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Stock Market Investing Tips, Techniques, and Resources



Should You Invest in Gamestop?

By www.ProfitableInvestingTips.com

The video game retailer, Gamestop, was once ubiquitous in malls across America. Recently it has been struggling and its share price has fallen. That was until the end of December of 2020 at which time its share price was \$17. It peaked to \$347 on January 25 and has fallen to \$217 as of January 28. Should you invest in Gamestop? For that matter, what happened with Gamestop (GME). *The New York Times* offers a bit of insight into [Gamestop's rise](#) and what it tells us about today's stock market. Keep in mind that Gamestop sold for \$3.84 a share a year ago.

Dumb Money Beats Hedge Funds

As Gamestop stock started to go up over the course of 2020, money managers and hedge funds started to short the stock. Then mom-and-pop retail investors piled in and started to buy. The resulting rise in price resulted in a [short squeeze](#) that drove the price even higher. Why did all of those "dumb money" investors buy Gamestop and increase its market value from \$2 billion to \$24 billion in just a couple of days? The answer lies in the power of social media in today's stock market.

We wrote about [Robinhood investing](#) and the risks involved. Since the Covid-19 pandemic began, many have started to trade stocks and options with apps like Robinhood due to being off work and with time on their hands. Stocks that have benefitted include BlackBerry which is up 280% and AMC which is up 840%.

According to the *Times*, the credit (or blame) for Gamestop's rise and the losses incurred by hedge funds and others goes to *Wall Street Bets* which is a page on the *Reddit* social media site. The page put out the call to buy *Reddit* when it became apparent that it was being heavily shorted. And, when lots of small (dumb money) investors purchased the stock the price went up and those with shorts had to buy at a loss, further driving up the price.

What Happens Next with Gamestop?

The stock has already fallen from its peak price and, if left alone, should drift toward its intrinsic value price. But, if the shorts start up again, don't be surprised if the same pattern repeats itself. Now we see that folks like Elon Musk are posting on Twitter about *Reddit*. It may well be that accurate [market sentiment data](#) will have to include everything said on *Reddit* about stocks!

Does Tribal Investment Activity Endanger the Market?

When investors have to bail out of their short positions they often have to sell their winners to find the cash. When there are enough short squeezes it could be that over-priced but otherwise solid stocks could be affected. The S&P 500 shuddered a bit after the Fed said that the economy is not doing so well. The sort of perfect storm that starts a market crash could be triggered by a "side show" like *Reddit* readers ganging up on

the Wall Street hedge funds.

Where Does Intrinsic Stock Value Fit into this Picture?

If you are a long term value investor and believe that a stock like Gamestop is worth more than its current price based on its forward-looking earning potential, you will buy it. If you think it is over-priced right now you will sell. If you are a short term trader, the Gamestop situation afforded you with a golden opportunity to make money, provided that you could predict that all of the “dumb money” would go “all in on the stock.” For many who thrive on social media this all makes perfect sense. So, should you invest in Gamestop today? For those who are not glued to their smart phones all day long, this could be dangerous.

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