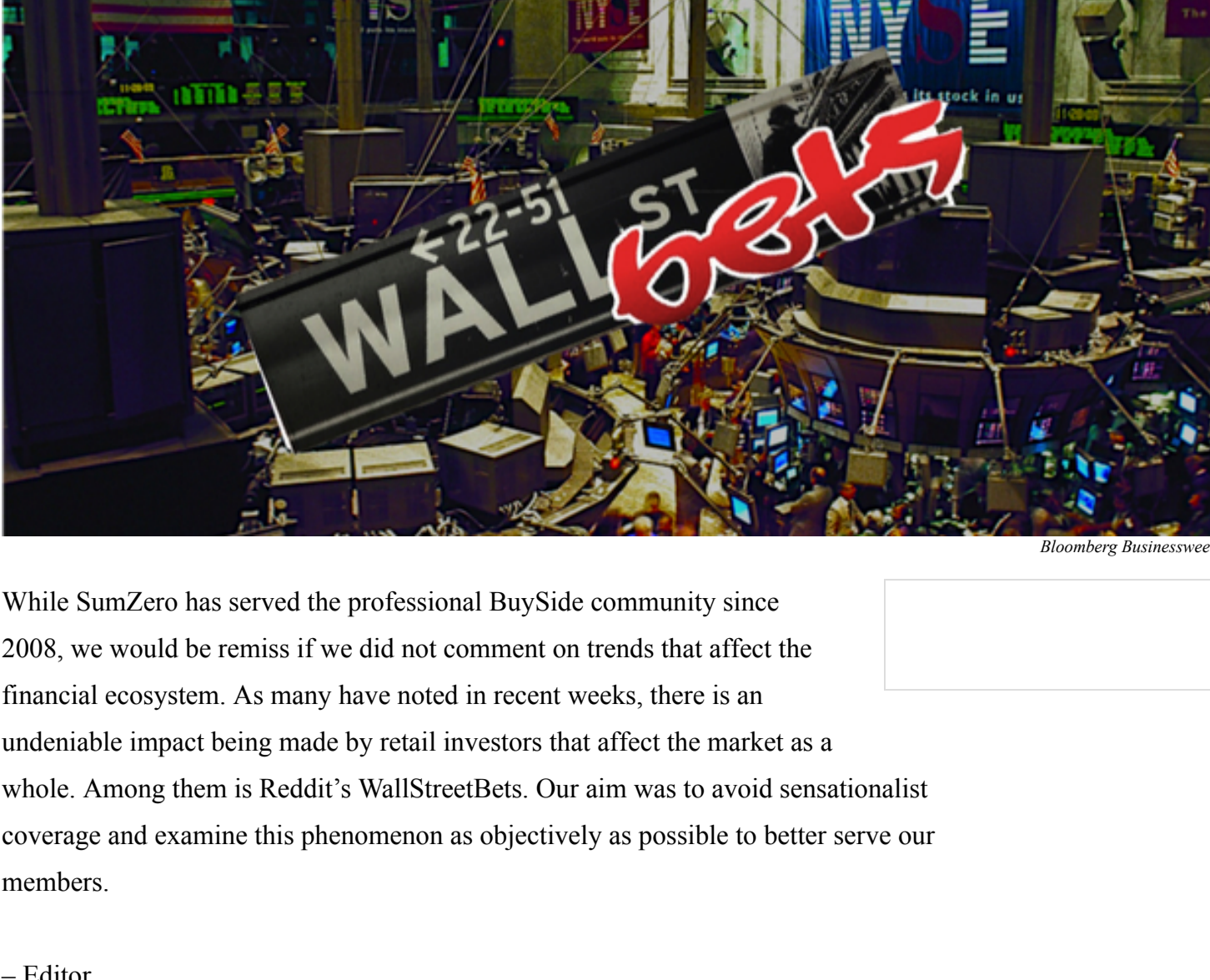


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Irrational Exuberance: An Interview With WallStreetBets Founder Jaime Rogozinski



Bloomberg Businessweek

While SumZero has served the professional BuySide community since 2008, we would be remiss if we did not comment on trends that affect the financial ecosystem. As many have noted in recent weeks, there is an undeniable impact being made by retail investors that affect the market as a whole. Among them is Reddit's WallStreetBets. Our aim was to avoid sensationalist coverage and examine this phenomenon as objectively as possible to better serve our members.

– Editor

Irrational Exuberance: An Interview With WallStreetBets Founder Jaime Rogozinski

“Irrational exuberance is the psychological basis of a speculative bubble. I define a speculative bubble as a situation in which news of price increases spurs investor enthusiasm, which spreads by psychological contagion from person to person, in the process amplifying stories that might justify the price increases, and bringing in a larger and larger class of investors who, despite doubts about the real value of an investment, are drawn to it partly by envy of others' successes and partly through a gamblers' excitement.”

– Robert Shiller, *Irrational Exuberance*, 3rd Ed. pg. 2

The headlines said it all: the wild surges and purges in various stock prices – including Virgin Galactic (SPCE:US), Plug Power ([https://sumzero.com/pro/enities#7643\(primary\)](https://sumzero.com/pro/enities#7643(primary))) – throughout February had financial news outlets swiftly identifying retail investors as those driving certain “cult” stock prices. In particular, they looked towards the 900,000 members of a Reddit.com group forum – called a subreddit – WallStreetBets, sometimes shortened to WSB, who exchange ideas, memes, and speculative banter surrounding financial markets.

Particularly poignant in its criticism, with equal measures of outrage and disbelief, was a Financial Times article headlined “Reddit: Bull Attack (<https://halphville.ft.com/2020/02/20/1582193215000/Reddit-bull-attack/>),” in which the authors voiced concern over the influence exercised by the exuberant Redditors of WSB, specifically citing the sharp rise in Virgin Galactic and Plug Power, which had “soared double digits (on February 19) on seemingly no news” while central topics of discussion and speculation on WallStreetBets. Coincidence? The media didn't think so and some WSB posters took delight in speculating that they may have moved the market by sheer force of numbers.

Who Are These Reddit Raiders, Anyway?

WSB was created in 2012 by entrepreneur Jaime Rogozinski (<http://jaimerogozinski.com/>) in an effort to create a certain stocks constituted illegal pumping. “These co-ordinated attempts to take a stock ‘to the moon,’” the Times authors write, “does call into question whether it constitutes market manipulation.” When the market dropped due to fears of COVID-19, a cover story in *Bloomberg Businessweek*, provocatively titled “Reddit's Profane, Greedy Traders Are Shaking Up the Stock Market (<https://www.bloomberg.com/news/articles/2020-02-26/reddit-s-profane-greedy-traders-are-shaking-up-the-stock-market/>),” echoed FT, saying that “the do-it-yourself traders of r/WSB are waging a kind of guerrilla warfare in the markets, trying to exploit what they see as weaknesses in the system to move prices where they want them.” Bloomberg Opinion columnist Matt Levine, a former Goldman Sachs investment banker, was even more direct in his take (<https://www.bloomberg.com/opinion/articles/2020-02-26/reddit-posters-pick-the-stocks-now>), saying “(WSB subscribers) are in the business, or at least the hobby, of buying stocks, pumping them up on Reddit, and then, I suppose, profiting.” A self-deprecating counterpoint to that was articulated by a WSB user with the handle /u/recentlyunearthed, who asked (https://www.reddit.com/r/wallstreetbets/comments/f6hqmz/sec_say_away/f14trfx/) rhetorically, “How can we have insider knowledge when we don't have any knowledge?”

In its evolution, WallStreetBets has spawned a subculture of retail investors whose levels of trading sophistication ranges from apparent professionals, who provide trading strategies and detailed analyses of securities, to amateurs – whose “YOLO” trades leverage tens of thousands of dollars – sometimes on margin – on options plays, resulting in headline-worthy gains or losses. The latter was the case last November in the now-infamous “Infinite Leverage” incident on the popular RobinHood trading app where a number of WSB contributors used a glitch on the app to multiply small deposits into massive margin positions, one of which reached \$1.7M (<https://markets.businessinsider.com/news/stocks/robinhood-infinite-leverage-bug-copycat-trader-builds-huge-position-millions-2019-11-1028660044>).

In the last few months, WSB has become one of the fastest-growing subreddits, spurred by headlines and rank novices besieging the group hoping for get-rich-quick stock tips. And it's not just Reddit users who go there. To fully appreciate WSB's appeal, you have to look beyond its registered membership numbers: Rogozinski reports that in November 2019 alone WSB received 2.9 million visitors. The sub's popularity led Rogozinski to write a book – WallStreetBets: How Boomers made the world's biggest casino for Millennials (<https://www.amazon.com/WallStreetBets-Boomers-Worlds-Biggest-Millennials/dp/B084DFNN2F/>) – released this January, and currently the number one new release in Amazon's finance category. That same popularity has also made WSB a major target for the media, who've voiced concerns that the subreddit may be too powerful.

Outsider Trading: Headlines Hedging WSB

That question was raised recently by, among others, the Financial Times, who openly speculated whether or not WSB's bullish consensus on certain stocks constituted illegal pumping. “These co-ordinated attempts to take a stock ‘to the moon,’” the Times authors write, “does call into question whether it constitutes market manipulation.” When the market dropped due to fears of COVID-19, a cover story in *Bloomberg Businessweek*, provocatively titled “Reddit's Profane, Greedy Traders Are Shaking Up the Stock Market (<https://www.bloomberg.com/news/articles/2020-02-26/reddit-s-profane-greedy-traders-are-shaking-up-the-stock-market/>),” echoed FT, saying that “the do-it-yourself traders of r/WSB are waging a kind of guerrilla warfare in the markets, trying to exploit what they see as weaknesses in the system to move prices where they want them.” Bloomberg Opinion columnist Matt Levine, a former Goldman Sachs investment banker, was even more direct in his take (<https://www.bloomberg.com/opinion/articles/2020-02-26/reddit-posters-pick-the-stocks-now>), saying “(WSB subscribers) are in the business, or at least the hobby, of buying stocks, pumping them up on Reddit, and then, I suppose, profiting.” A self-deprecating counterpoint to that was articulated by a WSB user with the handle /u/recentlyunearthed, who asked (https://www.reddit.com/r/wallstreetbets/comments/f6hqmz/sec_say_away/f14trfx/) rhetorically, “How can we have insider knowledge when we don't have any knowledge?”

Underscoring this is that some big names have suggested – perhaps jokingly – that professional investors might do well to look towards these so-called meme stocks for opportunities, among them, notably, Mark Dow, a former policy economist for the U.S. Treasury and IMF.

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“To their credit, WSB has instituted reforms on the types of posts allowed, banning users who attempt to pump stocks or discuss positions on stocks priced under \$10.00. “The influx of media attention over the past week on SPCE and I.L. has made it clear that some users are attempting to use this forum to pump their positions (against Rule 8 of the sub),” a moderator wrote in a stickied post (https://www.reddit.com/r/wallstreetbets/comments/f7c9rx/regarding_the_ban_of_uclosethefuckinglight_and/).

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