# 'Meme stock' investors are trying to catch up with a financial system which has left them behind

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The US stock market took a tumble early in August 2024 as fears rose of an economic slowdown. Then a few days later calm was restored, reminding us how quickly things can change in the financial world.

And of all the market rises and falls, one type of stock has become particularly volatile. Known as "meme stocks", they are shares that gain viral popularity with large numbers of investors through social media.

This means that meme stocks often have a price which doesn't reflect the true estimated value of the firm that has issued them. One of the most famous is GameStop, which soared in value earlier this year, apparently in response to a single posting by an influencer known as Roaring Kitty.

At the heart of the meme-stock movement is an online investment community known as WallStreetBets (WSB) which uses Reddit to exchange ideas and information about investments. This community—made up of "social retail traders" rather than industry professionals—is driven by rumor and social media postings, rather than traditional financial information.

A "meme-lord" is an influencer within this community, like Ryan Cohen (now chairman and CEO of GameStop), who once posted a picture of a McDonald's ice-cream cone with a frog emoji which led GameStop stock to rise by 104% that day.

In January 2021, WSB mobilized its members to invest enough to raise the price of GameStop from US$17.25 (£13.17) to US$500 (£381.85) per share. Wall Street hedge funds which had bet against price of the stock lost billions.

Indeed, this was apparently an explicit goal of the WSB community, which wanted to strike a blow against the traditional financial system.

And the GameStop "short squeeze" (when a share price rises sharply) was certainly successful in alarming the professional traders who had been caught out. But concerns were also raised by financial regulators who knew little about these new kids on the financial block, with the numbers and power to affect market stability.

The CEO of the UK's financial regulator later reflected that the "GameStop episode" illustrated a phenomenon in which more people were seeing "investment as entertainment" and "behaving less rationally and more emotionally, egged on by anonymous and unaccountable social media influencers".

He added, "This is a category of consumer that we are not used to engaging with."

So who are these social media investors? And what motivates them to do what they do? Our research suggests that many members of the meme stock investor community feel economically left behind.

By studying WSB forum posts, we found that the average investor in this community requires a return of at least 36% to feel satisfied with their investment. This is significantly greater than the typical stock market return of around 10%.

## Left behind

Such great expectations reflect the community's need for rapid capital accumulation. And our research also found that losses are felt very hard by social media investors, to such a degree that for WallStreetBetters, losing US$1 actually feels like losing US$4. This is twice as painful as losses felt by traditional professional traders.

Our work suggests that losses are particularly painful for for social retail investors because if they lose, they not only lose their invested money, but also their hope of making financial progress, or catching up with a global economy that they see as having left them behind.

These findings support an earlier theory put forward by a former (now expelled) WSB member, Jaime Rogozinski. In his book WallStreetBets: How Boomers Made the World's Biggest Casino for Millennials, he claims that the typical social retail investor see meme stocks as a kind of prayer for financial redemption—their one shot at getting to where they think they should be economically.

Rogozinski says that WSB investors often point to home ownership as being out of reach for their generation, yet the norm for their parents and grandparents, who then may have been able to invest money in slow and stable funds for their retirements. They probably had less debt too.

So many of today's meme stock investors feel they need to make a large amount of money—and fast. Investing US$1,000 in an ISA or a savings account, even if it does exceptionally well, is not going to cut it, and will not provide the life changing return required to get on the property market.

Those who feel so left behind may instead be tempted by a highly risky investment with a potentially large, rapid payoff—and meme-stocks provide that outlet. If that investment (which may of course end up as a big loss) can help hurt the traditional financial system that many social retail investors feel is against them, so much the better.

But our research also suggests that the behavior of social retail traders is not simply about a revolt against finance, or irrational risky bets. It is about how today's stock market reflects a new generation of investors, facing economic pressures which are quite different to those of previous generations. And these differences will be crucial to our understanding of market movements and investor behavior in the future.

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