

Sentiment to Surge: Herd Behavior in the GameStop Short Squeeze

Anushka Seth

The Interplay Between Sentiment Analysis and Herd Behavior in Market and Social Dynamics:

Sentiment analysis and herd behaviour are two critical frameworks for understanding individual and group decision-making. While sentiment analysis examines the emotional tone of the text, classifying it as positive, negative, or neutral, herd behaviour explores how individuals in a group align their actions through localized interactions, often without central coordination. When combined, these concepts provide powerful insights into market trends, consumer behaviour, and broader societal dynamics.

Sentiment Analysis: Measuring Consumer Sentiments:

Sentiment analysis uses natural language processing (NLP) techniques to assess the emotional content in text data, such as customer reviews or surveys. It helps businesses track customer satisfaction, market reception, and public sentiment. For instance, sentiment analysis of Net Promoter Score (NPS) responses can quickly reveal how consumers feel about a product or service, allowing companies to address concerns and improve offerings.

Herd Behavior: Collective Dynamics in Decision-Making –

Herd behaviour describes the tendency of individuals to follow the actions of others within a group, often unconsciously. This is observed in various fields, including finance, where it contributes to speculative bubbles and crashes. Herd behavior also affects consumer choices, political decisions, and social movements, where group actions are shaped by localized interactions rather than individual analysis.

By integrating sentiment analysis and herd behavior, businesses and institutions can gain a fuller understanding of both individual emotions and collective behaviors. For instance, positive consumer sentiment can lead to a surge in product demand as individuals mimic the behaviour of others. Conversely, negative sentiment can spark rapid collective rejection. This combined framework allows organizations to anticipate market shifts and respond strategically to both individual and group-driven trends. The application of these insights extends across industries such as marketing, finance, and politics, offering valuable tools for strategic decision-making and market forecasting.

The GameStop Stock Surge and Crash: A Market Phenomenon:

In early 2021, GameStop became the center of one of the most significant financial events in recent history. What began as a relatively unnoticed stock surge turned into a massive short squeeze that sent shockwaves through the market. By January 28, 2021, GameStop's stock price had skyrocketed from around \$20 at the end of 2020 to a staggering \$483. This event was largely fueled by retail investors who rallied together on social media platforms like Reddit, specifically the *r/wallstreetbets* forum, to take on institutional hedge funds that had heavily shorted the stock.

The Short Squeeze and its Impact:

Hedge funds betting against GameStop believed the company was overvalued in a market increasingly shifting towards digital platforms and thus began shorting the stock. Short selling involves borrowing shares to sell them, hoping to repurchase them later at a lower price for a profit. However, members of the *r/wallstreetbets* community saw this as an opportunity to trigger a "short squeeze" by purchasing shares and driving up the price.

A short squeeze occurs when short sellers are forced to buy back borrowed shares as the price rises, further increasing the stock's value. As GameStop's price continued to soar, hedge funds scrambled to cover their positions, suffering enormous losses. By January 27 alone, short sellers had lost over \$5 billion. One of the largest hedge funds involved, Melvin Capital, lost over 50% of its value in just one month, showcasing the profound impact of this coordinated retail investor action.

Robinhood's Role in the Controversy:

The most controversial moment of the GameStop saga occurred when Robinhood, a popular trading platform among retail investors, restricted users from purchasing more GameStop shares on January 28. While the stock price was still skyrocketing, Robinhood's decision to halt purchasing was met with outrage, with many accusing the platform of siding with institutional investors at the expense of individual traders.

Robinhood's CEO, Vlad Tenev, later clarified that the move was necessary to meet clearinghouse deposit requirements, which had dramatically increased due to the volatility in GameStop's stock. He explained that the deposit requirement for Robinhood rose from \$125 million on January 25 to \$1.4 billion on January 28, and additional excess capital charges further strained the platform's liquidity. Robinhood was forced to raise \$3.4 billion in capital to stabilize its operations and ensure future trading could continue without similar restrictions.

This trading halt raised serious questions about the fairness of the market, leading to multiple lawsuits and accusations of market manipulation. Robinhood continues to face scrutiny from regulators and investors, and the incident has fueled ongoing debates about the need for reforms in market infrastructure.

The Power of Social Media and Sentiment Analysis:

The GameStop incident marked one of the first major market disruptions fueled by retail investors using social media. Platforms like Reddit became a rallying point where users shared strategies and information, sparking a movement that disrupted traditional market norms. Sentiment analysis played a key role in understanding the motivations behind this retail investor phenomenon.

On forums like *r/wallstreetbets*, retail investors framed their actions as a challenge to institutional power, presenting it as a "David vs. Goliath" battle. Social media allowed for rapid dissemination of ideas, where traders encouraged each other to hold onto shares and continue buying to maximize the impact of the short squeeze. Elon Musk's viral tweet, "Gamestonk!!!" on January 26, referencing GameStop and linking to *r/wallstreetbets*, also contributed to the hype, adding fuel to the already volatile stock price.

This movement showcased how retail investors, motivated by both financial gain and anti-establishment sentiment, could coordinate and influence stock prices on a scale that had previously been unimaginable. Meme stocks, like GameStop and AMC Entertainment, saw their values soar because of this mass coordination, drawing attention to the growing influence of social media on financial markets.

Consequences for Hedge Funds and Institutional Investors:

The GameStop short squeeze had profound consequences for hedge funds. Melvin Capital, one of the most high-profile funds shorting GameStop, saw its value drop by more than 30% by January 28 and over 50% by the end of the month. Despite receiving a \$2.75 billion bailout from Citadel and Point72, Melvin was unable to recover fully, and eventually, the fund was dissolved in May 2022.

Other hedge funds, such as Citron Research, also suffered heavy losses. Andrew Left, the head of Citron, publicly acknowledged that his firm closed its GameStop short position at a 100% loss, marking a significant shift in Citron's strategy. Moving forward, Citron announced that it would no longer focus on short selling, instead concentrating on identifying long-term investment opportunities. This shift was emblematic of the broader fallout from the GameStop surge, with many institutional investors re-evaluating their risk models and exposure to short positions.

Regulatory and Congressional Responses:

In response to the GameStop episode, U.S. regulators and lawmakers initiated investigations into the practices of trading platforms and market participants. On February 18, 2021, the House Financial Services Committee held a hearing titled "Game Stopped: Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide." Witnesses included Vlad Tenev of Robinhood, Gabe Plotkin of Melvin Capital, and Keith Gill, the retail investor known as "Roaring Kitty."

The hearing focused on Robinhood's decision to restrict trading and the broader implications of social media's influence on stock markets. Lawmakers questioned whether platforms like Robinhood had the necessary infrastructure to handle surges in retail trading and whether their business models were transparent to users. The discussions also touched on the ethics of practices like payment for order flow, a system that allows brokerages to profit from routing orders through specific market makers.

Further regulatory reforms were suggested, including shortening the T+2 settlement cycle to T+1 to reduce market risk and increasing transparency in clearinghouse capital requirements. The GameStop saga has prompted ongoing discussions about how to modernize financial markets and prevent similar disruptions in the future.

A New Era of Retail Trading:

The GameStop short squeeze has signaled a fundamental shift in the power dynamics of financial markets. Historically, retail investors have had little influence over stock prices, but the rise of social media has changed the game. Retail traders can now organize en masse, exerting significant influence over stock prices and forcing institutional investors to adjust their strategies.

The surge in GameStop's stock price and the subsequent fallout revealed vulnerabilities in traditional market systems, particularly in how retail platforms manage liquidity and risk. It also exposed the need for reforms

in the infrastructure of trading platforms to better handle the rapid influx of retail investors. Moving forward, both institutional and retail players will need to adapt to this new era, where sentiment and social media coordination can create market movements of unprecedented scale.

The GameStop Short Squeeze: A Turning Point in Retail Trading

A stunning tale of David vs. Goliath unfolded on the global stage during what could have been a comparatively calm week following the inauguration, upending financial markets and causing chaos on Wall Street.

However, let's go back to the beginning. Earlier this month, two former coworkers of activist investor Ryan Cohen, who founded Chewy.com, joined the board of video game retailer GameStop. With Cohen being the second-largest shareholder in GameStop, there was optimism that the struggling physical retailer would soon turn around after he was added to the board. As a result of the retailer's stock surge, short sellers who had bet against GameStop were forced to cover their positions and purchase additional GameStop shares.

After a few days, when things had somewhat settled down, members of the *r/wallstreetbets* Reddit board noticed that GameStop stock was still substantially shorted. To drive up the price and pressure short sellers, they decided to purchase more shares of the company. As soon as word got out, individual investors drove up the price to the point that large hedge funds had to sell their investments and lost billions of dollars, causing GameStop's share price to skyrocket over the next few days. After four trading days, the stock had surged nearly 700% by Wednesday, January 27, and astute Redditors began focusing on other severely shorted firms.

Later that week, as Wall Street's cries for assistance became more audible, several retail investors' preferred online brokers stopped trading the impacted companies, forcing customers to do nothing but sell their shares, which promptly fell in value. Following a public uproar, several brokers—most notably Robinhood—reversed course after the market closed on Thursday, saying they would permit restricted trading of the targeted businesses on Friday. This news caused GameStop's stock price to rise once again.

But over the past week, the inevitable occurred as GameStop's stock, which had been temporarily "to the moon" as Redditors had planned, plummeted back to earth. Many must have found it too tempting to cash out of their investment, conserving their gains before it would be too late, despite calls to hold on to their shares. It appears that many investors who were a little bit late to the party got burned in the process since GameStop's share price is now back to about where it was before the Reddit controversy started.

Key Market Influences Driving Retail Investor Activity:

The Role of Gamification in Modern Investing:

The topic that has been mentioned a few times similarly affects the investor experience is what's known as "gamification," "Digital Engagement Practices," or "DEPs." To put it simply, these are the extra features that investment apps offer to improve user experience. Concerns have been raised over how these DEPs are influencing investor decision-making as well as the investor experience because of how they relate to the investor experience. The SEC released Release Numbers 34-92766, IA5833, and File No. S7-0-21.218 in October of 2021. The SEC extended an invitation to all stakeholders, investors, business associates, and others to provide feedback on matters about the broker-client relationship, namely the digital Internet trading environment. With this version, the SEC primarily addressed the DEP experience.

SEC Inquiry Into Digital Engagement Practices (DEPs)

- Which DEP kinds are used (or will be utilized) by businesses on digital platforms, and what are the goals of each type of DEP? For instance, are specific DEPs intended to promote or inhibit specific investor actions or behaviours, such as creating new accounts, funding existing ones, trading, or boosting platform or app usage?
- How much do companies that use DEPs give retail investors the choice to use the firm's digital platform to connect with such DEPs or not?
- Which companies, and what kinds of platforms, use DEPs on their digital platforms? Are these activities more common on particular platforms or among particular sorts of companies?
- How and by what market pressures are DEPs being adopted on digital platforms?
- How much and to what degree are market practices about revenue and pay (such as PFOF and "zero commission") influencing or driving the adoption of DEPs?

The replies were wide-ranging and diverse. Strong opinions against DEPs were expressed in several comments, with the observation that their structure appeared to be intended to reward actions that are at odds with prudent investment practices. A lot of DEP features, for instance, are intended to encourage more frequent trading, which research has shown gradually lowers an investor's return on investment. Conversely, other industry players supported DEP methods, arguing that they promoted investor education, sensible investing tactics, and prudent wealth-building techniques. These supporters also voiced worries that the SEC would be going too far and warned that if the agency intervened and restricted DEP practices, it would be impeding innovation in this field, which might end up being more detrimental to investors than beneficial in the long run.

In conclusion, your viewpoint determines the best course of action.

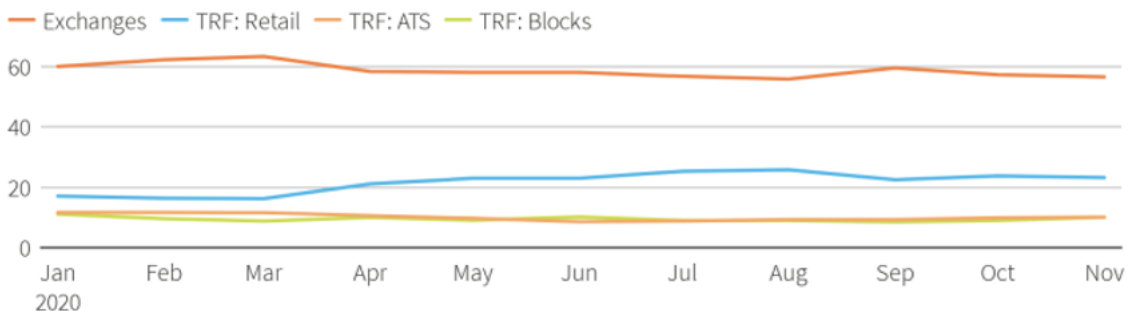
There isn't a simple solution. Regulators will impose more restrictions the harder they work to safeguard. The opportunities available to a certain group of investors will decrease as regulations tighten their grip. Furthermore, it seems as though the gamification of investing is a genie that cannot be contained. The youthful investors who are just starting in the market

Due in great part to these internet platforms, no-fee trading apps have become. Anticipate gamification as a component of the encounter, as deceptive, and as potentially behavior-provoking. As such, there are compromises in this situation, most of the time.

Retail Investor Impact on Financial Markets During the Pandemic –

Gaining an understanding of the stock market and the functions played by brokers, hedge funds, and retail traders is crucial before delving into the reasons for the *r/wallstreetbets* short squeeze approach on GameStop stock.

The primary objective of retail investors remains profit—but only for themselves. Again, the retail trader often has a far smaller pool of assets to invest with than huge institutional investors, meaning that they have far less leverage on their own (*Hayes, 2021*). The coronavirus epidemic has made it possible for ordinary investors to make a comeback. More than a million new online brokerage accounts were opened in just the first quarter of 2020 (*Faris, 2020*). The stock market drop in March 2020 brought about by the coronavirus provided an excellent opportunity for new investors hoping to make money in the stock market following the longest bull market cycle in history (*Faris, 2020*). In July and August 2020 (*McCrank, 2021*), 25% of all market deals were made by retail investors. Retail investors seem to have contributed more in 2021, even if data is only available through November. They predict that retail transactions will rise by 6.5% to 8.2% in 2021 (*D'innocenzio, 2021*). Additionally, 77% of the market capitalization is held directly by retail investors in the form of equities (*Mackintosh, 2020*). But it's important to remember that the vast bulk of these stocks, owned by regular investors, are concentrated in the hands of barely 10% of the richest people (*Mackintosh, 2020*). As a percentage of total trades, Figure 1 illustrates the growing number of retail trades:



^ Retail trading as % of overall trading Jan-Nov 2020



^ % of S&P 500 Market Cap Owned by Hedge Funds (Single Stocks)

Hedge Funds' Influence and Market Liquidity:

Currently, 3% of the US equity market is owned by hedge funds. According to Mackintosh (2020), this 3% of equity equates to almost \$1 trillion in assets under management (AUM). The total market value of the investments that an individual or organization manages on behalf of clients is known as assets under management (Chen, 2020). Hedge funds, however, provide the market with greater daily liquidity than all individual household and retail traders combined. Hedge funds contribute more daily liquidity to the market than all individual retail traders do (Nasdaq Economic Research). Because hedge funds hold stocks for a shorter period and have high turnover rates, they can provide the market with additional liquidity. The impact of liquidity on the speed at which traders can open and close their positions (Hayes, 2021).

In comparison to individual traders, hedge funds also possess greater leverage. They can make significant stock market acquisitions thanks to their usage of leverage. Leverage is obtained by hedge funds in several methods, one of which is by combining funds from their high-net-worth investors (Depersio, 2021). They can also trade securities on margin to raise their leverage. To make larger investments, hedge funds borrow money from brokers to purchase assets on margin. This approach can be used by hedge funds to optimize returns, but it can also amplify losses and raise the possibility of failure if deals turn sour (Depersio, 2021).

An individual or business that serves as a middleman between an investor and a securities exchange is known as a broker (Smith, 2020). Retail investors have found that internet brokers, such as Robinhood, which offers 0% commission-free online brokerage services and was the preferred broker among users on *r/wallstreetbets*, have become indispensable tools. For hedge funds and retail investors, brokers and brokerages are crucial because it's the only method for them to engage with the stock market.

The goal of a hedge fund is to reduce risk and increase investor profits (Gad, 2021). A hedge fund, on the other hand, does not accept any investors. They can only accept funds from approved investors or people whose net worth is greater than \$1 million or whose annual income has exceeded \$200,000 throughout the previous two years (Gad, 2021). Hedge funds, in contrast to popular belief, do not harm the economy. A primary tactic employed by hedge funds is taking advantage of equities that are undervalued, adjusting their price to reflect their true value, and reducing volatility in the stock market (Amadeo, 2021). They can force a corporation to buy back stock and increase stock prices since they have such powerful influence over the company's stock. They might also compel the company to divest failing businesses or properties to increase its profitability and competitiveness (Amadeo, 2021).

GameStop Short Squeeze: A Data-Driven Overview:

A short squeeze of the stock of American video game retailer GameStop and other stocks occurred in January 2021, resulting in significant financial losses for some hedge funds and substantial losses for short sellers. About 140 percent of GameStop's public float had been sold short, and the scramble to fill those positions as the price soared pushed it even higher (McCrank, 2021). Members of the subreddit *r/wallstreetbets*, an internet forum on the social news platform Reddit, were the ones that started the short squeeze, but a significant amount of retail traders from Twitter also got involved (Faris, 2021).

In January 2021, Reddit users on the *r/wallstreetbets* subreddit laid the groundwork for a short squeeze on GameStop, which resulted in a substantial increase in the stock price. The plan happened quickly after Citron Research predicted that the stock's value would fall (Lyons, 2021). For two weeks, the stock price rose by 1,500 percent, and the high volatility caused trading to be suspended several times (Li, 2021). On January 25, more than 175 million shares of GameStop were traded, surpassing its 30-day average volume of 29.8 million shares, according to Dow Jones market data (Wallace, 2021).

Elon Musk tweeted "*Gamestonk!!!*" and a link to the *r/wallstreetbets* subreddit after the stock closed on January 26 with a 92.7% increase in share price (Bursztynsky, 2021). This helped spread the word about the short squeeze and attracted more retail traders to execute the *r/wallstreetbets* GameStop short squeeze, which drove the stock price to over \$200 (Morrow, 2021). With millions of Twitter followers, Elon Musk contributed impetus to the short squeeze with a tweet. The stock price increased to \$483 on January 28, about 190 times greater than it was in April 2020, just nine months previously. That same day, during premarket hours, the stock price briefly exceeded \$500.

Day	Price (USD)	Change		Volume
		Net	%	
January 11	19.94	+2.25	+12.72%	14,927,612
January 12	19.95	+0.01	+0.05%	7,060,665
January 13	31.40	+11.45	+57.39%	144,501,736
January 14	39.91	+8.51	+27.10%	93,717,410
January 15	35.50	-4.41	-11.05%	46,866,358
January 19	39.36	+3.86	+10.87%	74,721,924
January 20	39.12	-0.24	-0.61%	33,471,789
January 21	43.03	+3.91	+9.99%	57,079,754
January 22	65.01	+21.98	+51.08%	197,157,946
January 25	76.79	+11.78	+18.12%	177,874,000
January 26	147.98	+71.19	+92.71%	178,587,974
January 27	347.51	+199.53	+134.84%	93,396,666
January 28	193.60	-153.91	-44.29%	58,815,805
January 29	325.00	+131.40	+67.87%	50,566,055
February 1	225.00	-100.00	-30.77%	37,382,152
February 2	90.00	-135.00	-60.00%	78,183,071
February 3	92.41	+2.41	+2.68%	42,698,511
February 4	53.50	-38.91	-42.11%	62,427,275
February 5	63.77	+10.27	+19.20%	81,345,013

^ Change in Stock Price & Volume for GameStop During the Short

To increase their gains, the hedge funds shorted other firms in addition to GameStop, which was the target of *r/wallstreetbets*. AMC Theatres (AMC), a stock that hedge funds have heavily shorted, was the target of *r/wallstreetbets* members on January 27 (Warren, 2021). The stock price of AMC surged from \$4.96 to \$19.90. *r/wallstreetbets* appeared to be pursuing every stock that the hedge funds had shorted at the time. Seeking to boost their earnings once more, however, at this point, brokers, like when Robinhood saw that short squeezes were occurring, started to impose limits on the stocks that were being affected. A table of all the impacted stocks can be seen below through Wall Street Bets.

Security (symbol)	Price high ^[a]	Jan 22	% chg.
AMC Entertainment Holdings, Inc. (AMC)	20.36	3.51	480.1%
AMC Networks Inc. (AMCX)	59.83	49.38	21.2%
American Airlines Group Inc. (AAL)	21.77	15.82	37.6%
BB Liquidating Inc. (OTC Pink: BLIAQ)	0.30	0.01	3000%
Bed Bath & Beyond Inc. (BBBY)	53.90	30.21	78.4%
BlackBerry Limited (BB)	28.77	14.04	104.9%
Build-A-Bear Workshop, Inc. (BBW)	8.40	4.52	85.8%
Eastman Kodak Company (KODK)	15.15	9.46	60.1%
Express, Inc. (EXPR)	13.97	1.79	680.4%
Fossil Group, Inc. (FOSL)	28.60	9.87	189.8%
Genius Brands International (GNUS)	3.36	1.57	114.0%
iRobot Corporation (IRBT)	197.40	98.94	99.5%
Koss Corporation (KOSS)	127.45	3.34	3,715.9%
Ligand Pharmaceuticals Incorporated (LGND)	191.59	142.62	34.3%
The Macerich Company (MAC)	25.99	14.58	78.3%
Naked Brand Group (NAKD)	3.40	0.44	672.7%
National Beverage Corp. (FIZZ)	196.43	98.44	99.5%
Nokia Oyj (NOK)	9.79	4.20	133.1%
Palantir Technologies Inc. (PLTR)	45.00	32.58	38.1%
Siebert Financial (SIEB)	18.50	3.70	400.0%
Tootsie Roll Industries, Inc. (TR)	58.98	30.14	95.7%
Virgin Galactic Holdings, Inc. (SPCE)	59.43	34.28	73.4%

^ Selected Stocks Experiencing Sharp Price Increases (USD)

AMC Theatres, BlackBerry Limited, Nokia Corporation, GameStop, and other erratic equities were removed from Robinhood's trading platform on January 28 (Winck, 2021). Other brokerage companies, including Charles Schwab, TD Ameritrade, and Webull, quickly adopted the limitations that Robinhood imposed on their app (Goldstein, 2021). Since the owners of these shares could only sell, the value of the restricted stocks fell precipitously. Retail traders, lawmakers, and other prominent figures in the financial industry strongly denounced their choice, labeling it as market manipulation (Rodrigo, 2021). Following this ruling, Robinhood has been the target of numerous class-action lawsuits. The initial complaint alleged that Robinhood "purposefully, wilfully, and knowingly removed the stock 'GME' from its trading platform amid an unprecedented stock rise, thereby depriving retail investors of the ability to invest in the open market." Robinhood was accused in a different case of acting "to protect institutional investment at the detriment of retail customers." Rodrigo (2021).

In response to this unfavorable reaction, Robinhood and other brokerage houses clarified the rationale for the restrictions placed on their stocks. The brokerage firms announced on January 29 that they were stopping the apps due to a shortage of trade collateral (Mackenzie, 2021). Brokerage companies must post collateral at clearinghouses to guarantee that their clients' orders are effectively settled because there is a two-day lag between when investors purchase an asset and when cash and shares are exchanged (Fitzgerald, 2021).

The collateral will stop other firms' failures from cascading if the firm fails. The brokerage firms said that trading would have to be stopped since the collateral could not be raised in time. GameStop's stock price crashed on February 1 and 2, dropping about 80% of its value from the intraday high of the previous week. GameStop's stock fell sixty percent on February 2 and closed below \$100 for the first time in a week. An estimated \$27 billion in worth was lost, according to reports (Lipschultz, 2021). Other assets, like AMC and BlackBerry shares, which similarly lost value due to the short squeeze and company trading constraints, were also affected. Research indicates that restrictions placed by Robinhood and other brokers on the number of shares that customers may purchase at once contributed to the fall (Monica, 2021). On *r/wallstreetbets*, individuals united despite the slump to convince others to hold onto their shares, arguing that doing so would send a political message or that their value would rise (McCabe, 2021). Due to brokerages stopping the purchase of GameStop and other shares in response to Robinhood's limits, the overall market capitalization of all cryptocurrencies increased to over US \$1 trillion, with Dogecoin's value soaring by more than 800% (Cuthbertson, 2021). Users of the subreddits *r/CryptoCurrency* and *r/SatoshiStreetBets* boosted Dogecoin, calling it "the next GME/Bitcoin." The Cuthbertson of 2021. Additionally, following Elon Musk's endorsement of Bitcoin in his Twitter bio, the value of the largest cryptocurrency in the world increased by 20% to exceed \$37,000. This increase was partially attributed to Reddit members' appreciation of GameStop's stock (Browne, 2021). Following that, Robinhood banned people from trading Dogecoin (Warren, 2021).

The Aftermath of the GameStop Short Squeeze on the Financial Markets:

Since the GameStop incident had such a significant impact on the stock market, the SEC and government regulators are keeping an eye on the situation to see if any potential legal repercussions could apply to Robinhood, the creditors who disrupted the market, and other relevant figures.

Pump and Dump:

A pump-and-dump plan is an attempt to increase the price of a stock by making recommendations based on exaggerated, inaccurate, or misleading remarks. Typically, this scam begins when a shareholder purchases stock in a firm and then pretends to have insider knowledge to predict that the price of the stock will rise. Assuming this, more investors begin to purchase the previously mentioned stock, raising the price of the stock. Subsequently, before the misleading information is disclosed to the public, the original investor(s) sell the shares at a higher price, enabling them to benefit while the duped investors incur enormous losses. An instance of a pump and dump plan was employed in 2001 by Enron executives, who inflated Ly reported their earnings and then sold their shares at the exaggerated price before the fake information was revealed to the public.

The primary distinction between the aforementioned instance and this one is that there were no allegations of inaccurate or deceptive material being provided on *r/wallstreetbets*. As an alternative, *w/keyboardwarrior*, one of the users, said: "We just need to hold and bleed them to death. While they stand to lose billions, we have nothing to lose by owning the shares." The Reddit members said that their main reason was to "punish" the hedge fund short sellers rather than to pursue financial advantages as their main goal. In light of these observations, it is unlikely that a successful pump-and-dump allegation made against the original Reddit users who attracted additional investors will be validated.

Market Manipulation and the Debate Around Robinhood's Trading Limits:

The Reddit members said that their main reason was to “punish” the hedge fund short sellers rather than to pursue financial advantages as their main goal. In light of these observations, it is unlikely that a successful pump-and-dump allegation made against the original Reddit users who attracted additional investors will be validated. Collusion is partially supported by the open urging on the Reddit site to raise the stock price to squeeze out hedge funds. But it will be hard to establish collusion between *r/wallstreetbets* based just on a single investor pushing another investor to buy a stock. This situation is comparable, for instance, to Elon Musk publicly stating to his millions of followers on Twitter his position on Bitcoin, which “*coincidentally*” raised the stock price before Tesla announced their investment. Moreover, the former Labor Secretary Robert Reich remarked, “*If Redditors calling for GameStop is unacceptable market manipulation, then what would you call it when Wall Street bankers, driven by greed, gambled away our entire economy in 2008 and got away with it?*”

The topic of market manipulation has also been raised concerning Robinhood's behavior. The ability of users of Robinhood to buy GameStop stock and other firms targeted by *r/wallstreetbets* was prohibited on January 28th. The following day, hedge fund investors were able to buy and sell the stocks in unlimited quantities on other carefully chosen investment platforms, but regular traders were only permitted to purchase one share of each targeted business on Robinhood. According to Robinhood, the limitations were brought about by both legal regulations and market volatility. The corporation claimed that because of the increasing trading of “*volatile*” equities, their clearinghouse—which acts as a middleman between buyers and sellers—had to ask for additional collateral to secure the deals because they are obligated to maintain a sizeable amount of money to process all trades. As a result, Robinhood stopped buying eight equities, including GameStop.

Many people have viewed Robinhood's activities as market manipulation because they restricted retail investing, which drastically changed the stock price and unfairly hurt individual traders. “*It's a little bit problematic to think about banning customers from some brokerage firms from trading the stock while others are free to do so,*” said securities law professor Jill Fischer. “*Exchanges are more likely to act to ensure that all investors are treated fairly when there is a stock that is mispriced or excessively volatile,*” the speaker added. In the end, the limitations benefited institutional investors and hedge funds that had access to other trading platforms, but individual traders who regularly traded on Robinhood were deprived of their means of trade.