A few weeks into 2021, the share price of a flagging brick-and-mortar video game chain exploded, creating the wildest stock market story in years. In the end, the GameStop saga wasn’t quite the David-and-Goliath yarn some remember it as—one in which an army of Reddit-posting populists put a short squeeze on some greedy hedge funds—but that was indeed how it started, and the Redditors’ coordinated actions helped push what had been a $5 stock as high as $483. Then the price cratered (sorry, Diamond Hands Reddit), and then it rose again (congrats, Diamond Hands Reddit), and it’s now found a new normal between
$150 and $300 that has held for the past half-year. Movie theater chain AMC’s stock got a similar treatment around the same time, going from around $3 to $20 and then soaring briefly into the $70 range in early June. (For now, it’s around $30, a tenfold increase from January.) We’ve got meme stocks and meme coins, but unlike most “memes,” these don’t feel ephemeral at all.

The story has been a lot to digest for anyone who previously thought stock market moves came down to cold, hard business fundamentals, as well as anyone who looked at storefront video game stores and movie theaters and thought, “Damn, these do not seem like businesses that are ideally suited to survive a pandemic in an increasingly digital world.” Meme-stock mania was similarly vexing for people who have spent their whole professional lives working in the financial industry or researching it from their perches in academia. In January, I asked a handful for their impressions of what was happening, and they responded with a mix of bewilderment at these market movements, acknowledgment that those moves had understandable roots, and skepticism that the meme stocks would turn into durable advantages for the involved companies. These experts also gave their reasons for why all of that could be wrong and these securities could soar anyway.

Which, it turns, they did. Now that several meme stocks have remained at dramatically elevated prices for six months, I called back the people who are supposed to know about these things to discuss something that was never a part of the curriculum until now. Here’s what the lessons are.

**A Meme Stock Doesn’t Have to Be a Meme Stock Forever**

Two things could happen to make a meme stock not a meme stock. The first is if the retail investors who organize around the stock simply lose interest in it. A meme dies when the internet loses interest in it, whether it’s a stock or a GIF. The second way is for a company to turn its juiced stock price into tangible improvements to its business, so that the stock is valuable because the underlying business is stronger, rather than because a bunch of Redditors determined that if they bought lots of stock, the price would go up.

That second path is arguably what’s happened with Tesla, the electric carmaker that one wouldn’t usually put in the same class as GameStop and AMC. Yet University of Maryland associate business professor David A. Kirsch calls it “the mother of all meme stocks,” noting that Elon Musk moves markets with his tweets, has cultivated a huge fan base online, and has regularly used a surging share price to issue new stock (at the elevated price) to raise billions of dollars for his company. Tesla has plenty of detractors, but most people do not see it as a barely valuable message board–driven fad. Electric cars are a more futuristic-sounding product for a business to sell than tickets to movie theaters.
When GameStop and AMC shares jumped last winter, the market scholars I talked with were of two minds. On the one hand, they saw an opportunity for the companies to issue more shares of their stock, raising tons of money. “I remember thinking, ‘Wow, if I were that CEO, I’d try to print some stock at this price as fast as possible,’” Kirsch says. But on the other hand, they figured that would be hard to pull off. Campbell Harvey, a Duke international business professor with a deep background in hedge funds, pointed out that a new share offering risked signaling to investors that GameStop thought its own shares were overvalued. (Which, duh, of course they were overvalued.) Anastassia Fedyk, an assistant finance professor at the University of California, Berkeley, and a scholar on how media coverage affects markets, pointed out that capitalizing on short-term stock movements is quite difficult for firms.

GameStop and AMC both went ahead and did it, though. In the second quarter of 2021, AMC reported raising more than $1 billion via new share offerings, and GameStop did the same. So, no matter what you think of the two companies, they’re now in significantly stronger positions than before.

“It’s impossible to argue that the new resources don’t change the dynamic going forward,” Kirsch says. “GameStop without a billion dollars is just kind of a flailing, languishing mall stock. With a billion dollars, maybe it’s a total relaunch. Right? A billion dollars is a hundred series A rounds. That’s a lot of pivots, a lot of new bets, a lot of R&D. You can do a lot with a billion dollars.”

AMC has new plans (including free popcorn!) to connect with retail investors, and the company’s CEO has also courted them with the classic business tactic of showing up on a video call without pants on. GameStop has been talking for months about a coming digital transformation to its business. Maybe they’ll both struggle, but maybe their meme-stock prices will eventually become self-fulfilling.

When I mentioned to Fedyk that she’d expressed how hard it is for companies to raise capital off short-term stock movements, she pointed out that AMC and GameStop had found an appeal that worked for them. “I think that also endogenously changes the fundamentals now—likely not as much as some of the valuations are indicating, but more than we all expected at the beginning,” she says.

**Short Sellers Have a New Risk Factor, Forever**

There is nothing new about hedge funds and other institutional investors—who are much likelier than individuals to short stocks, these experts say—to get one over on each other. The “short squeeze” to juice the price of a stock someone is betting against was a term of
art long before the Redditors organized one against GameStop doubters. What’s new is that investment firms that consider a high-profile short will have a new potential adversary to take into account: retail investors acting with a previously unheard-of degree of coordination.

“Institutional investors have been trying to play each other for as long as they’ve been around,” Fedyk says. “This is just another contributing player that may do the same.”

Winding up on the wrong side of organized retail investors might feel like an extra risk, though, given how high-profile the GameStop and AMC rallies were and how expensive they got. (A short seller borrows a share of a stock, sells it, and hopes to buy it back at a lower price before returning it to the lender. In theory, a short seller has infinite downside, because a stock could go up an untold amount rather than just dropping to zero.)

“Given that these institutional investors were punished in terms of these meme stocks, it makes it much less likely that they’re going to take the sort of risks that they took before in terms of short positions,” Harvey says. “The sort of thing that I’ve heard—and it’s kind of obvious, right?—is that the risk has increased for doing a short like that. So you’ve got this other variable, where if the stock gets favored by the retail investor, then that short could just be really expensive. And indeed, as you know, there’s no limit to the liability.”

Hedge funds won’t stop short selling. They’ll just have an extra reason to be highly cautious about it, to save both money and the possibility of being the loser in a high-profile news story.

“My expectation is that they will factor this in,” Fedyk says.

The Tool of Speculation Is the Object of Speculation

Robinhood, the platform that facilitated a great deal of the trading of AMC and GME, went public itself this summer. Since its IPO, the company’s own stock has swung violently up and down, starting at $38 a share before nearly doubling a week later, taking a big dive, and finally stabilizing a bit. (That is a synopsis of Robinhood’s two weeks so far as a publicly traded company. The platform took care to offer an unusually high number of shares to its own users, giving itself a chance to get whatever treatment Robinhood’s many retail investors decided it deserved.)

There is precedent for this sort of thing, according to Kirsch. “The objects of speculation are often the tools of the trade,” he says, noting there was “a lot of speculation and excitement around telegraph technology” when telegraphs were a hot medium of market information.
in the 19th century. "E*TRADE was a hot stock, because the investors were using it to invest in other stocks. So I think it's very natural that the platform that enables the novel type of investment, or that grants access to novel investors, also itself becomes an object of speculation."

At some point, in the case of Robinhood, it gets meta. The company apparently has a tremendous business model, albeit one based on encouraging traders to trade, trade, and trade again, including on risky bets like options, no matter what that does to their portfolios.

“It’s just like a money machine for the broker,” Harvey says. “So you’re basically playing on that kind of lottery preference that, ‘OK, I’ve got a thousand dollars in my brokerage account. How can I turn that into $100,000? That’s what I need. Then I can get that BMW.’”

Well, yes. Those same traders now have an opportunity to trade the platform they trade on, which makes its money from their trading. Maybe it’ll work. Sure. Why not?

**Meme Stocks Are Probably Here Forever, in Some Form or Another**

When the meme-stock companies took their valuations and used them to raise big sums of money, Kirsch saw it as a moment of entrenchment. “This has been a real phenomenon,” he says. “This is not just a kind of short-term [thing]. This is not like some sort of flash crash, or some weird microphenomenon. These narratives have changed economic outcomes, and so if that’s the case, then you have to take the movement perspective seriously.”

Fedyk pointed to research suggesting that when retail investors see news coverage of a particular stock, they tend to either buy it or do nothing at all. “Retail investors typically tend to buy. They don’t tend to sell, because they don’t have that many holdings to begin with,” she says. “They are not as prone to short selling, so if they see something [and] they’re gonna act on it, it’s usually a buy.” On top of that, a widespread appetite for what she calls “lottery-like” returns isn’t new.

In the constant churn of news stories and the companies’ ability to fundraise off their stock prices, Fedyk sees “all of the necessary ingredients” for more stocks to explode on similar lines in the future. They just won’t be exactly like GME or AMC. Perhaps instead of going to the moon, the meme stocks of tomorrow will be destined for Mars or Saturn.

“I wouldn’t expect it to be exactly the same,” Fedyk says. “That’s sort of the thing with behavioral finance. You find some anomaly, and that anomaly usually goes away, but the one thing you can reliably predict is that there will be some other anomaly that will surprise you, because it will be different. But there will be more.”
Correction, Aug. 16, 2021: This article originally described research on media coverage and investing as having been conducted by Anastassia Fedyk. In fact, in that instance she was highlighting the work of others.

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