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Advisers ponder systemic risks to markets as GameStop stock spins out of control

A social media platform and ready access to mobile trading apps have helped push an otherwise obscure, money-losing videogame retail business to a $21 billion market cap.

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Whether it is a highly coordinated effort by a host of yet unknown players to take down some big Wall Street operators or a legitimate grassroots groundswell of ***retail trader momentum***, the ***story of GameStop Corp. stock*** spiking 800% over the past few weeks has become more than just a fun distraction for financial advisers.

"It is definitely drawing client inquiries, but these kinds of things typically end in some kind of crash," said Brett Fry, wealth adviser at ***Forteris*** Wealth Management.

Details are still not clear, and the situation is dynamic, but the basic idea of how a social media platform and ready access to mobile trading apps helped push an otherwise obscure, money-losing videogame retail business to a $21 billion market cap has taken on a life of its own.

[More: ***It's not just GameStop – trading frenzy spreads to many other shorted stocks***]

The strategy, promoted and popularized on the online Reddit forum ***r/WallStreetBets***, among others, first identifies large short positions held by hedge funds that are betting on stocks to go down, then buys those shorted stocks at such levels that anyone shorting the stock is forced to also buy the shares just to offset potential losses.

The platform traders enjoyed so much success, including multiple trading stoppages in GameStop shares and forcing some hedge funds to liquidate positions at a loss, that by Wednesday morning the strategy started spreading to other stocks.

By midday Wednesday, when the S&P 500 Index was down 1.6%, AMC Entertainment Holdings Inc. was up 180%, BlackBerry Ltd. was up 16%, and Tootsie Roll Industries Inc. was up 14.5%.

More than a dozen stocks have been identified as targets of the online traders.

Kashif Ahmed, president of American Private Wealth, believes most investors and anyone following a strict financial planning strategy will be insulated, but he also believes this is the start of a reckoning for some corners of finance.

"There will be blood; we've seen this movie before," he said, referencing the dot-com bubble of 1999 before anyone even had access to ***lightning-fast online trading apps.***

“You have a lot of people who really don’t know what they’re doing, and the hedge funds are not backing down,” Ahmed added. “Eventually, the big firms will take it on the chin, but they will survive, while lots of Reddit users will get wiped out. This is one of those things that returns financial assets to their rightful owners.”

Dennis Nolte, vice president at Seacoast Investment Services, describes the collective efforts of individual traders to force much larger traders into short squeeze positions as proof that “it’s a bad idea to short things in an up market.”

“It is interesting how one tweet by Elon Musk or somebody else can drive Robinhood traders into action,” he added. This is not just the market playing out, and the regulators need to get involved here.”

While the expanding trading bedlam, which overloaded several major brokerage platforms Wednesday morning, is still being viewed as an arm’s-length concern for most advisers, the ***potential for a larger issue*** is there, according to Fry of Forteris Wealth Management.

“Right now, it’s very specific names and seems focused on getting back at hedge funds,” he said. “But I would be concerned if it spreads to the broader market.”

Brandon Garrett, president and chief executive of BentOak Capital, said his clients are still mostly at the point of watching the action the way one might gawk at a traffic accident.

“This kind of thing is exciting, and it grabs people’s attention, but the problem is some long-term investors see things like this and start equating it to the overall market,” he said. “We’re in uncharted waters where you have a group or class of investors undertaking a grassroots effort in a sense of community popping up on social media.”

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