

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Should You Invest in Shorted Stocks?

By www.ProfitableInvestingTips.com

GameStop and other meme stocks have started to surge again. Most folks thought that the retail investment frenzy was over. Over a month ago we asked the question, [Should You Invest in GameStop?](#) Our conclusion was that when you can successfully time such investments both in getting in and getting out, they can be quite profitable. But, over the long haul, the reason that the majority of stocks are being shorted is that they are overpriced and will eventually fall. Much to our surprise, GameStop stock is up again!

The Return of Investors to GameStop

The Washington Post notes that [GameStop and other meme stocks](#) are surging again.

GameStop shares closed up 19 percent Thursday, after surging as much as 88 percent, as retail investors returned to the shorted stock that set off a trading frenzy last month that shocked Wall Street and sparked federal scrutiny. GameStop ended the session at \$109.15, pushing the video game retailer's market cap past \$7.6 billion, even as the broader market slumped.

What fueled this rise were more small retail investors who benefitted on shorted stocks including GameStop and reacted to news about the company CEO stepping down. This time around investors simply want to see GameStop do well and would like to repeat their previous success with the stock.

What Are Meme Stocks?

A meme stock is one that is both heavily shorted and subject to manipulation to prove a point. The Reddit subsite, WallStreetBets, is popular with young investors. They do not get their investment ideas or advice from *Kiplinger*, *Barron's*, *The Wall Street Journal*, *The Motley Fool*, or *Jim Cramer*. They studiously follow what is posted on WallStreetBets and then invest via [Robinhood](#) or another online investment platform. These folks have found that they can make money trading options.

The Post interviewed a software engineer who set aside money in hopes of winning this time around with GameStop. It was money he could afford to lose. Unfortunately, some Robinhood users have mortgaged their homes in order to buy or sell options on Robinhood. Getting your investment advice on Twitter, YouTube or Reddit is fine. As we noted years ago about stock tips, you need to check them out independently. Look at [intrinsic stock value](#) if you are looking to invest for the long term and beware of selling options unless you are purchasing as an offsetting measure. As noted in the article, a lot of people are going to learn this the hard way!

Should You Invest in Shorted Stocks?

As noted in an informative article by *Market Watch*, the vast majority of investors should [never short-sell](#)

[stocks](#). Folks who do this and make money have done their research and often have what amounts to inside information. They can afford to lose their investments. And, they spend all of their time watching over these investments so that they can reverse course on a dime if need be.

If you have a short position, there's no limit to how much money you can lose if the shares rise. If the share price increases soon after you place a short position, you could quickly "cover" by buying back the shares and returning them to the investor you borrowed them from. If you're lucky, you might not lose very much.

Our view of the current meme stock frenzy is that the market is being manipulated by a few savvy investors who also are skilled at using social media to recruit lots of folks to help them achieve their goals. Following these folks may work out for you at times and at other times you are simply being pulled into another pump and dump scheme. The basic problem is that you are betting that enough people will follow the leader on Reddit to cause the short sellers to buy again and give you a profit.

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