DAILY NEWS

GameStop's power to the people: Celebrating the investor revolution in the making

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The sudden surge in the price of GameStop's stock has attracted the attention of trading platforms, regulators and even the White House. And rightfully so. Just days ago, major hedge funds were betting big money against the success of the video game retailer in the form of short sales. But that didn't stop individual investors from taking those bets. Instead, a flood of retail investors joined forces on Reddit's WallStreetBets forum to send GameStop's stock soaring. As of this writing, at over $400 a share, GameStop is worth 10 times its value a week ago.

Rallies usually attract some attention, but this one uniquely affected the stock of a company not projected to turn a profit for another two years. By pulling GameStop's stock into the stratosphere, individual investors pulled down big Wall Street players who never imagined that retail investors could pull off a short squeeze. Federal regulators are "monitoring" the situation and state regulators have already announced their intentions to review the role of online trading apps. Others are calling for even more dramatic reform.

But deserving attention and deserving restriction should not be confused. However much certain hedge funds may have suffered, and that the little guys may eventually suffer in turn, there is no reason here for trying to limit retail investors' ability to rally around underdogs or pursue unconventional trading strategies.

For one thing, WallStreetBets and other online forums are about as transparent as glass windows. There's little to suggest that investors are being misled by false information about the stock or that the stock's rise has been pushed by promoters who failed to disclose that they were being compensated. That investors are corresponding in memes and emojis instead of memos and Bloomberg chats doesn't mean that anything fishy is going on.

And though it may sound crazy to say it while GameStop shares soar (and the phenomenon attempts a repeat with others such as AMC), forums that help retail investors share their thoughts are a good thing. Chamath Palihapitiya, CEO of the venture capital firm Social Capital, told CNBC, "Instead of having 'idea dinners' or quiet whispered conversations amongst hedge funds in the Hamptons, these kids have the courage to do it transparently in a forum. What it proves is this retail [investor] phenomenon is here to stay." It also proves that retail investors are smarter than Wall Street thinks.

While the unexpected rally has certainly shaken some — and cost supposedly smart-money hedge fund world billions — trying to regulate retail investor behavior like this presents fundamental problems. Trading already can be temporarily halted when a stock's volatility exceeds certain thresholds, and GameStop's trading has been subject to a number of volatility halts. But any more onerous restriction runs the risk of damaging the market.

GameStop's rise was arguably tied, at least initially, to a Jan. 11 announcement that it added three new directors to its board with an eye towards turning around its online presence. Similarly, Kodak experienced unexpected gains last year after the announcement of their move into pharmaceuticals, and investors who crowded into Hertz may have been more optimistic than Wall Street about the company's ability to survive bankruptcy. Stepping in to prevent trading where a stock price soars (or declines) contrary to conventional wisdom could limit legitimate information important to the market. Drawing the right line to prevent what Massachusetts Secretary of State William Galvin, the state's top securities regulator, has called trading with "no basis in reality" is an impossible task.

Rather, viewing the GameStop rally as reason to limit retail investors misses the great potential present for both the market and individuals. Retail investors provide market liquidity, and their diverse trading strategies can be especially valuable when the market is under stress. Recent retail investors tend to be younger with much smaller account balances, and have gravitated towards app-based trading. Providing a wider swath of individuals with access to the market opens needed opportunities to build wealth over the long-term. Rather than limiting access, the focus should be on educating investors so that they understand the risks of investing, including riding the rally and its likely aftermath.

So, if an unconventional rally is going to attract attention to retail investors, let it attract attention to their potential. The investors on WallStreetBets should be recognized for their entrepreneurial investment strategy and for proving that it is wrong to write retail investors off as "dumb money."

GameStop's motto might be "Power to the Players," but recent events are a prime example of power to the people. It is important that when the dust settles, individual investors' power remains.

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