



GameStop and the rise of Reddit-fuelled day traders

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At the beginning of 2020, Reza Nader was trying to make his way as a handsome mid-career actor in New York City. The coronavirus was off his radar – similar to most ordinary Americans – and social media was more of a way to see and be seen than an investor club for the masses.

Fast forward to the start of 2021, and Nader is living in his parents' basement, broadcasting stock tips to throngs of Instagram followers, and has invested his life savings in two companies whose core businesses might have seemed unintelligible just a year ago.

One firm, XpresSpa Group, converted its airport wellness facilities into COVID-19 testing centres. The other, CytoDyn, is a biotechnology company hoping to market a self-injected monoclonal antibody treatment currently in phase-three clinical trials.

Besides trying to help end the coronavirus pandemic, the common factor that unites these two firms — in Nader's eyes and for the social media-driven traders attracted to stocks like GameStop — is that hedge funds have short sold both — a trading strategy in which investors borrow shares and sell them with the aim of buying them back later at a lower price and pocketing the difference.

Nader sleeps just four hours each night, watches financial news on CNBC around the clock and chain-smokes packs of cigarettes. With little else to do, his universe is the stock market and the thousands of largely middle-class followers who he advises under the name Sorrybud.

"I have made a lot of people money in the market," said Nader, before explaining his altruistic intentions. "I also raised 25K on my IG Story in one day, and I put it all in the cure for COVID."

"None of this would be happening if it weren't for coronavirus," Nader told Al Jazeera. "I started working on Wall Street in 1998 and stopped just before 9/11. I hadn't looked at the stock market in 20 years."

Nader said he didn't enjoy his brief stint as a trader for a major investment bank during the dot-com boom. "Now, I don't even know what EBITDA means and I'm still making money," he added, referring to a common way of calculating a company's earnings.

But the ethos of that frenzied era — rife with rumours and speculation — inspires the intensity of his passion today. “We had chop shops and boiler rooms, doing cocaine out of our drawers and calling rich people to send us money,” Nader added.

From sports betting to Robinhood

Trying to rise up professionally in the world of show business, Nader has recently acted in a feature film about money laundering and in an HBO series on teenaged female skateboarders.

But on the side, he got hooked on sports gambling and downloaded the DraftKings app “to bet on the colour of Gatorade at the Super Bowl, then NASCAR, the NBA, and everything else”.

“Then corona came and there were no more sports,” Nader said. “All the people betting on sports decided to bet on the stock market. And at the perfect time, here comes Robinhood — investing for dummies,” he explained about the rise of the mobile app for young retail investors who some believe pose a threat to the dominance of Wall Street institutions.

“People were out of work, with their stimulus money, unemployment money, and sitting at home,” said the 40-something investor whose trading spark was rekindled last March. “When there’s blood in the streets, that’s when you buy.”

Yet Nader concedes that many are in the game just because it is fun, joking, “There’s no difference between stocks and Pokemon”.

Though the zany trader describes his investment horizon as being ‘like a new casino’, he also embraces “the idea of sticking it to the rich people ... who are mad because we finally have a seat at the table”.

Many Reddit-based traders had tried their luck with equities but found more appetite for risk after banding together to oppose short selling by hedge funds they saw as corrupt and immoral.

‘The mob is tomorrow’s investor’

That anger felt by upstart traders has been compounded by sharp Twitter critiques from politicians such as Alexandria Ocasio-Cortez of the Robinhood trading platform’s decision to restrict some purchases of stock in GameStop and over a dozen other companies like Nokia that were struggling financially.

“The Redditors aren’t cheating, they’re joining a party Wall Street insiders have been enjoying for years,” comedian Jon Stewart tweeted on Thursday.

The fact that Robinhood is backed by Citadel LLC — one of the same hedge funds that bailed out Melvin Capital, the main investor shorting GameStop stock — has further raised suspicions of a conspiracy to beat back the GameStop boosters.

But Robinhood defended its actions by saying on Thursday that the brokerage had legal and financial requirements forcing its hand. Vlad Tenev, the Robinhood CEO, also told CNN’s Chris Cuomo that several other retail investing platforms had imposed similar rules. Some market experts have opined that Robinhood caught flak for ending the party early in a move that may ultimately save some investors from major losses if and when the floor really falls out.

Douglas Borthwick is chief marketing officer at INX Ltd, a firm that provides cryptocurrency and security token services to retail and institutional investors alike.

He believes that the current economic crisis has severely impacted many retail investors “who are not going to the office, and may even have lost their job, while nothing has really affected hedge fund managers in any way”.

A proponent of decentralised finance, Borthwick told Al Jazeera that Robinhood was not right to have intervened in such a lopsided manner to arrest the ascent of GameStop stock, describing the decision as “stirring up a hornet’s nest”.

“Millions of people connected by a message board are acting together,” Borthwick added.

He said an “army of retail investors” can be deployed to crowd swarm whenever a stock is menaced. Regardless, the United States Securities and Exchange Commission announced Friday that it would closely scrutinise brokerage decisions and monitor traders to prevent illegal schemes.

Borthwick said he does not speak for participants in WallStreetBets and other online forums and clarified that he holds no positions in any meme stocks like AMC or BlackBerry.

“There is a class divide here and an us-versus-them mentality,” he said, reflecting unironically on his own prior career experience having short sold currencies at major investment banks.

“The mob is the generation that is about to inherit the largest wealth transfer in US history, as baby boomers put assets into millennial hands,” Borthwick predicted. “The mob is tomorrow’s investor and should be treated with more respect by the media and by banks.”

‘Retail investors are not a monolith’

While some retail investors are part of a coordinated activist movement, many more have simply piled on to take advantage of market momentum.

“It’s not often that retail investors have done a short squeeze on Wall Street players,” said Jennifer Schulp, director of financial regulation studies at the libertarian Cato Institute. “But it’s unclear if there are larger market implications.”

Schulp told Al Jazeera that rallies or bubbles capturing the popular imagination “are not an unusual phenomenon in markets” and may not point to any problem with market functioning.

She added that “retail investors are not a monolith” but said few believe that GameStop stock is actually worth \$400 per share.

In the long term, getting one or two predictions right may not turn into a pattern of accurate stock forecasting. Yet trading data from Robintrack, which aggregates Robinhood trading data, showed that retail investors were unexpectedly savvy at finding market bottom in the spring. “They should not be discounted, but be part of the conversation,” Schulp said.

Some industry experts hope that young investors, particularly those without big nest eggs, get increasing access to opportunities for growing long-term wealth.

Schulp said the challenge is educating them “about the risks and rewards of investing so that they can make good decisions about how to handle their own money”.

Nader, the basement trader in New York, wants to teach the next generation the tools of the trade. In the meantime, he's zealously waiting for US regulators to approve the efficacy of CytoDyn's COVID-19 drug.

"If it's effective," he said, "that stock is going to the moon."