To the Moon

REGIONS
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Since early 2021, meme stocks have been a hot topic throughout the financial industry. In short, a meme stock is a stock that has an unreasonable jump in price that normally happens in a short period of time and is typically instigated not by the company's performance, but rather by popular social media platforms such as Reddit, Twitter, Tik Tok, and discord chats[i]. The purpose behind this white paper is to discuss what has happened with meme stocks and what drove this movement from retail investors, and potential implications for the future.

Meme stocks have recently taken flight as brokerage platforms are making it very easy for individuals to become retail investors. Platforms like Robinhood and Webull offer very low, almost $0 commission trades, and have made it incredibly easy to sign up. There has been speculation that due to COVID-19, there has been an increase in retail investors. This could be because of COVID closing casinos around the country and people looking for a new form of gambling and entertainment. The younger generation has multiple path's for social media platforms and social media has played a huge role in this meme stock frenzy. Many Twitter and Tik Tok users that have a large following will post about a stock and tell everyone to buy it and that it is "going to the moon". With their large following, they are hoping to pump the stock's price up so everyone has an opportunity to make money while simultaneously causing hedge funds and other shorts to cover and buy back shares, resulting in the stock price going even higher.

Data below showing a poll taken age and account balance of investor type in 2020. 1,300 households surveyed[ii].

Figure 1. Investor Type by Age

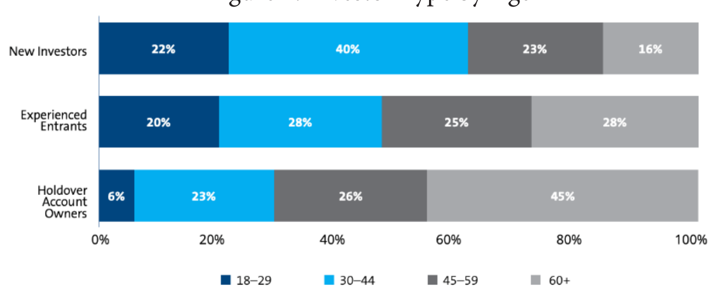
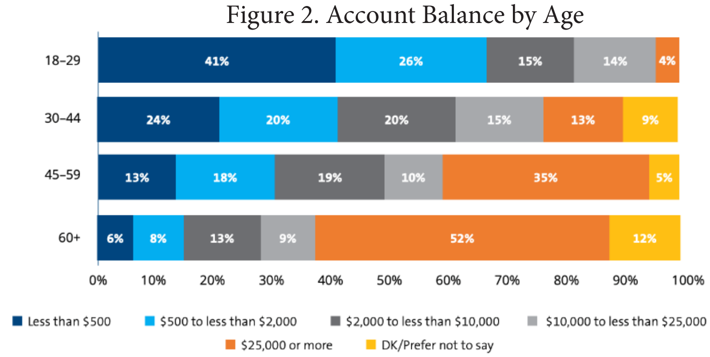


Figure 2. Account Balance by Age



[ii] Source: Finra Foundation

Wall Street Bets

Wall Street Bets is a sub reddit forum that posted about GameStop, a video game store that was struggling. But why GameStop? What was so attractive? It started when a user suggested that GameStop was undervalued and started buying calls and trading options. It came to a point when GameStop's price continued to fall, and people were losing a lot of money and blamed the hedge funds and who they called "suits" for manipulating the market. GameStop had a large amount of short interest in early 2021 and the members of Wall Street Bets saw this as an opportunity to empower the individual and retail investors, and with their help the stock went parabolic. GameStop had one of the highest YTD gain of all equities with a gain of ~1,745% by January 26th, 2021 [iii]. GameStop's stock price skyrocketed because hedge funds had to cover their short position and buy back shares. The fear of missing out, or FOMO, has also helped in the process. Individuals have the fear that if they do not invest right away, they will miss the gains. Some investors did not realize why GameStop had a huge spike, but they did not care as they did not want to miss out on the opportunity. In part, this incredible coup by retail investors led to platforms like Robinhood put restrictions and bans on GameStop's stock. Also, brokers were not able to move shares around quickly enough because of the extreme amount of volume. People could not buy or sell GameStop shares for a certain period and then could only purchase or sell a certain amount. This only made retail investors more frustrated and led to them ultimately pushing their followers to buy more. GameStop was not the only company who was short squeezed. Companies like AMC, BlackBerry, Bed Bath & Beyond, and others were also pumped up by retail investors and this forced hedge funds to cover their short

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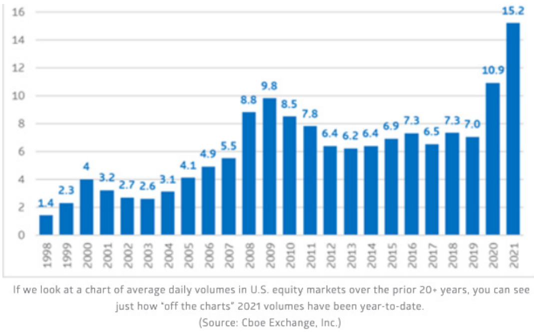
positions. These short squeezes are still happening today as more and more retail investors joined social media platforms looking for the next GameStop.

Figure 3. U.S. Equities: Average Daily Share Volume (in B shares) T h e Figure 4. GameStop Corp. Class A



Source: FactSet

Dotcom Bubble

The Dotcom Bubble occurred in the late 1990's because of a rapid rise is U.S. tech stock valuations. This was fueled by investments in internet-based companies that were extremely attractive during this bull run. The bubble grew out of speculative investing and the substantial amount of funding for startups from venture capitals. Many internet-based startups IPO'd during this time and that is where many people invested their money in hopes of becoming rich. In 1997, record volumes of capital poured into the Nasdaq. Eventually, the bubble popped, and tech stocks plummeted. It took nearly a decade for the Nasdaq and other tech stocks to recover to previous levels[iv]. Trading now compared to the late 90's is vastly different. Advances in technology have given retail traders today the ease of clicking a few buttons to buy and sell stocks and options. It is an entirely new generation that is coming into the stock market because of how easy it is to access. Instead of people realizing they need to start investing after having worked their first couple of jobs, people are doing it now in their early 20's. In my opinion I do not believe these squeezes will go away, but I do not think there will be another one like GameStop anytime soon. You will probably see more smaller overnight or after hours pumps than larger overnight/intraday moves. I also think the people that lost money will now take profits sooner rather than later even if it means leaving some money on the table.

Gains & Losses

Melvin Capital, a hedge fund that heavily shorted GameStop, lost around 53% in January. The fund began 2021 with $12.5 billion in assets under management and ended the month of January with a little over $8 billion. $2.75 billion was reinvested into Melvin Capital after two investors saw the losses pile up. To put this into perspective, Gabe Plotkin, founder of Melvin Capital banked $846 million in 2020. Of that money, Plotkin personally, lost around $460 million from GameStop alone. According to S3 Partners, a financial analytics company, short sellers have lost a total of around $14.54 billion[v]. $12.79 billion coming from GameStop, $0.89 billion coming from Bed Bath & Beyond, $0.52 billion coming from AMC, and $0.34 billion coming from BlackBerry (as of market close February 1, 2021*)[vi]. The goal of the retail investors to shake up the "suits" on Wall Street worked. Contrary to people losing money, many individuals made a lot of money off GameStop, AMC, Bed Bath & Beyond, BlackBerry, and others that greatly benefited and changed their lives. One Redditor played the game and bet on GameStop and won making around $80k. The 28-year-old has a BFA in graphic design and used his profits to pay off his final student loans[vii]. Many other young adults were in the same position and were able to pay off loans and other debt they gathered from the past. Others were able to purchase new houses, cars, and many other things to help their families as well as themselves. It is great to hear stories about people becoming millionaires because of these meme stocks, but what are the tax consequences? Short-term capital gains is what the majority of retail investors will pay because they are buying the stock and selling it within the same year. I think a lot of these young retail traders are not too phased by short term capital gains taxes because they do not have a consistent stream of income and are in a lower tax bracket. Some do realize the amount of taxes can add up and take it into consideration. Depending upon how much you pay in taxes will depend upon your taxable income amount.

For example, let's say you bought 100 shares of GameStop at $4.63/share on August 17th, 2021 and you sold all 100 shares for $347.51 on January 27th, 2021. You will have to pay short term capital gains on $34,288 in profit. Now compare that to a single woman with $120,000 in taxable income from her current day job. She will only have to pay 24% of her income in taxes equaling $8,229.12[viii].

Regulations

SEC officials have discussed how they could regulate certain brokerages such as Robinhood. A regulation that was mentioned was a way to force the platform to warn its customers about a risky stock before the trade is complete. The SEC Chair, Gary Gensler, is worried that stocks like GameStop, AMC, BlackBerry, and the others are too easy to trade on Robinhood and other platforms. Gensler suggested that one way to combat wild run-ups is to force the brokerage platforms to act more like a fiduciary, but is this not one of the primary reasons why retail investors choose to use these platforms? To force these investors to now act prudently with their assets may be appropriate, but this oversight is not what they have signed up for, and if this were to be put into place, Robinhood would have to come up with a way of warning their customers of a risky trade. This would be yet another burden to Robinhood because their whole platform is designed to make investing fun and easy for everyone. Regulation BI was established in 2019 by the SEC, and this regulation is simply put "know-your-customer", -and forces brokers to recommend financial assets that are only in the client's best interest[ix]. Robinhood is exempt from this solely because it involves self-directed trading compared to taking advice from a financial advisor. The main area the SEC has been looking for is disruptions in the market such as, manipulative trading or any other misconducts.

Meme ETF

If you want to try your odds with lower risk, there is an ETF that intends to track the performance of 75 large cap U.S. stocks that have the highest degree of positive investor sentiment. The ETF BUZZ was created out of a partnership between Dave Portnoy, founder of Barstool Sports, and VanEck which has all the "buzz" worthy stocks that are hot topics around social media. With the money Portnoy accumulated from Barstool, he became a day-trading sensation during the pandemic as COVID forced a halt on sports betting. The ETF's algorithm monitors around 15 million posts on various social media accounts and tracks which stocks have the highest positive investor sentiment. According to Portnoy, the algorithm was built five years ago and in 2020, the Buzz index (BUZZTR) outperformed the S&P 500 by 40%. Tesla, GameStop, Rocket Companies, AMD, and Novavax Inc. are some of the top holding within the ETF[x]. There is no conclusive evidence regarding performance as the fund was launched on March 2, 2021.

Conclusion

I believe meme stocks will continue to stay around and disrupt the markets. In my opinion, meme stocks are not a safe investment and are extremely volatile. Some may argue you have better odds if you took your money to Las Vegas and put it all on red in a game of roulette. Hedge funds will now keep a closer eye on their short positions as they know this can happen again, and it is rare for lightening to strike twice in the same place, but not impossible. Retail investors are still on the hunt to shake up large hedge funds as they did to Melvin Capital. Seeing the short squeezes that took place shed a lot of light and empowerment on the small retail investors with many brokerage accounts keeping commissions low, I believe we will see the number of retail investors continue to grow in the future. In addition to this, social media influencers like Portnoy have a large following of high school and college students worldwide. It would be no surprise to me if many of them opened brokerage accounts because of his influence during the lockdown of COVID. The meme stock frenzy has opened many eyes on Wall Street, and has also opened many opportunities, as well as changed lives for retail investors.

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