

Retail traders team up to buy stocks

STOCK MARKET

By INTAN FARHANA ZAINUL
intanzainul@thestar.com.my

ON Tuesday, Haris (not his real name), a 35-year-old architect in Malaysia, told some of his friends to consider buying into a little-known US-listed stock. His pick was GameStop, a loss-making brick-and-mortar video game retailer. Then, GameStop was trading at US\$65 per share, which was already up more than 300% since the beginning of the year.

But two days later GameStop's shares skyrocketed to as high as US\$350 per share.

Haris belongs to the group of global but mostly US-based retail investors inspired by Reddit's r/WallStreetBets community. This group has taken WallStreet by storm, flocking into stocks such as GameStop.

Commentators are calling it a return of the "Occupy Wall Street" with retail traders seeking to upset the elites.

Even before the Covid-19 pandemic began, GameStop was facing declining earnings as gamers had shifted their purchases from packaged software at brick-and-mortar stores to downloading games online.

This had attracted hedge funds and other professional investors on Wall Street betting on GameStop's stock to fall by "shorting" it.

GameStop became the centre of a financial power struggle between hedge fund Melvin Capital and this group of new stock traders who teamed up on the Internet.

The ongoing saga saw Robinhood, the licensed financial platform which charges no trading fees and on which most of the retail traders in GameStop are trading on, to restrict trades on those shares. Robinhood has since eased some of those restrictions but the saga continues to hog the limelight in the United States.

In Malaysia, buoyed by the retail traders in the US, a small group of individuals are looking to team up to repeat the feat. Their first targets – glove stocks listed on Bursa Malaysia which have been the main target

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Securities Commission

of some short-sellers since the beginning of the year.

In a new forum on Reddit called BursaBets created on Thursday, Malaysian retail investors discussed buying up stocks of glove makers and noting that their share prices have dropped in recent months even as profits grew.

Former investment banker Ian Yoong said that there is unlikely to be a "short squeeze" in glove stocks as experienced by the GameStop shares in the US.

A short squeeze occurs when a stock or other asset jumps sharply higher, forcing traders who had bet that its price would fall to buy it in order to forestall even greater losses. Their scramble to buy only adds to the upward pressure on the stock's price.

Yoong pointed out that about 330 million Top Glove shares have been shorted, which is a small number in comparison to Top Glove's total float of 5 billion shares in the market.

"It is unlikely that a short squeeze can take place. GameStop had about 140% short interest." This refers to the percentage of shares shorted in comparison to the total float of the stock.

As volatile as the stock market can be, the surge in GameStop stock was unprecedented. This has brought to question if fundamentals are applied in such trading.

"GameStop stock is mainly momentum-driven than anything based on fundamentals. But for glove stocks, it is more fundamental as these companies are reporting

record earnings that are not reflected in their share price," says Rakuten Trade head of equity sales Vincent Lau.

The opposing view which has been expressed by other research houses is that in many of these glove stocks, the positives have been largely priced in by the market. There is also concern that demand will deplete if and when vaccines begin to ward off Covid-19.

Lau though points out another positive he sees from the current situation – the Reddit community has drawn more retail investors into the local stock market.

"In the past, the Malaysian market was mainly driven by institutions and foreign investors but since last year, retail investors have been net buyers of local equities," he adds.

Yesterday, shares in Top Glove closed 8% higher while Supermax Corp, Hartalega Holdings and Kossan Rubber Industries went up by 3.7%, 5.4% and 4.5%, respectively.

Top Glove, Kossan and Hartalega were the three most shorted stocks as of Jan 27, according to data from the stock exchange.

Top Glove stock hit an all-time high in August last year at RM9.76 apiece and has since fallen by almost 37%.

The world's largest glove manufacturer was also questioned about the treatment of its workers after over 5,000 factory workers became infected with the coronavirus.

Meanwhile, the Minority Shareholders Watch Group (MSWG) has advised all retail investors to exercise caution in their dealings in stocks, especially due to recent calls in

social media to shore up the share price of certain stocks.

In a statement issued yesterday, MSWG said some retail investors have decided to take on institutional investors who short certain shares.

MSWG warns minority shareholders to exercise diligence and be aware of the risks involved in such initiatives.

"Generally, institutional investors tend to have deeper pockets. This is not to underestimate the retailers' purchasing power. At the end of the day, it may become an issue of who has deeper pockets and the stamina to sustain their initiatives.

"Secondly, there may be some unscrupulous retailers including 'stock market gurus' who may unload their shares after having encouraged other retailers to drive up the share prices."

The Securities Commission (SC) and Bursa Malaysia say they are closely monitoring the local stock market "in light of the current price surge of selected stocks in the US markets, fuelled by social media chatrooms against short-sellers".

"Malaysian investors are advised to be cautious of social media chatrooms that try to influence investors to buy or sell certain stocks based on speculation or rumours. Investors should also be wary of discussions in these social media chatrooms that may trigger securities breaches such as the provision of investment advice or stock recommendations without a licence," the SC says.

So what will be the end of the GameStop Saga? Someone has to eventually take the risk to continue buying the shares at a higher price. But with the lacklustre earnings growth, especially as more games can be downloaded online, it is hard to phantom the real value of GameStop.

Perhaps a leaf can be drawn from the famous saying by Benjamin Graham, the American economist widely known as the "father of value investing". He said that in the short run, the market is like a voting machine – tallying up which firms are popular and unpopular. But in the long run, the market is like a weighing machine, assessing the substance of a company.