

Taking on Wall Street

In late January, GameStop stock value suddenly skyrocketed, dealing crushing blows to hedge fund corporations and yielding massive gains to investors. Behind this enormous surge? A vigilante investment group on Reddit.



FAST TRACK
The subreddit group r/WallStreetBets bought and held GameStop stocks, driving prices up by large margins and hurting investors who shorted the stock.

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In brief

PRODUCE DRIVE Both middle schoolers and lower schoolers had the opportunity to experience Zoom tours of CitySquare's Food Pantry, led by Food Operations Manager Meredith Parrott.

Parrott walked students through the pantry's operations. To donate food to City Square, the Lower School and Middle School have begun collecting bags of produce.

The Middle School collection area is located on the walkway under the choir room. Currently, the Lower School is collecting in their lobby. Additional service projects in relation to City Square may be explored in the future.

NEW TESTING DATES The SAT and ACT will be held on campus in the coming months. The SAT will be offered to juniors only on April 13 starting at 8:35 a.m.

College counseling will send a registration email. The ACT, available for both sophomores and juniors, will be on April 17 and June 12.

Students should contact college counseling to get a unique test code which they'll use on myact.org to register.

SERVICE HOUR DEADLINE

There is now only one deadline on April 5 for community service hours to be turned in. At this date, all 15 required hours for the year must be submitted.

While the previous ten hour deadline in January was pushed back due to COVID-19, the number of hours due at the end of the year has not changed.

DROPPING TESTS College counseling seminars for juniors have commenced and are taking place in the Science Lecture Hall for six weeks.

Seminar topics consist of six college counseling-related themes, ranging from transcripts and résumés to letters of recommendation and essays.

After the seminars conclude, the college counseling staff will have individual family conferences to talk about future goals for college and will then meet individually with juniors for the next 18 months of the college process.

Wall Street was witnessing history. Right in front of them, GameStop stock value went up, and up, and up and up — and they could do little to stop it.

They had never before seen growth of this magnitude in the history of the market. The massive 1500 percent increase in the value of the stock shocked the nation and struck a crushing blow to Wall Street.

Betterment Founder and CEO Jonathan Stein '97 heard about the situation much like other Americans



Bryan Boucher
Economics
Instructor

did — through its booming media coverage.

"It's like seeing an ad on late-night television or the internet that says, 'Here's how you can get rich in five simple steps,'" Stein said. "People are suckers for that stuff, myself included."

While he initially attempted to short the stock at its peak, Stein is happy he avoided the entire situation.

"I just don't think that's what we want out of our capital markets," Stein said. "The reason that we have the stock market is so that companies, people or stores that want to make investments in technology can raise money to do that. It exists to allocate capital. Things like this GameStop debacle don't improve that at all."

Betterment, Stein's company, is one of the pioneers in the robo-advisor industry. Its website reads, "Make your financial goals real."

"I founded Betterment to help every American have the best tools to make the most of their money," Stein said. "Betterment is unlike most investment apps out there today that encourage you to trade, gamble and do foolish things that are fun but short-sighted. Ultimately, I combined

the investing experience I've developed with the behavioral long-term process of helping people make better decisions."

Despite thinking of the situation as lacking societal benefit, he understands why people would be so attracted to it.

"If you really want to invest in things like GameStop, the Betterment approach would be to do so with five or at most 10 percent of your money," Stein said. "Look at it as a small, fun bet to do on the side — don't do it with the majority of your savings."

For junior James Singhal, investing has been just that — a hobby on the side. Fortunately, he stumbled across the infamous Reddit stock-trading subreddit (group) that started the GameStop craze: r/WallStreetBets.

"I looked at [GameStop], and I thought, 'Well, this is really undervalued, and they have the ability to go pretty high,'" Singhal said.

Wary of the fluctuating stock values, Singhal invested a small amount.

"I didn't put much money into it," Singhal said. "I thought it was pretty risky, given their retail, COVID and the fact that they had just gone under, but they were paying off a lot of their debt, so I thought it was a good bet, and I went in with about \$14. Not that much, but it ended up paying off well."

According to AP economics instructor Bryan Boucher, GameStop's business model is a dated one.

"I think, just from an investment standpoint, the company is not very good," Boucher said. "It's a brick-and-mortar store. Many of them are in malls. No one really goes to malls anymore, especially not in a pandemic. No one really buys physical video game cartridges anymore because a lot of that is virtual. It's a classic example of a business that's been outpaced by technology."

Yet, fortunately for the

company, in early 2021, salvation arrived from r/WallStreetBets.

"The Reddit group — full of amateur investors — had seen that a lot of hedge funds had 'shorted' GameStop and said, 'Let's mess with it,'" Boucher said. "And so, in a weird way, it became a populist movement of random people interested in the stock market who were also a little bit angry at big hedge fund investors."

The subreddit helped the stock's value increase by dramatic proportions. In January, \$GME's value increased by 1500 percent in only two weeks. For Boucher, the economic explanation behind this enormous increase begins with short sales.

"If I'm an investor and I think a stock is going to lose value in the future, what I'm going to do is borrow that stock from someone who owns it and sell it for cash," Boucher said. "After the stock falls, I'm going to rebuy it for a lower price and return what I borrowed."

When you see people making a lot of money, everyone wants to get in on it.

Jonathan Stein '97,
Betterment CEO

Big investors on Wall Street, anticipating the decreasing value of GameStop, poured their money into these short sales.

"A lot of larger investors — what we refer to as hedge fund investors who do this for a living — had taken out a lot of stock equity in GameStop with the expectation that that stock was going to fall and that they would make money by shorting," Boucher said.

But r/WallStreetBets investors bought GameStop stock and held it, leading to GameStop's value rising while Wall Street investors' short sales cost them millions in a process called a short squeeze.

"It was a \$40 stock that was

then suddenly trading for like \$300 a share," Boucher said. "So again, if I have shorted that stock, that's a real problem for me because I'm hoping that stock will go to \$20. I borrowed your stock for \$40, and I still owe you your stock for \$40. But now, for me to buy back GameStop, it's gonna cost me \$340. That's all generated by these Reddit users."

Boucher believes this highly publicized economic frenzy has implications for investment strategy in the future.

"I do think that this could change how we look at the stock market and how we look at larger hedge fund investors who often are doing things that manipulate the market," Boucher said. "That's exactly what these Reddit users were doing. At the end of the day, the company GameStop isn't any more valuable than it was before all this happened. It's still kind of a dying company, but its stock was trading. If you just looked at stock prices, you would have thought it was the most profitable company in the world."

As a teacher, Boucher wants this clash between Wall Street and r/WallStreetBets to provide a more clear understanding of the relationship between stock prices and the economy as a whole.

"I hope it leads to people thinking a little bit more practically about their investments," Boucher said. "From an economics teacher's perspective, I hope it teaches the lesson that the stock market is not an indicator of our economy. In some ways, it's a form of gambling. You're betting on the futures of companies, and sometimes the value of a company is fabricated based on stock trading. So I think this brought to light a lot of challenges with how we view stocks."

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