

Research Report

Jump on the Hype – German Retail Investors and the Gamestop Frenzy

GAMESTOP, A COMPANY THAT WAS PRESUMED DEAD DUE TO SHRINKING PROFITS OF ITS BRICK-AND-MORTAR BUSINESS MODEL, HIT THE HEADLINES BECAUSE OF A SHORT SQUEEZE OF ITS STOCK PRICE. THE POPULAR OPINION REPORTED BY MAINSTREAM MEDIA SUGGESTED THAT THE GAMESTOP FRENZY WAS EXCLUSIVE TO YOUNG AND INEXPERIENCED INVESTORS GATHERING ON THE SOCIAL MEDIA PLATFORM REDDIT. IN CONTRAST, OUR RESULTS INDICATE THAT ALSO MORE EXPERIENCED RETAIL INVESTORS IN GERMANY PARTICIPATED.

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Introduction

In just a few days, the Gamestop (GME) stock price rose nearly 900 times from its record low, reaching an interim high of about USD 480 (EUR 405) on January 28th, 2021. The implied market cap of over USD 27 million made GME temporarily more valuable than many companies listed in the S&P 500.

The mainstream media depicted this development as a result of young and inexperienced small investors pooling their financial resources to sabotage hedge funds' short positions in shares of ailing companies. The events surrounding the GME short squeeze have also captivated audiences in Germany, including

both laypeople and financial market experts.

Contrary to the well-known Volkswagen short squeeze in 2008, the recent turmoil around GME was mainly driven by retail investors.

This report provides a brief overview of the recent events, and documents the reaction of German retail investors to the Gamestop hype.

The Story of the Gamestop Frenzy

While it is not easy to identify a clear starting point, the recent GME hype is traced back to a video by Keith Gill, a famous Youtuber, posted in summer 2020. In his video, he analyzed the GME stock and presented it as undervalued and emphasized that the short interest was over

100% of the outstanding shares, which was a stark contrast to the average short position of 5% back then (Angel, 2021). Like many other such polarizing analyses, this video gained attention on the popular Reddit message board, WallStreet Bets. Its community is known for its own unique culture and terminology, popularizing terms such as meme-stocks. The latter are characterized by high volatility and prominence among younger investors. Most importantly, they have a strong Social Media presence and tend to be overvalued due to the fear of missing out (FOMO) phenomenon (Semenova and Winkler, 2021).

Motivated by the initial analysis of Keith Gill, the GME investment case was carried over to other discarded companies like AMC, Nokia, BlackBerry, and highly speculative stocks, such as Rocket Company, Etsy, and Palantir. In particular, these stocks attracted the interest of the

Reddit community because – similar to GME – their short interest was higher or close to 100%. This exaggeration on the part of the short-sellers led to the resentment of hedge funds and their role in the financial system.

Figure 1 shows the daily closing prices of the GME stock between December 1st, 2020, and March 1st, 2021. The catalyst of the turnaround speculation was the announcement of Ryan Cohen as a new board member on January 11th. This made GME the most discussed stock on Reddit, illustrated by the increase in Reddit posts mentioning "GME" afterwards. The posts rumoured that Cohen was planning to transform GME into an e-commerce platform. The first substantial price increase of 68% on January 13th sparked the attention of the public and resulted in the first reports in the mainstream media, as indicated by the increase in Google Trends on GME.

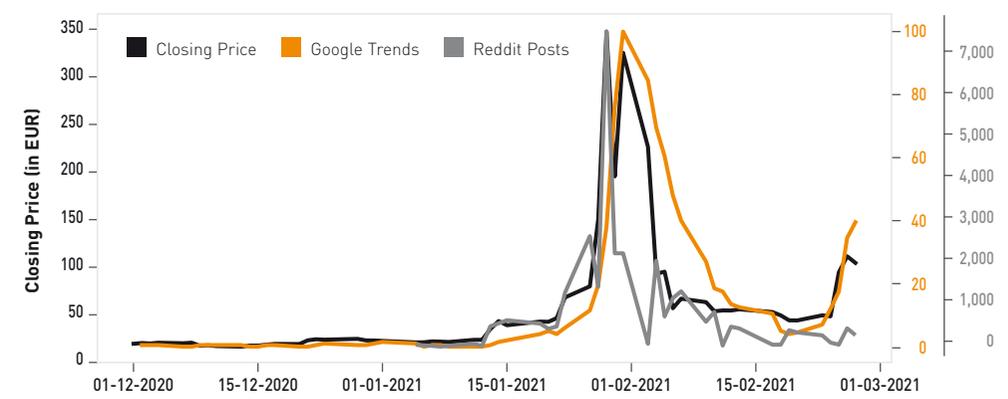


Figure 1: Daily Closing Prices of GME, Google Trends, and Reddit Posts during the Gamestop Frenzy

Note: Reddit posts show how often "GME" was mentioned per day on the Reddit message board WallStreetBets; Google Trends represent a normalized measure of Google searches for "Gamestop" and "GME", ranging from 0 to 100 where 100 indicates the mostly searched term.

Triggered by emerging bandwagon effects and FOMO, more and more investors participated in the Gamestop frenzy. In the following weeks, the price of GME and other meme-stocks increased further, forcing short-selling hedge funds to cover their positions. In the case of GME, the resulting short squeeze led to a multiplication of the stock price (intraday) to over USD 480 (EUR 405). In turn, the Malvin Capital hedge fund, the biggest opponent of GME, lost 30% of its value. In fact, Malvin had to raise an interim sum of USD 2.75 billion in emergency funds before closing all their positions on January 26th. In the meantime, the hedge fund Citron also closed all its positions with a 100% loss (Chohan, 2021).

An additional controversy arose when on January 28th, neo-brokers, such as Robinhood in the US or Trade Republic in Germany, imposed

trade restrictions on meme-stocks, which led to substantial price declines on the same day. Interestingly, as shown by the slightly delayed peak in Google Trends, the mainstream media's attention peaked only days after GME reached its all-time high on January 28th.

A few days after the trade restrictions were lifted again, the US House Financial Services Committee held a hearing to recapitulate the trading hype and the controversial trade restrictions, with no significant results so far.

Overall, the mainstream media framed the story as a David versus Goliath battle of young and inexperienced retail investors against hedge funds. Even though the public drew analogies to Volkswagen in 2008, there is a crucial difference: while a takeover attempt by Porsche initiated the Volkswagen short squeeze, the

Gamestop frenzy arose through Social Media coordination among retail investors.

Data

We obtain data from a German bank with a broad offering in retail banking services. The bank provides trading data, including customer demographics and administrative records of individual customers. Our selected sample comprises a six-digit number of customers and ranges from December 1st, 2020, until January 31st, 2021. This encompasses the most critical period of the Gamestop frenzy. Focusing on meme-stock traders only, we identified about 300 customers who we take a closer look at in the following.

The Reaction of German Retail Investors

Out of these customers, we see that about 80% are male and on average 46 years old. About 55% are employees while self- and unemployed, students, and retirees are represented with roughly 5% each and others with the remaining 25%. Moreover, on average, the investors have been the bank's customer for 15 years, trade about four times per month and have average monthly transaction volumes of about EUR 29,000.

In Figure 2, daily transactions and volumes are depicted. Overall, we see that the number of buys and sells as well as the daily transaction volume surge in the last week of January 2021. Specifically, we observe 380 buys and 220 sells. Interestingly, the actual transaction volume of EUR 1.6 million of sells exceeds the buy volumes of EUR 1.5 million.

In sum, we identified 83 completed transactions that were bought and subsequently sold during the Gamestop frenzy. On average, the realized returns amount to around 15.0%. Furthermore, by focusing on the last observed trading week, we do not notice any heterogeneity in different characteristics such as age, gender, or employment status.

Conclusion

Overall, our results illustrate that participation in the Gamestop frenzy was more widespread as portrayed in the mainstream media. In fact, our investor data shows that also more experienced traders with relatively larger portfolios participated. This shows that the media's reporting was rather polarizing in putting the young and inexperienced investors exclusively into the spotlight.

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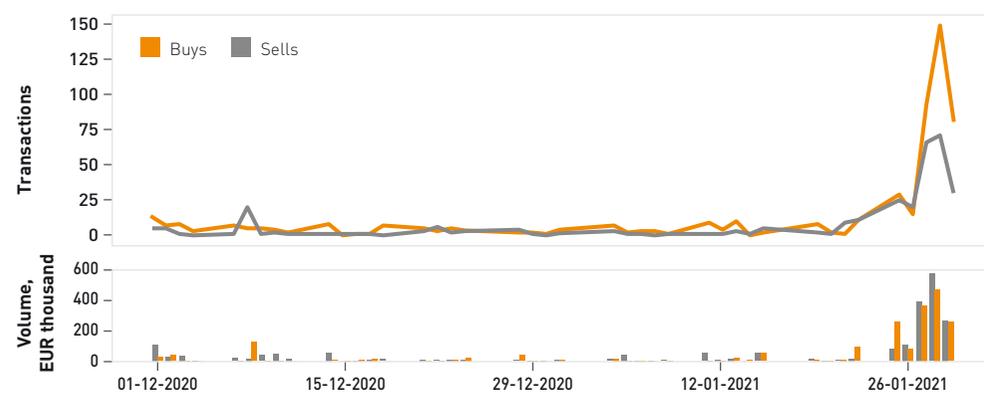


Figure 2: Daily Transactions and Trading Volume of Meme-stocks Traded By Private Investors of a German Retail Bank

Note: We pooled together all meme-stocks (i.e., Gamestop, AMC, Nokia, Blackberry, Rocket Company, Etsy, and Palantir).