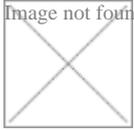


Stock Trading in GameStop – Here’s What You Should Know

Submitted by asd Michael R. DeWitt on 02/11/2021 - 10:36

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I received this text message from my son the other night: “Hey, Dad, what’s going on with all this GameStop business? And AMC? Everyone in my fraternity is talking about it. Apparently someone made like \$25k.”

For the past few days, there has been wall-to-wall media coverage of GameStop and a handful of other small companies that have seen their stock prices skyrocket. And it’s true that some people have made money after buying the stock at a low price and selling higher. But when I received this text, I knew it was time for a chat – and a note to many of our clients.

As a Brightworth client, you may be wondering if this situation affects you. Others who watched the stock market dip during the week of January 25 may even be worried about the overall market impact. The answer there is easy: there is no reason to be concerned about the market’s long-term viability as it relates to this issue.

So, What Exactly Has Happened?

Individuals investors banded together to send some little-known company stocks to new highs. The investors found one another through social media forums like Reddit’s WallStreetBets. Once they connected, they bought stock and options in videogame retailer GameStop, movie theater company AMC Entertainment Holdings and others.

As the stocks skyrocketed, some day traders profited. However, some hedge funds with short bets on these stocks suffered losses. These short bettors were forced to buy back shares of the stocks to limit their losses, increasing the stock price even more. This is often referred to as a ‘short squeeze’ and explains how a stock can surge hundreds of percent higher in a short amount of time, with no apparent change in its fundamental business.

After that, it got even messier. As small investors continued to buy up more shares, mobile trading app Robinhood and several other brokerages restricted access to some stocks popular with those traders. The traders were left with the choice of holding their stocks or selling them, upsetting these small investors. GameStop and AMC stocks sank in response to the restrictions. Some of the restrictions were lifted and the stocks have moved up and dropped again in the meantime.

It’s anyone’s guess what comes next. But on February 2nd, GameStop’s stock was down 60 percent, and it’s only gotten worse since then.

As a Brightworth Client, What Should You Do?

For several reasons, we don't believe putting money into these kinds of stocks is wise. For starters, speculating on stocks with poor outlooks, and correspondingly low prices is risky. (There's a reason hedge funds were massively short these stocks, betting on their continued decline).

In this case, when many investors decide to collude online to drive up prices, the person on the other end of their computer has no idea if the price will continue to rise. Eventually it will likely fall, and often fall a lot. And those investors will lose money. In my opinion, this is pure speculation – in effect, another form of gambling.

We believe the best strategy to build and preserve wealth is investing in a broad portfolio of stocks, bonds and other investments. This time-tested approach has been proven successful over time, but requires patience and the temerity to resist jumping into the latest 'fad' on Wall Street.

I know this isn't exciting. Your college son or daughter will never text you asking if your portfolio is doing well or if you should adjust your asset allocation due to changing economic conditions. But that's ok – that's the way it should be for the long-term investor.

Of course, we are here to help. If you have any concerns, please reach out to your Wealth Advisor. If your children have questions, this is an excellent time to talk with them about some key tenants of successful wealth building: (1) The best way to build wealth is slowly over time, by regularly saving (also known as 'spending less than you earn') and (2) Long-term, patient investing is much more likely to be profitable than short-term gambling.

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