



Behavioral Finance & SNS GameStop case

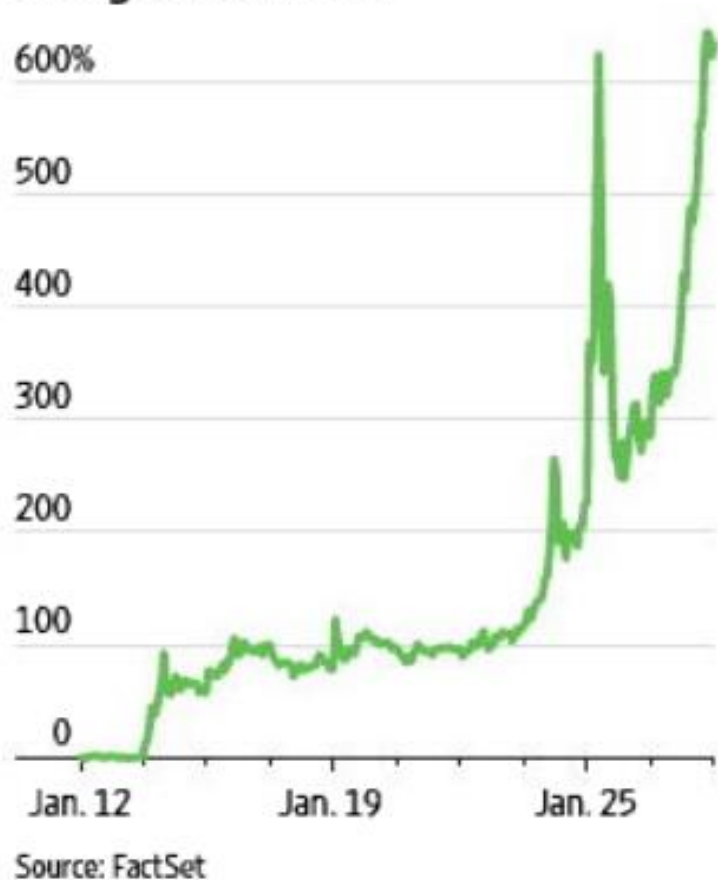
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Abstract

Recent stock market turmoil can not be explained by traditional finance theory. Values of stocks have been linked to earnings. But current stock price movements are not closely linked to earnings in some cases. This study investigate the links between stock price movements and non-earning factors. This study finds several behavioral factors like short-selling ratios, SNS movements and derivative securities like call options are closely related to current stock market movements.

GameStop share-price change since Jan. 11



Source: FactSet

Shorts: Bet on Downward

Short selling occurs when an investor borrows a security and sells it on the open market, planning to buy it back later for less money. Short sellers bet on, and profit from, a drop in a security's price. Short sellers are also responsible for dividend payments for borrowed stocks. Short sellers need to pay dividends to original owner of stocks.

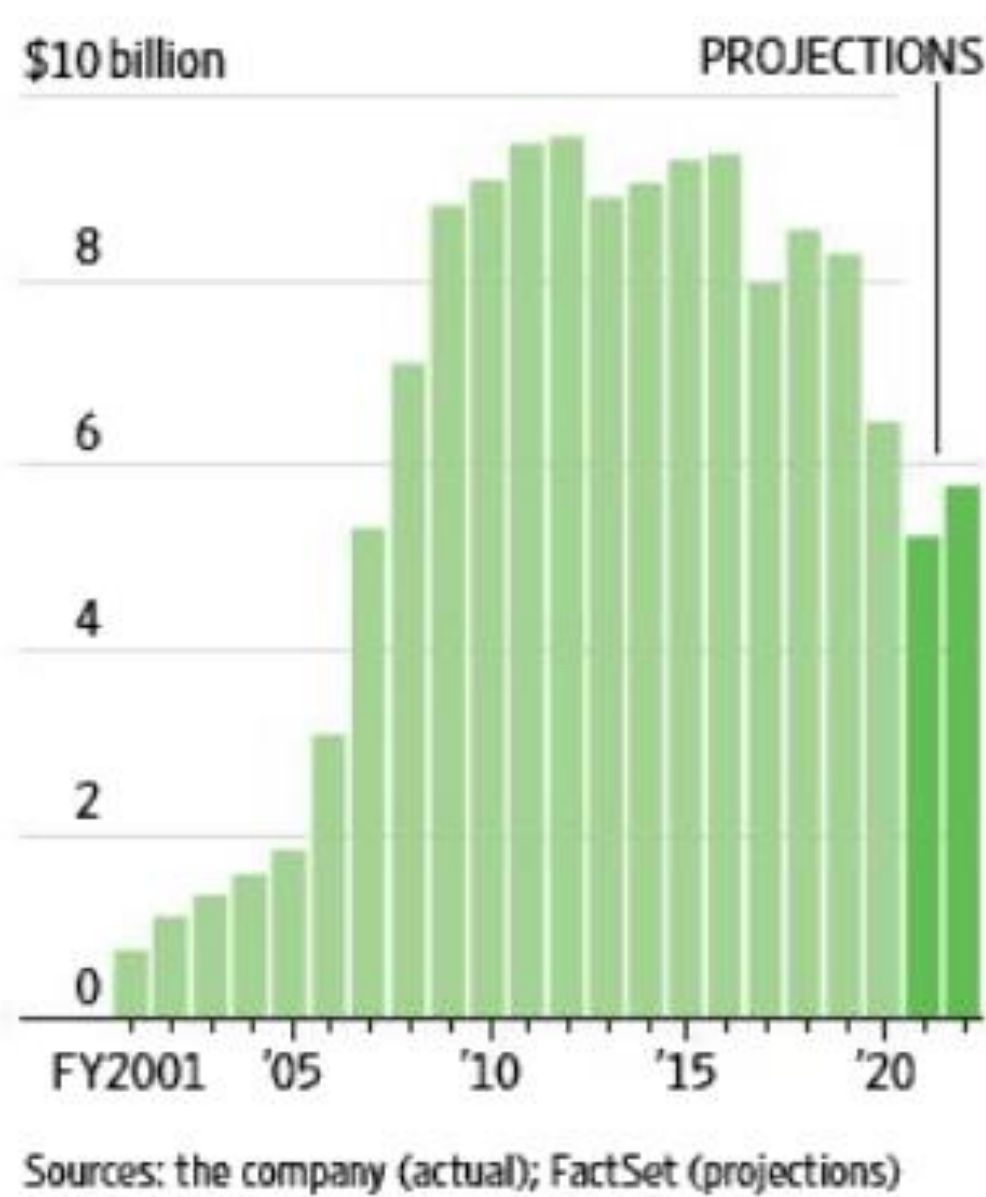
Short-selling Squeezed

During the stock market session, we saw the breakout of a market-wide strategy to pile into names that investors are betting against en masse. According to data from FinViz, more than a dozen stocks more than 30% of their outstanding shares sold short rallied more than 10% on January 25, 2021.

In other words, betting on companies that lots of investors are betting against was the biggest driver of single-stock moves to start the week.

Short sellers have Reasons to Short Downward Performance

GameStop's revenue per fiscal year ended January

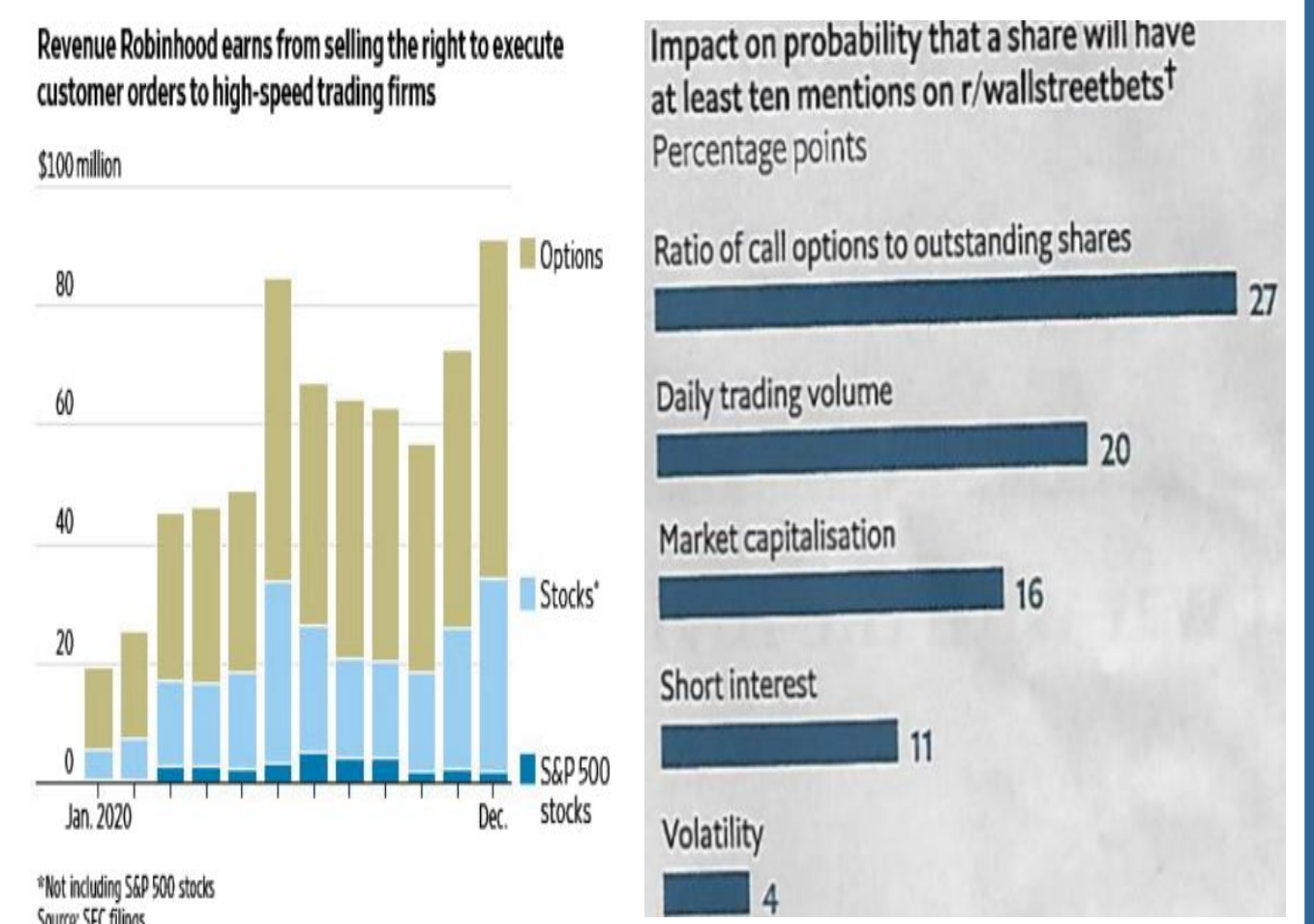


Sources: the company (actual); FactSet (projections)

CT billionaire and Mets owner Cohen involvement

GameStop shares rose more than 50% after users on the Reddit forum ganged up to buy the stock in response to a number of short calls, most notably from Andrew Left of Citron Research, who predicted that stock would drop to \$20. GameStop isn't the only one: AMC and BlackBerry are two of the other heavily-shorted stocks that retail investors have boosted via Social Media.

Option related Hedging activity let to buy shares



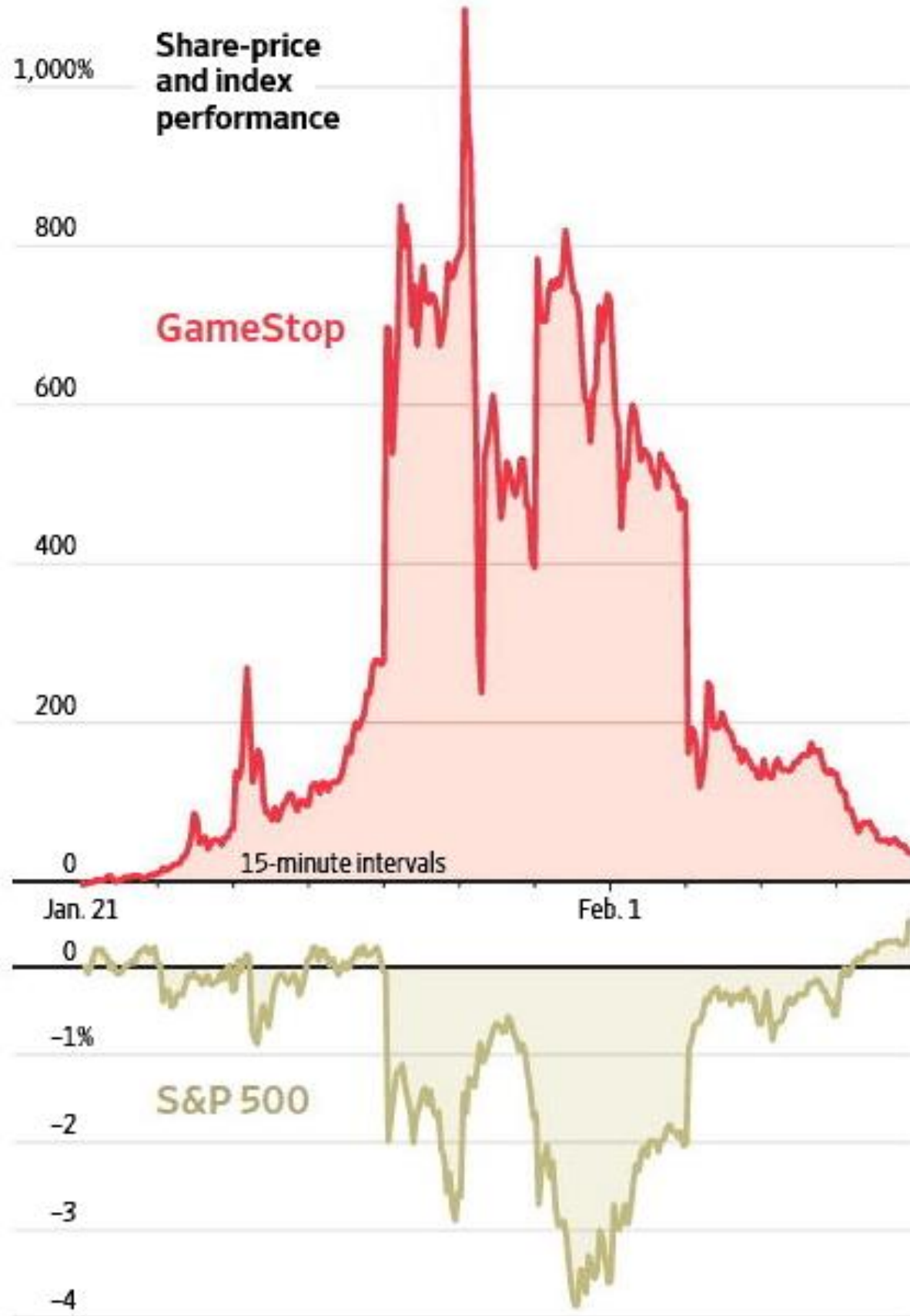
To hedge against Option strategy needs to buy shares. For example to hedge against Naked Call strategy, which bets downward stock price, needs to buy shares. Zero commission boost option and stock trading and this encourage more trading to investors by brokerage like Robinhood.

Payment for Order Flow

Payment for Order Flow is the compensation and benefit a brokerage firm receives for directing orders for trade execution.

Gamestop Stock price

Below shows the Gamestop stock price and S&P 500 Index. Their movements are highly negatively related during sample period. Investors moves into Gamestop when general stock markets are downward trend.



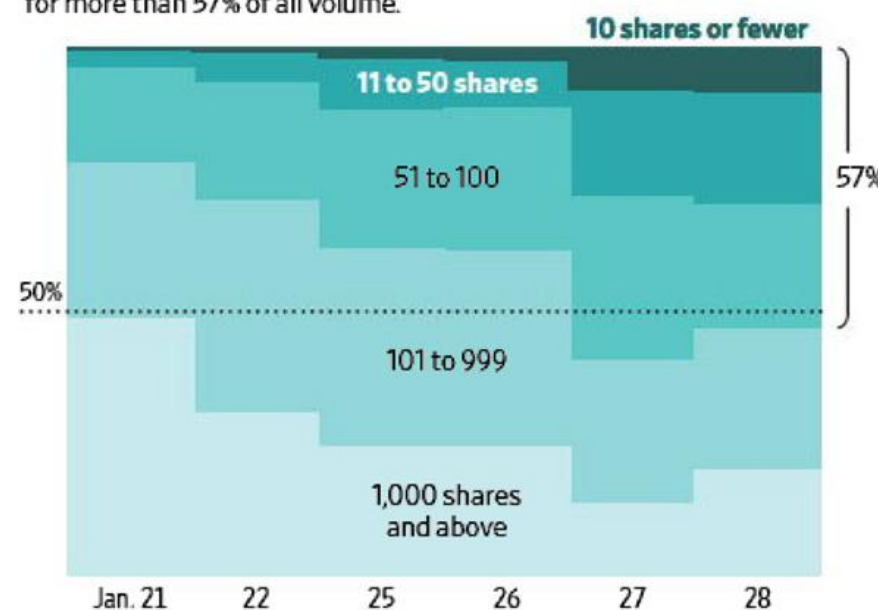
Source: FactSet

Hugh Small Investors Group

After many discount brokers charge Zero-commissions odd-lot trading volume has increased sharply. Below is the evidence.

Tiny trades fueled GameStock rocketship

Before this week, investors trading 10 or fewer GameStock shares typically accounted for less than 1% of the company's daily trading volume. Yesterday and Wednesday, those small trades made up about 8% of the total shares traded. Trades of 100 shares or fewer accounted for more than 57% of all volume.



CONCLUSION

After Zero commissions by brokerage firm, more retail investors involved in trading and to compensate zero commissions brokerage firms relay more on Payment for Order Flow, so they encouraged more trading.

Generally notorious perception of hedge funds and recent popularity and speed of SNS caused massive trading to attack hedge funds and other greedy investors by retail traders caused to buy more shares. This behavior incurred high trading volume and volatility