investors on Wall Street, leaving nearly everyone in a state of bemusement and perplexity about the outlook of stock market investing as we once knew it...

GameStop (NYSE: GME) is a beleaguered brick-and-mortar retail chain that operates primarily out of shopping malls catering to teens and young adults who grew up purchasing video equipment and video games. Since 2002, it has been following the same failed business model of the bankrupt Blockbuster Entertainment. Through great technological advancements in the video gaming space, it now takes one click of the finger to purchase games online without having to leave the comfort and confines of the home. This advancement caused the stock's price to plateau, with very little upside potential or growth in the video gaming and software industry.

A "meme" (pronounced "meem") stock is a term touted by millennials. A meme is often overpriced, prone to high volatility based on a catalyst other than the stock's financials or fundamental value and have experienced large spikes in growth in short periods of time. There are meme stocks that have experienced similar spikes in volatility and price, but they have been less dramatic and not as impactful as GME. During the week of January 25, 2021, a coordinated and galvanized besiege took place by a brigade of retail traders on the social media commentary website platform known as Reddit. The brigade refers to themselves as "WallStreetBets." They called for thousands of novice investors to start purchasing millions of shares after it was discovered that GameStop was being heavily shorted by hedge funds. This momentum invariably



Sheila Morgan, AAMS®
PORTFOLIO MANAGER

DIAMANT
ASSET MANAGEMENT

440 Main Street, Suite X
Ridgefield, CT 06877
(203) 661-6410

continued next page



continued from page 1

and artificially drove the share price up. This was their way of getting back at Wall Street at their own game. This feeding frenzy drove the price up exponentially, far beyond what the fundamental value of the company is truly worth. From January 22, 2021 through January 28, 2021, the price ranged from a high of \$483 to a low of \$42.32. Over the last five trading days in January, GME lost nearly 90% of its peak value. This short squeeze caused hedge fund short sellers to incur losses of upwards of nearly \$20 billion as of the end of January 2021. This is a classic example of a short squeeze. The pandemonium behind GameStop's mania illustrates the impact and fears that social media manipulation and pump and dump schemes can have on stock prices that systematically leads to a broader market-wide contagion.

To further illustrate my point, during the beginning of this month, the stock's price has ranged from a low of \$99.97 to a high of \$348.50. Meme stocks will continue to have the same fundamental problems they had a year ago, along with the added risk that their trading bubble will inevitably burst, ...and it is only a matter of time. It is important to always remember that success in the stock market is about thinking about your long-term growth strategy, proper portfolio asset allocation, and diversification.

In the words of Benjamin Graham, as intelligent investors, if we can always remember these valuable guiding principles, then we will certainly not need to find ourselves on a message board looking for the next speculative meme stock. The process of gradual compounding interest and fundamentally sound investments is a focused investment strategy that will always outpace fast, adrenaline, and speculative stock investing in the long term.

Written by: **Sheila Morgan, AAMS®**, Portfolio Manager

Please feel free to contact us with any questions or comments at

(203) 661-6410 or email Sheila directly at **sheila@portfolioadvisor.com**



Meme stocks will continue to have the same fundamental problems they had a year ago, along with the added risk that their trading bubble will inevitably burst, ...and it is only a matter of time..

**Visit our
Resource Center
for more market
commentary and
insights.**

CREATIVE SOLUTIONS TO WEALTH MANAGEMENT

Diamant Asset Management was built on a foundation of family and friendships with ethics and integrity as our guiding principles. As an independent Registered Investment Advisor, we take our fiduciary responsibility seriously and act as a guardian of your wealth.

Managing wealth through the transitions of life. It's what inspires us to do what we do every day.