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# Reddit's Profane, Greedy Traders Are Shaking Up the Stock Market

Chatter on message boards is reshaping the options market and sparking wild rallies.

By Luke Kawa

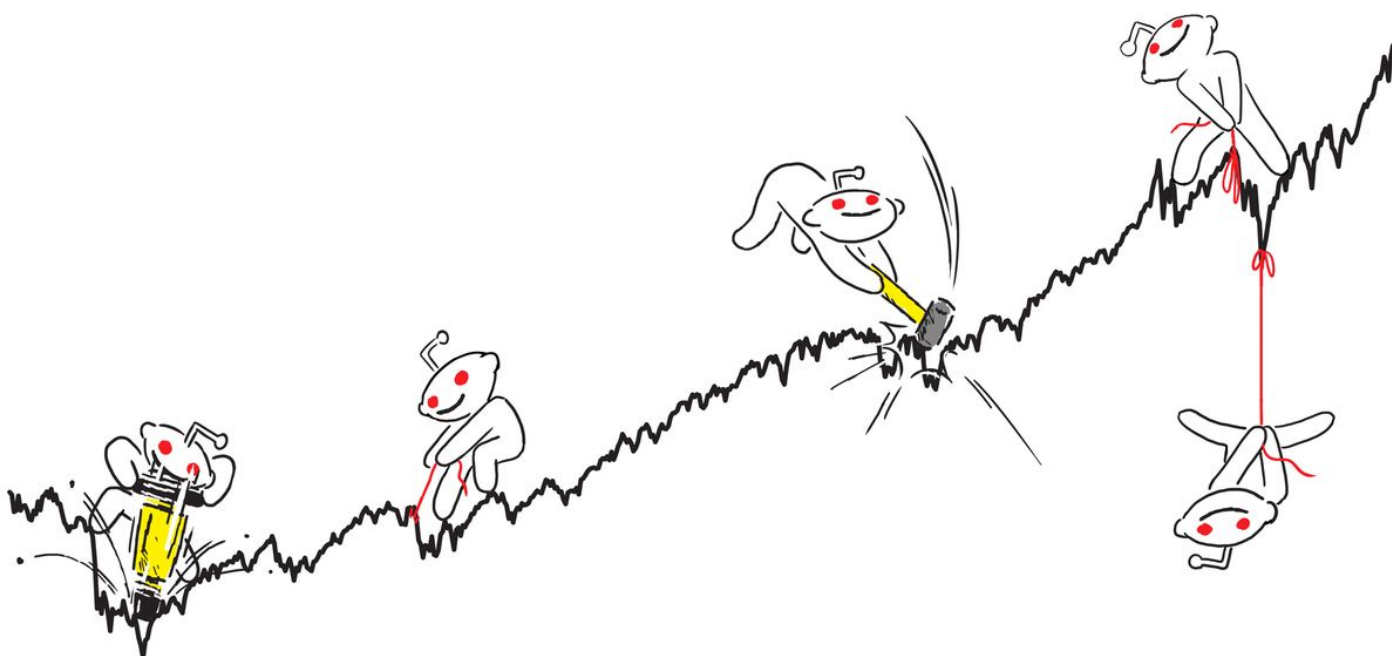


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In a dingy corner of the internet is a message board, soaked in profanity, bro-speak, and greed, where posters with handles such as [OverthrowYourMasters](#) and [yolo\\_tron](#) campaign for their favorite stocks, putting up screenshots from their online brokerage accounts of their moonshot victories—or showing off their massive losses like badges of honor. Some of them think they've found the key to fast wins on the stock market. Wall Street doubts they're right, but it's getting nervous about what it sees there.

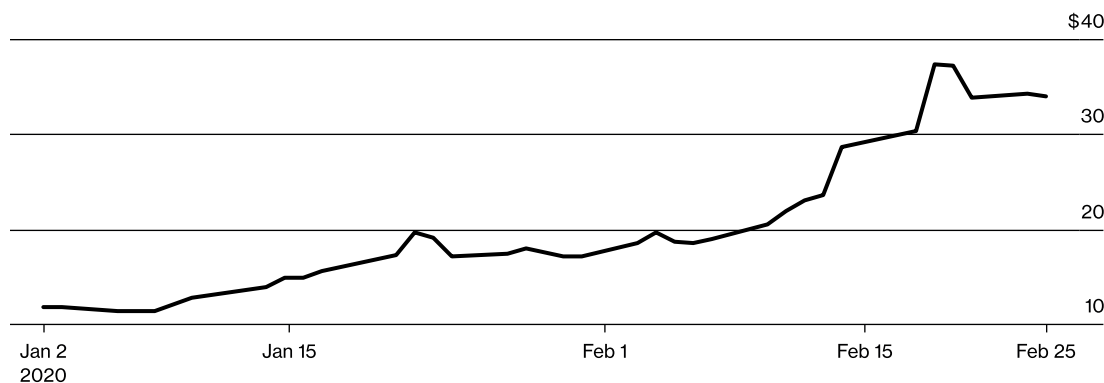
History hasn't been kind to people claiming to have a magic hand. The latest sell-off, driven by a new wave of coronavirus fears, shows how quickly markets can turn on you. But even veteran traders have trouble dismissing a 900,000-user Reddit forum called [r/wallstreetbets](#), or [r/WSB](#) for short, whose tips and tactics have shown an uncanny ability to push prices, at least for the short term. Hitherto sleepy companies such as [Virgin Galactic Holdings Inc.](#) and [Plug Power Inc.](#) went crazy shortly after being mentioned there. The board may have added a little froth to [Tesla Inc.](#)'s \$90 billion rally.

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. For anyone who wondered about where the small day traders who made the 1990s so w

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meet the 2020 version. After years of indifference, individual investors seem to be finding their way back to stocks, for better or worse. They're flexing muscles in ways that can easily call to mind excesses from the dot-com era.

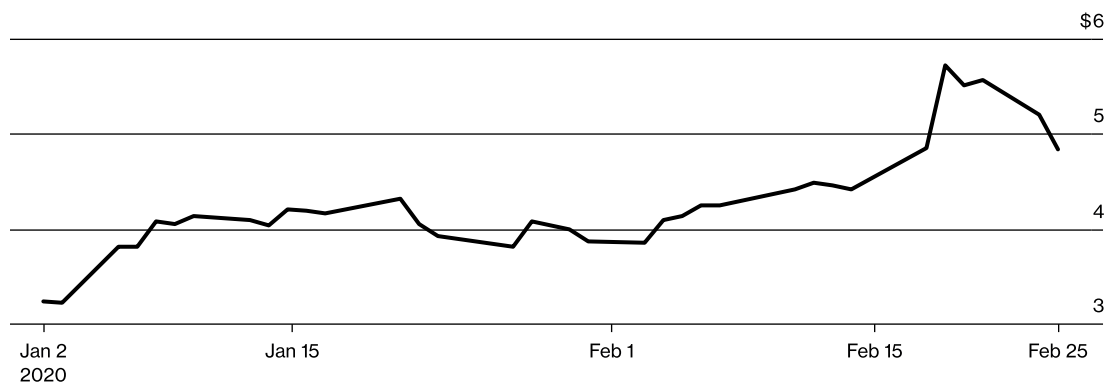
## Virgin Galactic Stock Price



Data: Compiled by Bloomberg

“There is no denying the fact that in the month of February 2020, the public is back,” says Julian Emanuel, chief equity and derivatives strategist at BTIG LLC. He thinks the S&P 500 can jump an extra 10% because of small-investor enthusiasm. “This bull market is not going to end until the public falls in love with stocks, and that process may just be beginning.” Of course, timing the moment when irrational exuberance gives way to a mass exit isn’t so easy. Chatrooms where stocks were hyped are seminal artifacts of the 1990s boom and the following bust. They were a setting for bare-fisted digital brawls among all manner of hustlers and promoters, many of whom could move shares on a dime—sometimes just enough so they could get out and leave others holding the bag.

## Plug Power Stock Price

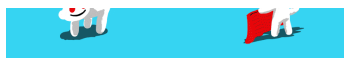


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Twenty years later, one thing that’s changed is the nomenclature. It’s frequently both juvenile and objectionable. For Reddit’s band of self-styled “autists”—a term of endearment, relatively speaking, that crudely leans into stereotypes surrounding extremely online people—the chief prize is “tendies” (chicken tenders, the treat an overgrown man-child receives for being a “Good Boy”). Figuratively speaking, tendies are the financial rewards that follow from a successful bold wager. Bears are usually referred to in homophobic terms.

What this moment shares with 1999 is a rising belief that someone else will come along to buy a surging stock at an even higher price, regardless of fundamentals. But while traders at the end of the millennium were willing to wait around for a “greater fool” to show up, this generation believes it can conjure up those buyers through its own trading sleight of hand.





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Members of r/WSB believe they've discovered a kind of perpetual motion machine in the interplay of stocks with options contracts, which offer a cheap way to bet on whether shares will rise or fall without buying the stock itself. It goes like this: Members make bets that rely on market makers, the professional middlemen who sell you a "call" (a bet on shares rising) or a "put" (a wager on a decline). Market makers, like good bookies, don't want to go out on a limb. When taking a bet, they lay off the risk. If someone buys a call, for instance, speculating on a rally, the dealer buys stock in the underlying company. If the stock rises, the dealer may have to pay out on the option—but that's offset by the gain on the shares.

When shares keep rising, managing the hedge entails buying more stock. That's where the Reddit set perceives a weakness. A favorite tactic on r/WSB is to swamp the market with call purchases early in the morning in an attempt to force dealers to keep buying stock. Up and up everything goes—supposedly. As the stock price rises, so does the value of the calls, often by far more.

In this worldview, the only constraint on success is the force of one's own conviction and willingness to act upon it. An added attraction: It's all relatively cheap in terms of an option's simple dollar cost. For the price of one share of [Amazon.com Inc.](#)—about \$1,965 on Feb. 25—a decent-size campaign can be waged in long-shot options trading for pennies. That matters nowadays, when the rise of exchange-traded funds and mutual funds has convinced U.S. companies that they no longer need to split their stocks to keep the share price manageable for retail investors. Many companies now trade for three or four figures a share.

To be clear, there's no magic money machine in options. The middlemen of the market are hardly the only players buying and selling stocks. If the rest of the market sees a reason to sell a company, it won't matter that r/WSB is pushing it. While options can produce eye-popping gains, they frequently expire worthless.

But suddenly bullish individual investors are putting their mark on the options market. How influential have they become? Typically puts are in higher demand than calls because traders are more interested in hedging against losses. That's often not the case now—with some stocks, demand for the bullish calls is higher. "This is not normal," said Amy Wu Silverman, an equity derivatives strategist at [RBC Capital Markets](#), on Bloomberg TV recently.

Benn Eifert, chief investment officer at [QVR Advisors](#), was initially skeptical that the money behind these online message boards could sway anything. He changed his mind. "At least from the dealers"—the middlemen—"they'll tell you in big tech names, flows are substantial, and it's moving things," he says. Smaller stocks are even more sensitive to sudden bursts of attention.

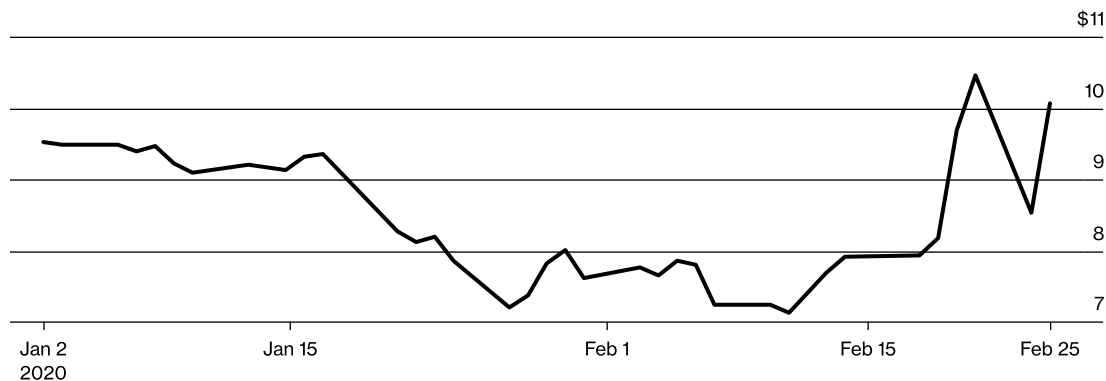
BTIG's Emanuel says it's hard to say whether today's chatrooms or those in the late 1990s have bigger sway. "When I was sitting in a proprietary trading room in 1999, you would see certain stocks be mentioned on message boards, and the process would then be one person saying to another, 'Hey, this looks interesting,'" he says. "Now you see something on a message board, and you might not necessarily see a continued discussion." Instead, computerized traders automatically jump in. "As a human you never actually see the flow because it's going electronically," Emanuel says. In other words, don't just wag a finger at message boards—look at the supposedly sophisticated algorithmic traders that are following them.

Members are aware that questionable thinking underpins their bets, to the point of self-deprecation. After user [SolTrainRnsOnHolGran](#) wondered whether r/WSB's activities might constitute insider trading, a user named [recentlyunearthed](#) replied, "How can we have insider knowledge when we don't have any knowledge?"

The forum's zest for call options is a key force behind a broad market trend. By one measure, the value of options traded rose 77% over the first six weeks of 2020. Much of this expansion was concentrated in a handful of stocks popular among individual investors, says John Marshall, head of derivatives research at [Goldman Sachs Group Inc.](#) "The size of the increase in options volumes is definitely moving the needle," he says.

The average number of contracts purchased in a single-stock option trade shrunk to just 6.7 contracts in 2020, roughly half what it was in 2015, says Henry Schwartz, president of Trade Alert LLC. Looking at the combination of small orders and heavy trading volume, he concludes, "Really, retail is the only audience."

## Lumber Liquidators Stock Price



Data: Compiled by Bloomberg

As the swashbuckling day trader’s imprint on the market becomes more pronounced, moderators are getting stricter in their policing of the board—or “sub,” for subreddit. One user, who’d been a member for three years without posting, laid out the bull case for Lumber Liquidators Inc. and promised another pick the following morning. Call volumes in the company jumped to 71 times the previous one-month average, with shares rising 18.6%. This user was promptly banned from r/WSB upon providing the next tip, with a moderator claiming that the poster “tried to use the platform for personal gain.” Members were warned that any interactions with the user on Reddit or discussion of the user’s latest recommendation would also get them kicked out. “This sub is a travesty,” wrote user Deftech1, complaining about the influx of those looking for—or pushing—get-rich-quick schemes. “Can we just go back to losing inordinate amounts of money?”

**BOTTOM LINE** - Chatter on a Reddit message board is pushing up prices on some stocks and reshaping the options market. Retail traders are back—for better or for worse.

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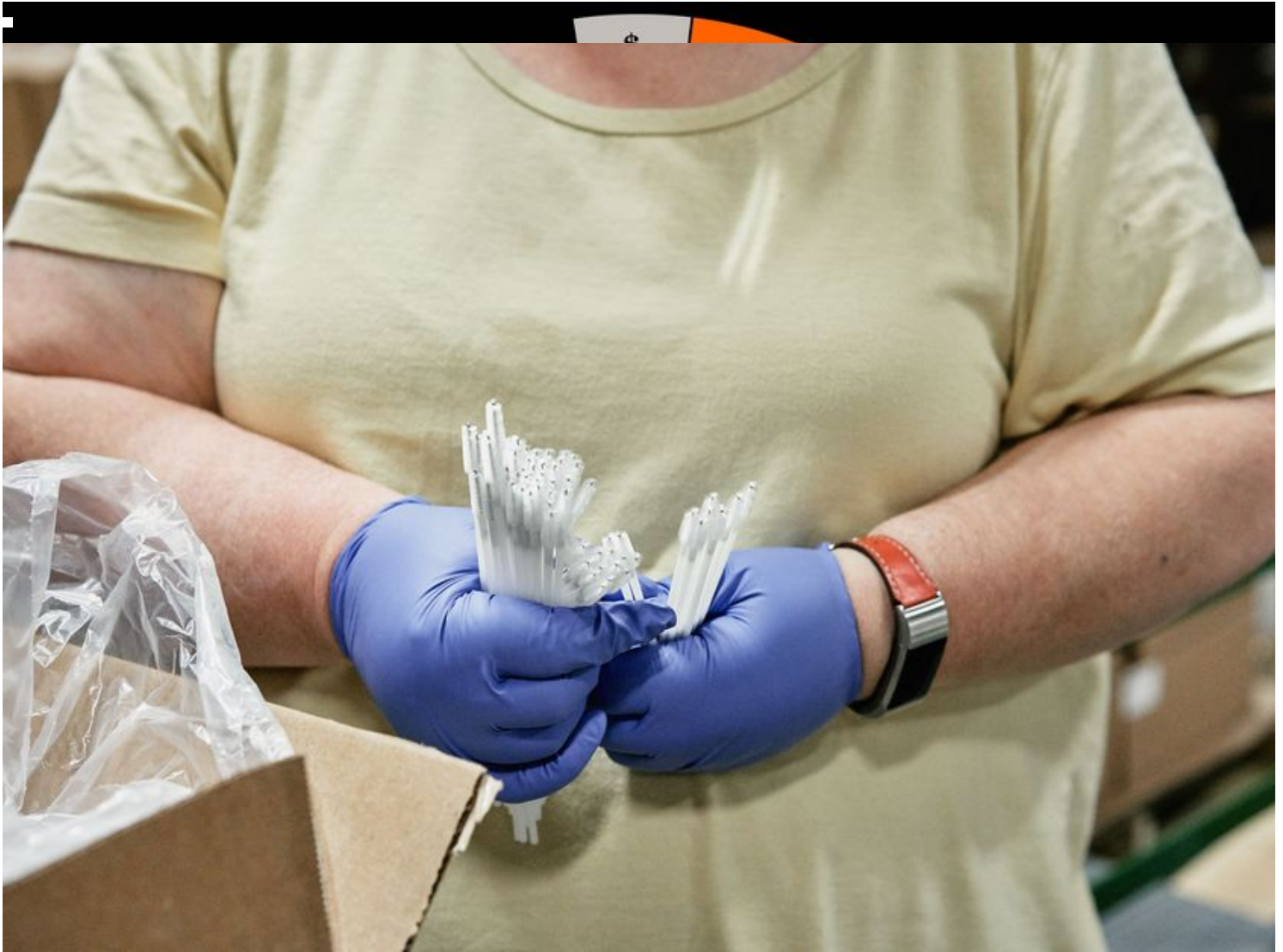
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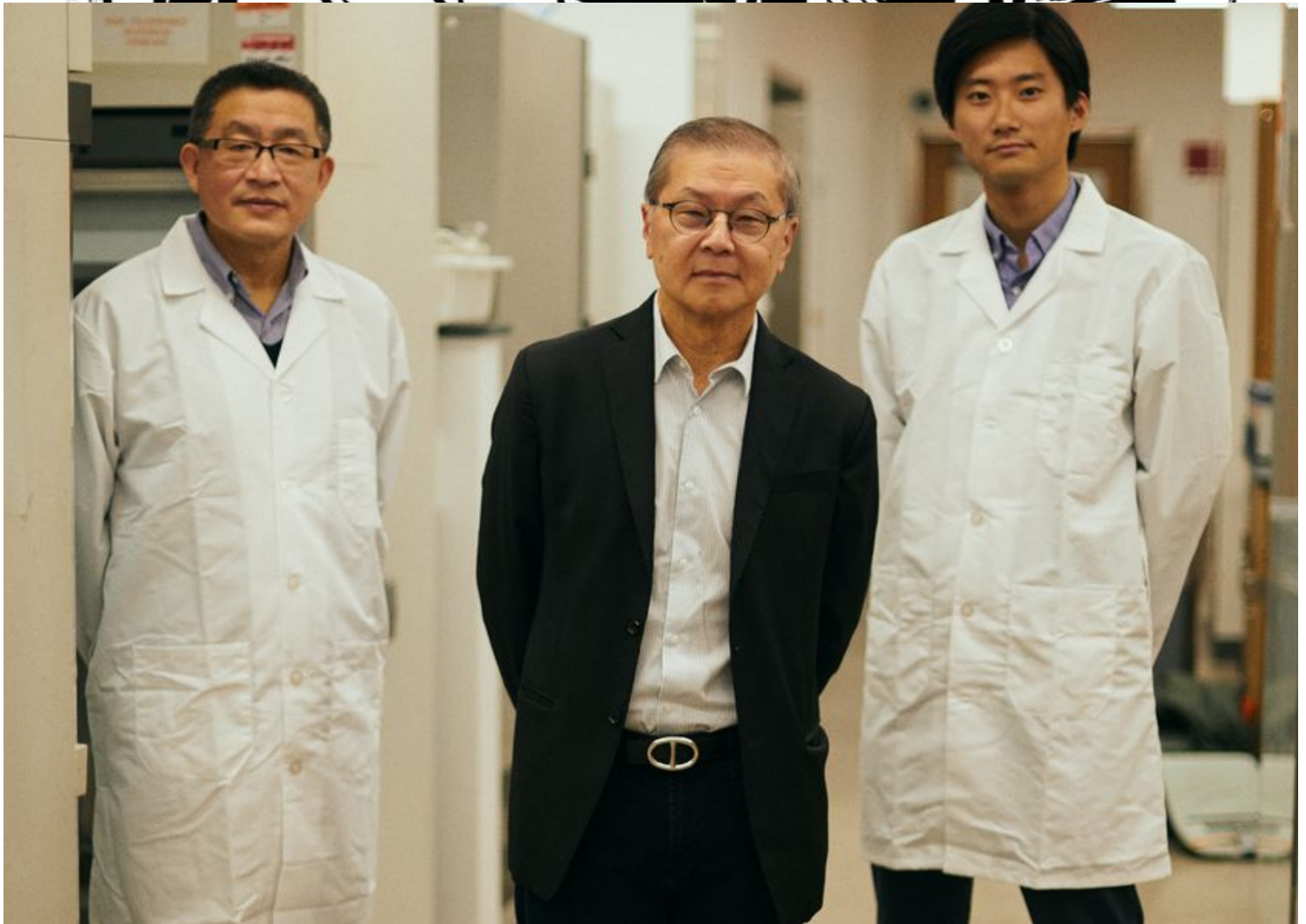
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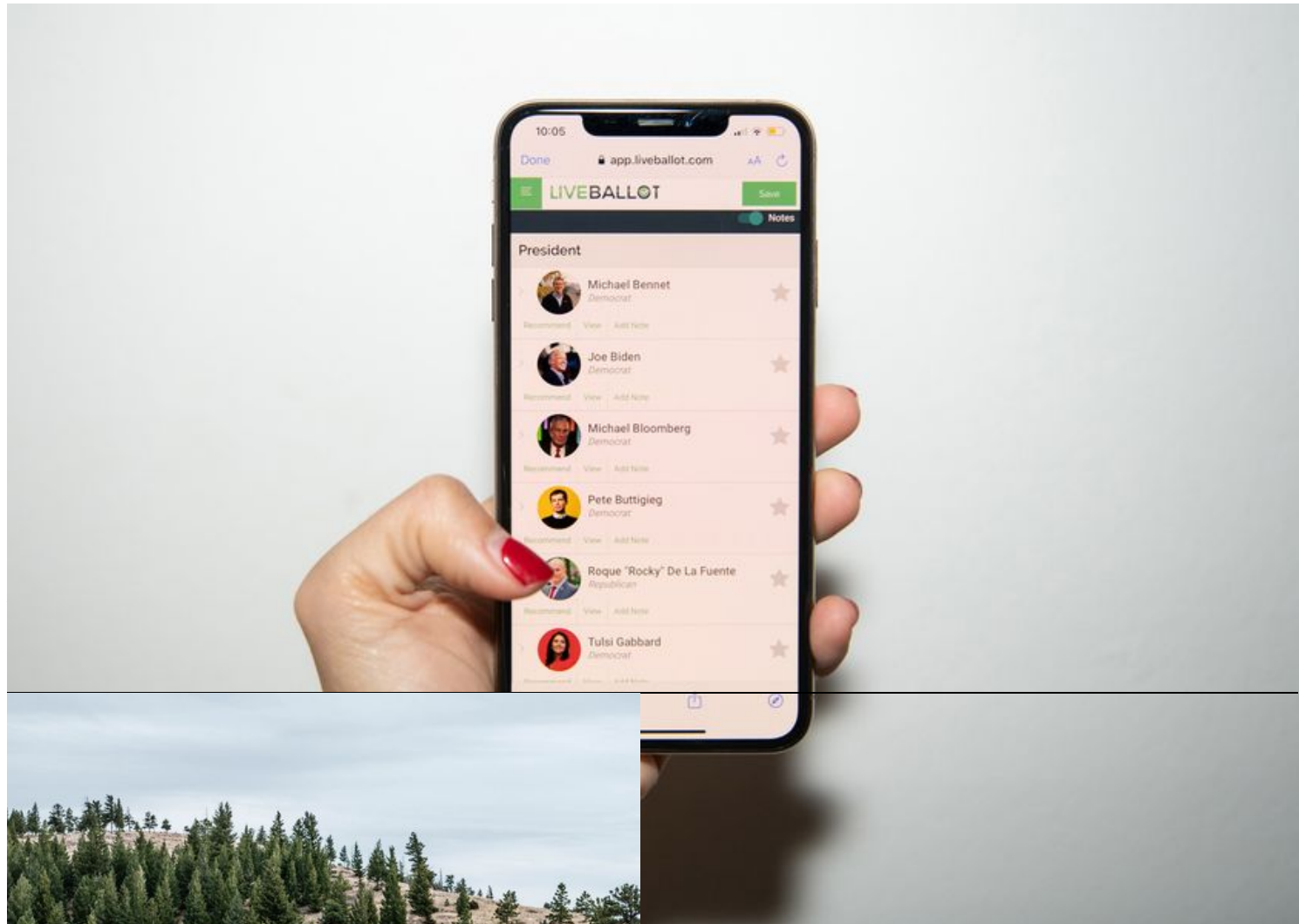
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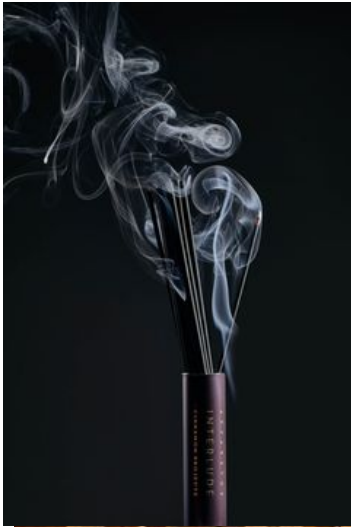


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