

Behind the GameStop stock frenzy

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This month, the US stock market was roiled by a wave of speculation in unprofitable or bankrupt companies.

Shares in the Blockbuster movie rental chain, bankrupt since 2010 and valued at just pennies, soared more than 100-fold. AMC, the loss-making movie theater chain, rose from \$1 to \$20 in the course of two weeks. Shares in Koss, the struggling headphone maker, soared from \$2 to over \$120.

But nothing exemplifies this phenomenon so much as the performance of game retailer GameStop, which saw its share price shoot up from \$15 to over \$300 during the past week.

The run-up in the shares of these companies far outpaces the broader stock market, which rose by more than 75 percent since its low in March, fueled by more than \$4 trillion in cash handouts from the US Federal Reserve. The growth in share values has fueled a vast enrichment of the US financial oligarchy.

The vast majority of the rise in share markets has been concentrated in only a handful of stocks, led by carmaker Tesla, which saw its share price rise from \$60 to \$835 in the course of just two years, making its CEO, Elon Musk, the wealthiest man in the world.

Over the course of this year, stock market speculation has become more and more unglued from corporate profitability. Tesla, for instance, would need 1,600 years to earn the amount of money that has been invested in it. More and more, the companies with the lowest growth and worst economic prospects are emerging as the best target for financial speculation.

But the latest round of frenzied trading was driven by a new phenomenon: a group of independent day traders, including many former bankers now trading on their own accounts, coordinating their purchases on online forums, particularly the Reddit forum r/wallstreetbets.

Their activities have been facilitated by the rise of

commission-free stock trading services, such as Robinhood and TD Ameritrade, which allow small investors to trade stocks with no overhead fees, often using funds lent to them by the trading services.

This week's run-up in the value of GameStop was driven by a coordinated "short squeeze." The targets of the traders are hedge funds who had placed bets that GameStop's stock price would drop, that is they were "shorting" the stock. The "short squeeze" operation involved the coordinated purchase of the shares by retail traders on Reddit, resulting in a rise in shares and substantial losses for the hedge funds.

On Tuesday, Musk tweeted his support for the operation, tweeting "gamestonk" and linking to wallstreetbets.

On Wednesday, US stock trading volume set a new record, as the investors expanded the short squeeze to AMC theaters. The next day, Robinhood delisted GameStop, AMC, BlackBerry, Bed Bath and Beyond, and other stocks from its trading platform, while also raising margin requirements.

Other trading platforms, such as TD Ameritrade and Schwab, followed suit. At the same time, the Discord chat service temporarily blocked wallstreetbets, claiming that its content included "hate speech" and "glorifying violence."

The halt in trading prompted the shares of GameStop and other companies to plunge, incurring significant losses for members of the broader public that purchased the stocks. Tales of individuals losing tens of thousands of dollars were common in online forums.

The actions of Robinhood, TD Ameritrade, Schwab and Discord were broadly criticized on both the political right and by sections of the Democratic Party. Day trader and blogger Dave Portnoy, who conducted a fawning interview with Trump last year, tweeted, "Robinhood must die," alleging a conspiracy between the company and hedge funds that held short positions

on GameStop.

“It took less than a day for big tech, big government and the corporate media to spring into action and begin colluding to protect their hedge fund buddies on Wall Street,” Donald Trump Jr. wrote Thursday on Twitter. “This is what a rigged system looks like, folks!”

Robinhood’s actions were also prominently criticized by Democrats. “We now need to know more about @RobinhoodApp’s decision to block retail investors from purchasing stock while hedge funds are freely able to trade the stock as they see fit,” wrote congresswoman Alexandria Ocasio-Cortez on Twitter.

Ocasio-Cortez’s remarks were embraced by both Donald Trump Jr. and Senator Ted Cruz, who replied, “fully agree.”

Robinhood likely came under pressure from major hedge funds to take the action that it did. No doubt, more will come out about this.

However, no one should accept the claim that the GameStop short squeeze is driven simply by a band of independent traders asserting themselves against the powers that be. Major hedge funds, including BlackRock, have made billions from the run-up in GameStop’s share prices.

Economists have warned that GameStop shares, meanwhile, are behaving like a classic pump-and-dump scheme, in which sophisticated investors goad novices to drive up the price of a stock, then sell it, leaving small investors holding the losses.

The main point that needs refuting is the view, often expressed by users on wallstreetbets, that by speculating on a worthless stock, and potentially forcing Wall Street firms to take losses, they are somehow making a progressive protest against the capitalist system.

No doubt many of the people who bought shares of GameStop wanted to register their opposition, to assert their own independent interests in a system dominated by injustice and social inequality. Many just wanted to get ahead in a social order that condemns millions of people to economic desperation.

But the idea that by joining forces with the likes of Elon Musk, Donald Trump Jr, and Ted Cruz to hop on the bandwagon of a speculative mania will lead to some sort of progressive social outcome is absurd.

Speculation by over-indebted consumers preceded every major financial disaster in history. Prior to the

Wall Street crash of 1929, hundreds of thousands of small investors piled into the stock market, many taking out vast loans on the advice of hucksters claiming that the stock market would inevitably keep rising. In 2008, it was the same thing, only with houses: everyone was urged to buy a house he could not afford, massively enriching Wall Street in the process.

As with the massive leveraged investing by small shareholders in the past, this will likely end in disaster for small shareholders. But if small traders are successful in their drive to impose losses on hedge funds, what will be the outcome? A small fraction of the population would become wealthier—primarily educated sections of the middle class. The pandemic would continue to rage, wars would remain, and the vast majority of the working class would continue to toil in poverty and oppression.

The *World Socialist Web Site* does not offer financial advice to our readers. But we do offer political advice: put your energy into fighting for the social interests of the working class. There is a raging pandemic, over 400,000 people are dead, and 10 million people are out of work in America alone. These are problems that will not be solved through individual action, much less buying hot-ticket stocks, but through collective struggle by the working class for socialism.



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