Q&A: Wall Street meets Reddit—what are the upsides and risks of social investing?

June 17 2024, by Francisco Tutella

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A decent quarterly report may not nudge a company's stock price far, but a meme posted to Reddit's WallStreetBets subreddit may. The online community known for its seriously unserious banter, memes and not-so-family-friendly jokes shot to fame in early 2021 for having contributed to the skyrocketing rise of videogame retailer GameStop's stock price.

The WallStreetBets subreddit is a prime example of the social investing phenomenon, where average people with brokerage accounts—called retail investors—meet online to discuss stock trading strategies. Penn State News spoke with Yubo Kou and Xinning Gui, both assistant professors in Penn State's College of Information Sciences and Technology, and doctoral student Sam Moradzadeh about their research into WallStreetBets, social investing and what retail investors should know before turning to social media for financial advice.

The work is published in the journal *Proceedings of the CHI Conference on Human Factors in Computing Systems*.

You use 'social investing' to describe what happens when Wall Street meets Reddit. Why does the concept appeal to millennials?

Kou: To understand social investing, we need to focus on the insider language and knowledge of the people we're studying. The internet hosts many social investing communities where individual investors post their trades or stock portfolios and other people can follow. Here, investing goes beyond the individual level and becomes a social scene where people form a community to invest together.

If we look at the distribution of wealth in American society, we see that Baby Boomers hold a lot of wealth in terms of housing and historical purchasing power. In the 1960s and '70s, a house cost three to five times an individual's annual income, but now it's seven or eight times the annual income of millennials or Gen-Zers. The younger generations are, in general, facing a much harder financial situation. Research suggests that when people are financially struggling or stressed in general, they tend to engage in more high-risk trading behavior. That's what we see in WallStreetBets.

Moradzadeh: As a millennial, I can relate. Compared to the older generations, it is difficult for millennials to get involved in investing and to prepare for old age. That's why whenever you look at platforms like Reddit or Twitch, you see the younger generations looking for ways to squeeze out as much money as they can in a short amount of time. That's why we have subreddits like WallStreetBets, where investors are willing to put all their money, all their savings, in one position hoping to gain a huge amount of profit in a very short amount of time by taking a huge risk.

How did you conclude that the WallStreetBets trading style is a form of gambling?

Moradzadeh: In our research, we broke down gambling into three components. The first is placing a wager on an event using money. Second is the intention behind putting down the money. Third is the unpredictability of the outcome. If you look at the r/investing or r/stocks subreddits, you see a very serious and strategically structured way of learning about investing.

Posts in WallStreetBets focus on high-risk and aggressive trading, including options trading, where you're basically betting on whether a stock will go up or down in price. Whenever users place a wager, whenever they put down their money on an options trade, it's similar to putting a token on either black or white. The whole process resembles gambling. And they specifically use gambling in their terminology.

What does WallStreetBets terminology tell you about the users' approach to investing?

Kou: Members of WallStreetBets have very specific phrases and terms that can characterize their gambling-like mindset. In our research, we focused on the "YOLO flair," a digital badge of sorts that users can add to their posts to signal a specific type of content—in this case the flair literally translates to "you only live once."

People use this flair to post high-risk trades. To use the flair, they have to stake more than $10,000 in options or $25,000 in shares, and it has to be really high-risk betting, like an options trade that expires in one day. They also state that they're gambling or "this is a casino" and use a lot of self-deprecating language, calling themselves degenerates and apes.

Moradzadeh: They say "stonk" instead of stock—a reference to a meme featuring the intentional misspelling—to distinguish their style from other ways of investing and behaving on social media. Looking at the terms they use and how they use them, you get to know them better. You realize that they have created a supportive environment. Whenever they lose money, whenever they are successful in executing a high-risk trade, they use certain language to support each other. For example, they say, "It's not a problem. I also lost all my savings. It's not a big deal, we have each other brother."

When you compare WallStreetBets-style stock trading to more traditional investing literacy, you find that social media investors, especially on WallStreetBets, do not look at their money and savings in the traditional way of understanding what money is. They look at money as a means of play, as tokens similar to what you find in a gambling environment.

Kou: We often downplay the importance of the language we use online by saying that we are just fooling around or trolling. But when a community like WallStreetBets grows massive and there are millions of people engaging in the community, this kind of practice becomes reinforced. The language has more power than mere fooling around. It can potentially shape how people behave and what they believe. It can also disseminate a lot of financial-related information.

Without the proper knowledge of the community's culture and this specific language practice, the information could be consequential for outsiders who simply read the post and think the poster is serious, like the person did their due diligence, but actually they're just joking.

Gui: The language we studied suggests that investing is no longer just about being rational and calculated, but also communal, affective and fun seeking. The popularization of this type of terminology beyond the WallStreetBets subreddit can have a profound impact on retail investors who are not fully aware of where this type of terminology comes from. Thus, I can totally imagine that a future newbie retail investor checking the internet for some investing information and advice could be easily confused by this terminology.

In addition, their nihilistic style of language also reveals retail investors' discontents with the status quo of the current financial investing landscape and desires for a better financial situation. People are unhappy when they work hard but still earn much less than the older generations. The existence of the WallStreetBets subreddit also echoes this collective sentiment.

What are the potential benefits and dangers of mixing social media and investing?

Kou: Benefits include, first, finding a sense of community. Second, if users enjoy this type of playful language practice, and they understand that this is actually play instead of serious investing, they can have fun. As for the dangers of engaging in a community like WallStreetBets, if you continually use this type of language and think this way, it could explicitly or implicitly influence how you think about life and how you view the risks and possible benefits of taking financial risks. If people are repeatedly exposed to this type of content, it might increase their tolerance for high-risk financial trading, and they may incur financial losses.

Trading is harder for retail investors, because if you think about the power imbalance between retail investors and institutional investors, retail investors are at the end of the food chain. Institutional investors receive information way before retail investors. Looking at social investing in general, the average user can still find communities that take financial trading seriously. They just need to keep in mind that the types of financial conversations and the information found on social media can come from a wide range of people.

More information: Yubo Kou et al, Trading as Gambling: Social Investing and Financial Risks on the r/WallStreetBets Subreddit, *Proceedings of the CHI Conference on Human Factors in Computing Systems* (2024). DOI: 10.1145/3613904.3642768

Provided by Pennsylvania State University