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Reddit Users Unite To Buy GameStop Shares and Turn Stock Market World Upside Down

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Kyle Murphy January 30, 2021

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What happens when an online chatroom convinces everyone in it to buy one stock simultaneously? Individual investors win and hedge funds lose big and people who have been trading stocks in suits rage at those trading stocks from their phones.

The stock market saw just that with GameStop over the past few weeks. On Jan. 15, GameStop was valued at $35 but on Jan 28 it was valued at $469.42. This astronomical increase has been tied to a Reddit Forum, Wall Street Bets, whose users learned that Melvin Capital “shorted” GameStop, betting that the stock price would fall, and people in the forum decided that they would buy the stock so that Melvin Capital would lose their money. This initial reaction set off a chain of events that will most likely be remembered for a long time.

The stock price of GameStop has since gone on a wild ride that has all media outlets glued to this constantly developing story. On Tuesday, the stock opened at $88.28 but closed the day at $145.96; by the closing bell on Wednesday it rose all the way to $345. The stock's peak on Thursday was $469.42 before trading companies like Robinhood took away the option to buy GameStop stock, causing the stock to temporarily plummet all the way down to $132 by 11:30 a.m on Thursday. Once the companies restored the option to buy GameStop, the stock shot up to $381.43 before the market even opened on Friday. At the final closing bell of the week, GameStop was trading at $325.

Christopher Cuomo, CNN Cuomo PrimeTime Host, posted two interviews on his Twitter feed two days ago surrounding the Robinhood temporary ban on buying Gamestop. One was with the CEO of Robinhood, Vlad Tenev, and the other was with founder of Wall Street Bets, Jamie Rogozinski.

Mr. Cuomo prefaced his interview with Mr. Tenev by stating, “I want you to address the obvious; this looks a move by an outfit called Robinhood, which is supposed to be taking from the rich and giving to the poor, and doing exactly the opposite. That when the big guys, including one of your main investors in your companies started to lose, you shut down the game to starve the little guy.”

Mr. Tenev responded, “That’s not what it is at all. We had to make a very difficult decision to protect our customers and our firm.” He explained that the stoppage was “about us complying with the financial and clearing house deposits and regulations.”

He added, “Ultimately, brokers have to impose these types of restrictions because the capital requirements can change and we are in unprecedented times.

"We want nothing more than to enable investing and access to as many individuals as possible. That's our mission and it's the name of our company."

Mr. Cuomo’s final comments in his interview with the Robinhood CEO was, “Just gotta make sure that something named Robinhood isn’t rigging it for the sheriff of Nottingham.” Mr. Cuomo offered his show as a platform for the duration of the ongoing situation for the CEO to explain himself. The full interview can be found on twitter here.

Mr. Rogozinski, the Wall Street Bets founder, started his interview by stating, “To me, it sounds like they were having a liquidity issue.”

He added, “The little guys get together and unite and be an opposing force to these institutions that historically dominated this invite-only market. They have a reason to be upset; the fact now that [they're finally] able to have a voice and the spotlight, the rug gets pulled from under them.”

Tech website The Verge reported that Rep. Alexandria Ocasio-Cortez (D-NY) called on Congress to investigate the Robinhood app after it banned small investors from buying stock in companies like GameStop.

Yahoo Finance has reported that a class-action lawsuit has been filed in California that “alleges that behemoth online brokerage, Robinhood, breached its duties to investors when it "willfully and knowingly" disabled certain crucial and basic trading functions crippling its clients' abilities to trade from their accounts."

It has been widely reported that the unfolding revolution has changed many individual investors' lives. There have been plenty of reports of people buying new cars, houses and even having the means through which to pay for previously unaffordable life-saving surgeries.

Melvin Capital wasn't the only hedge fund to lose money, but it was one of the more widely reported companies that lost big. The short sellers have lost an accumulative $19 billion as of Friday, according to Business Insider.

The Guardian reported that Citron Research founder, Andrew Left, called GameStop a "failing mall-based retailer" in a report earlier this month and then predicted that the stock would plunge to $20 in a video he posted to Twitter that has since been deleted.

According to CNN, Mr. Left has now given up on shorting the stock, citing harassment by the stock's backers.

Citron Research announced via Twitter on Friday morning that they would discontinue short selling research and no longer publish "short reports."

While individuals cash in, some of the people that have historically been in the stock market are upset. The HuffPost reported that Leon Cooperman, who was charged with insider trading in 2016 and paid $4.9 Million in fines without admitting guilt, is being attacked on twitter for his comments on CNBC that went viral. In CNBC interview, he said that the "fair share" concept is a way of attacking wealthy people.

In now-deleted tweets, Michael Burry, who made a fortune shorting the housing market and was portrayed in the movie "The Big Short", said, "What is going on now, there should be legal and regulatory repercussions. This is unnatural, insane and dangerous." Business Insider reported that Mr. Burry actually made a lot of money on the GameStop stock's rise. The publication said that at the last count, Mr. Burry's Scion Asset Management owned 1.7 million shares of Gamestop valued at 17 million in September. By Tuesday, Scion's stake was up to $271 million, or a 1,500 percent gain.

A short is when a trader borrows a stock when it's at a higher price with hopes of returning it at a lower price in the future, with the trader pocketing the difference. They do this when they think a stock will fall in value, and by all accounts GameStop was trending in that direction before the Reddit forum changed the stock's course. The risk of shorting a stock is that if a short fails, losses can be infinite as short sellers will have to return the stock at the price the shares are when they close their position on the stock.

Tech magnate Elon Musk tweeted his opposition to the practice" "U can't sell houses you don't own, u can't sell cars you don't own, but u *can* sell stock you don't own!? This is bs - shorting is a scam legal only for vestigial reasons."

There is an issue of the legality of this situation. The Wall Street Journal spoke with Brad Bennett, a former enforcement chief at the Financial Industry Regulatory Authority, relative to whether there was any violation committed by the internet community to cause the historic rise. Mr. Bennett told WSJ, "If it is just folks whipping each other into a frenzy on the internet, it is hard to find a violation. But if you have people putting information out on a website, and these are stock pickers selling into the frenzy and they are not disclosing that, it can be fraud."