

A real life Robinhood story (one that might not end well)

Some DIY day-traders are making money at the hands of the rich. Should you be worried?

By **Larry Edelman** Globe Columnist, Updated January 28, 2021, 8:14 p.m.



A protester held a sign outside of Robinhood's headquarters in Menlo Park, Calif., on Thursday after the stock-trading app said it would limit trades of GameStop. IAN C. BATES/NYT

It's fitting that the [online trading app](#) with the name of Robinhood is playing a starring role in the GameStop black comedy.

The story of how [GameStop's stock](#) went from under \$20 to above \$500 at one point in a matter of days is, after all, one of separating the rich (Wall Street pros) from their money. And we love to root for ordinary folk (DIY investors) — so much, in fact, that we may overlook the darker elements of their actions.

But it's those darker elements that hold an important warning for all investors, even if you're a buy-and-hold retirement saver who sticks with [low-cost mutual funds](#).

On the off-chance you haven't consumed any news media in the past week, GameStop is the videogame retailer whose stock had been left for dead until it became the focus of a [prank-turned-social media phenomenon](#) in mid-January.

That's when individual investors who congregate on an Internet forum called [WallStreetBets](#) banded together to drive up GameStop's stock price and inflict losses on the billionaire hedge fund managers and other elite traders who had made a lot of money betting against the company.

This merry band of investing rebels succeeded beyond anyone's expectations (except, perhaps, their own). Their weapons: [commission-free online trading](#), low-priced stock options, and the gall to believe they could turn the tables on the pros.

As their buying drove up GameStop's price, the short-sellers who had bet against the stock had to buy to cover their positions. That further propelled the stock higher, as did market-makers who needed to acquire the shares to facilitate trading.

GameStop soared more than 1,600 percent from Jan. 12 through Wednesday. An investment of \$200 to buy 10 shares produced a gain of \$3,275. Returns may be even higher for those who used options to make their trades. Estimated losses incurred by the shorts through Wednesday: more than \$5 billion. And that doesn't include [other stocks they were betting against](#), including BlackBerry and AMC Entertainment, that the rebels also targeted.

DIY traders scoring big isn't new, of course. Remember [day traders](#) and the dot-com bubble? And so-called short squeezes — which is exactly what the Reddit raiders did — are as old as short-selling itself.

So will this episode have any meaningful impact on your 401(k)? Most likely not.

"I am viewing this as more of a sideshow," said Dan Kern, chief investment officer of TFC Financial Management in Boston. "I'm seeing reminders of 1999. Day traders — by 2001 most of them were doing something other than day trading."

But Kern pointed to the pivotal role social media have played in l'affaire WallStreetBets as a trend investors can't dismiss.

Not only did the rebels meet on Reddit, their posts quickly ricocheted across [Twitter](#), FaceBook, and even TikTok. Taking on the hedge funds became the ALS Ice Bucket Challenge of January 2021. The power of social media to rally followers and derail Wall Street whizzes won't end with GameStop.

"The momentum effect that comes from the Internet can be scary," Kern said.

For Sinan Aral, director of the [MIT Initiative on the Digital Economy](#), the GameStop short squeeze is part of a broader — and more ominous — trend.

"We are now witnessing, in real time, the rise of decentralized crowds, coordinated over social media, as a disruptive force in our society," said Aral, the author of "[The Hype Machine](#)," which examines the profound impact social media are having on politics, the economy, and public health.

Those crowds can do good things, like raise money for ALS or uncover the identity of a criminal caught on security video. But they can also spread disinformation, like [the anti-vaxxers](#), and turn into mobs, like the one that ransacked the US Capitol on Jan. 6, Aral said.

If the Russians could interfere in the 2016 presidential election, there is no reason to think that a social media campaign of fake news and disinformation couldn't wreak havoc on financial markets.

No evidence has emerged so far that the Reddit rebels were spreading disinformation, but regulators are looking at issues such as possible [market manipulation](#).

On Thursday, Robinhood, Interactive Brokers, and Webull Financial [restricted trading](#) on GameStop, AMC, and other "meme" stocks, apparently under pressure from the firms that clear their trades. In the words of a colleague, it seemed like the Empire – a.k.a. the Wall Street Establishment – was striking back.

The trading restrictions angered traders who decried not being able to buy and sell without warning and with only vague explanations from their brokers about "volatility." And political leaders from [Alexandria Ocasio-Cortez](#) to [Ted Cruz](#) demanded to know why the brokers had blocked their customers, while hedge funds could still trade through their own desks.

GameStop fell 44 percent to \$193.60. AMC tumbled 57 percent.

Is the rebellion coming to an end? Perhaps, as far as the meme stocks are concerned. Remember, in most traditional tellings of the [Robin Hood legend](#), the heroic archer is killed at the end.

But trading apps, social media, and no-commission trading aren't going away. They've given DIY investors a better chance against the pros.

"Will there be a populist takeover of Wall Street?" asked Jill Fopiano, chief executive of O'Brien Wealth Partners in Boston. "Probably not."

Yet Fopiano wasn't willing to rule out significant changes ahead for Wall Street:

"Who knows. We've obviously had so many things happen in 2020 that nobody anticipated."