

**Note for regulators and supervisors****ON REDDIT'S WALLSTREETBETS AND GAMESTOP STOCK SURGE**

In a matter of weeks, many money managers have suffered damaging losses as amateur traders banded together to take on some of the world's most sophisticated investors.<sup>1</sup> The frenzied trading was driven by a group of mostly young day traders who coordinated on Reddit's WallStreetBets blog to drive up the share price of struggling companies, including GameStop (GME), but also BlackBerry (BB), Macy's (M) and AMC (AMC).

Last April, when GameStop announced mass closures, their shares (GME) could be bought for \$3.25 each. On Tuesday they soared 92% to end the day at close to \$148, pumped up by small investors hoping to ruin hedge funds' bets that the price would crash.

Despite that the GameStop stock surge began for a legitimate reason,<sup>2</sup> the aggressive rise in stock prices arose as a group of small investors coordinated through WallStreetBets, bought a ton of GameStop options, using the trading app Robinhood and other services, leading several hedge funds to a short-squeeze, thus forced to buy shares to cover their losing bids. The struggles at some of the biggest hedge funds may have contributed to the January's 27<sup>th</sup> 2.6% drop in the S&P 500, its worst decline since October.

As a result, and under the justification of market volatility, Robinhood placed restrictions on several stocks, including GME.<sup>3</sup> Because of these restrictions, a federal class-action lawsuit was filed alleging that the platform "deprived their customers of the ability to use their service," in an effort "to manipulate the market for the benefit of people and financial intuitions."<sup>4</sup> Additionally, Representative Paul Gosar sent a letter to the Department of Justice to open an investigation into Robinhood and Citadel Hedge Fund for anticompetitive behavior.

It is important to note for regulators and supervisors that seemingly unlimited fee-free investment apps, such as Robinhood, provide technology that give retail investors, far removed from traditional banks, free access to sophisticated trading instruments, like options.

The case sparks calls for regulatory scrutiny. On the one hand, the Securities and Exchange Commission issued a joint statement mentioning that they are actively monitoring the on-going market volatility in the options and equities markets and working with other regulators to assess the situation.<sup>5</sup> Likewise, despite the New York Stock Exchange (NYSE) halted trading in the company several times this week, the Massachusetts state regulator, William Galvin, called on NYSE to suspend GameStop for 30 days to allow a cooling-off period.

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<sup>1</sup> Point72 Asset Management declined 10% to 15% so far this month, while D1 Capital Partners, one of last year's top-performing funds, is down about 20%. Melvin Capital, had lost 30% through Friday.

<sup>2</sup> [The company announced on January 11](#) it had added three new directors to its board, including Chewy co-founder Ryan Cohen. Investors liked that Cohen brought digital experience to the table who mentioned will try to push GameStop to become the Amazon of the video-game industry.

<sup>3</sup> Robinhood's note. [Keeping Customers Informed Through Market Volatility](#).

<sup>4</sup> [Yahoo Finance](#). [Robinhood hit with class action lawsuit after it restricts GameStop stock](#)

<sup>5</sup> [Joint Statement Regarding Ongoing Market Volatility](#).

Regulators are likely to investigate whether Reddit was used for disseminating false or misleading information with the aim of manipulating investors into buying or selling securities in a similar way as seen during the early 2000s dot.com boom.

#### Sources

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[Bloomberg. Hedge-Fund Titans Lose Billions to Reddit Traders Running Amok](#)

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[Reuters. Why regulators may scrutinize GameStop's Reddit-driven retail stock surge](#)

[Xataka México. El efecto Gamestop o cómo un grupo en Reddit está ganando millones de dólares en Wall Street con solo ponerse de acuerdo](#)

[Yahoo Finance. Robinhood hit with class action lawsuit after it restricts GameStop stock](#)