Twitter Thread by Reuters

Reuters
@Reuters

A surge of retail stock trading over the last year lit the fuse that sent shares of GameStop rocketing higher without a clear business reason, market watchers say, squeezing hedge funds that had bet against the retailer and other companies that were out of favor on Wall Street



What is going on? Here are some answers ■

More individuals have invested in stocks during the COVID-19 pandemic, and experts cite a number of reasons, including lockdowns boosted savings, stimulus putting cash into people’s pockets and extremely low interest rates



Also, a proliferation of trading apps allowed anyone with a smartphone to buy or sell stocks for free. Retail investors' participation in U.S. equity order flows increased to nearly 20% in 2020 from 15% in 2019, data from Swiss bank UBS showed



What has been the impact of this surge in retail trading?

Big U.S. technology companies were among the beneficiaries last year. Facebook, Amazon, Apple, Netflix and Google saw record inflows as their businesses benefited from lockdowns and their stocks soared



■ With unprecedented stimulus and easy money policies from central banks, investors then shifted to smaller stocks, especially ones that got beaten down during the pandemic



What's happening on Reddit and social media?

Discussions about stocks on social media platforms such as Reddit, Twitter and Facebook are seen by many analysts as fueling massive share price moves that cannot be explained by fundamental news or traditional valuation metrics



Retail investors have long discussed stocks on social media, but during the pandemic these forums appear to be gaining more influence. Investors pointed to discussion threads such as 'WallStreetBets' on Reddit for driving the surge in GameStop



How has this affected hedge funds and professional traders?

Massive share price swings for no apparent reason have caught Wall Street off guard



Short sellers, or investors who bet the price of a stock would fall, are getting crushed. Melvin Capital, a well-established hedge fund, took massive losses on its bets that GameStop share would fall https://t.co/EEgLeas3ej



Traders scrambling to cover these short positions and prevent further losses had to pay inflated prices, which added more fuel to the rally. Several traders told @Reuters that this phenomenon - a classic short-squeeze - drew in still more retail investors hoping to ride the wave



What are the risks?

With global stock markets surging since March despite the pandemic's devastation of the real economy, investors and

analysts are warning about asset bubbles. If markets turn, overvalued stocks will fall with them https://t.co/6RV2QR96XX