

GAMESTOP FRENZY: CONTRA-HEGEMONIC FINANCE?

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ABSTRACT

Purpose- The aim of this study is to evaluate the discussions on the impact of a new investor class, which has emerged with social media and is likened to the Reddit Army by some, over the short sale and short squeeze at Gamestop. Gamestop is a US company that sells video games, electronic gadgets and game products. At the origin of the Gamestop event, there was an effort to break the economic power of the giant Hedge Funds, which were short in Gamestop shares, by combining the financial strength of a few hundred dollars of small and amateur investors on the social media platform Reddit. The Reddit Army has focused on hedge funds, which they consider they are engaged in controversial financial short selling practices. Hedge Funds, which thought that Gamestop shares were overvalued, made large short sales. Later, in January 2021, small individual investors organized on Reddit and started a buying movement on Gamestop shares. Small individual investors ensured that the price of the shares, which was \$ 20 on January 11, rose to \$ 483 in the last week of January, causing the hedge funds to lose billions of dollars. Having a market value of 1 billion dollars at the beginning of 2021, the company reached a market value of 35 billion dollars in the last week of January. Thus, this new group of investors placed huge financial burdens on the short selling hedge funds against Gamestop.

Methodology- In the study, the discussion about the Gamestop frenzy in January 2021 has been tried to be put forward through the literature. The arguments in the debates are handled from a critical perspective using a comparative approach.

Findings- In the financial markets, the Gamestop story has been taken as a victory for ordinary investing citizens over Wall Street giants. This story is also likened to the David-Goliath story, which tells the struggle of the weak against the strong, and it was thought that a new contra-hegemonic structure is emerging in the financial markets through the conversations in the Reddit subgroups. These small investors, who use social media very actively, came together and caused huge losses of billions of dollars, even if for a moment, against the Wall Street giants. Hedge funds holding open positions in Gamestop stocks made large purchases to close their open positions, making the wave initiated by the Reddit Army much stronger, causing the mechanism known as short squeeze. This has caused share prices to rise to high values that are very difficult to bear for those who are in open positions. However, some Wall Street firms that did not have open positions in Gamestop stock bought when prices started to rise in the early January and sold before January 28, when prices peaked, gaining hundreds of millions of dollars. On the other hand, while some of this new investor class lost in Gamestop shares, some gained.

Conclusion- With the emergence of low-cost or zero-cost electronic trading platforms on the one hand, and the conversations of small and amateur investors on social media platforms such as Reddit on the other hand, a new era of individual, small, amateur investors who had no power in the financial markets before, now as a new investor class has emerged. By adopting an organized attitude through the social media platform of this new investor class, it has led to an unprecedented development as experienced in the Gamestop frenzy. This development is seen as a structural dimension of the financial markets in the future, and accordingly, it is evaluated as a potential feature that will cause similar situations to the Gamestop frenzy. On the other hand, although it has been understood that small investors have the potential to create a strong wave on some stocks by organizing through social media platforms such as Reddit, it is thought that the repetition of situations similar to the Gamestop frenzy will not occur and this is an exceptional event. However, it is generally accepted that Wall Street giants cannot ignore this new class of investors. The Gamestop frenzy marks the beginning of a period in the financial markets where the attitudes and behaviors of individual small investors cannot be ignored. The adventurous attitude of the Reddit Army in Gamestop shares was seen by many of the financial market stakeholders as a case reflecting the future feature of the financial capitalist system and caused enthusiasm on a global scale.

Keywords: Gamestop, short selling, social media, hedge funds, small investors

JEL Codes: G11, G24, G41

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