Herding Mentality in the GameStop Short Squeeze: A Case Study

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ABSTRACT

Engaging a broad base of retail investors and threatening several institutional investors, the 2021 GameStop short squeeze was an economic event, reminiscent of the herding mentality that has been observed in various other bubble events. To examine the role that herding mentality played in the short squeeze, this paper addresses the following research question: what impact did the herding mentality among retail investors have on the price of the GameStop stock during the 2021 short squeeze? To do so, this paper utilizes a case study research methodology that cross-examines the GameStop short squeeze with Hott's theoretical framework on herding mentality. While the Hott framework accurately describes how an initial positive signal sparks a bubble and how a positive feedback loop causes asset prices to increase through a herding mentality, the framework maintains an assumption that the herding mentality is information-based, without recognizing that it can be emotionally driven, especially through social groups. Moreover, the framework also fails to recognize that a bubble does not necessarily burst due to investors receiving new information, but can also burst due to the intervention of economic institutions. These findings show that our understanding of herding mentality needs to be updated to incorporate the potential social moods that can drive coordinated efforts which can become dangerous as information, sentiments, and collectivism can rapidly spread through digital platforms to reach a broad audience of investors. This has the potential to threaten market stability and repeatedly cause disturbing phenomena such as asset bubbles and crashes if left unaddressed.

KEYWORDS

Herding mentality; Short squeeze; Price bubbles; GameStop

INTRODUCTION

In 2021, the world was taken by storm by an unprecedented market phenomenon. The GameStop short squeeze saw extreme levels of volatility in the modern market and price bubbles to an extent that has never been seen before. Especially because these assets had marginal intrinsic value and were only of interest due to being “meme” stocks. The GameStop short squeeze was an unprecedented example of trendy investing through social media in the digital age that massively upset the market due to collective action amongst retail investors. This collective action began to show signs of a herding mentality, where individuals and groups mimic the investing decisions of the larger group rather than using their own information and independent analysis.

The herding mentality amongst retail investors developed coordinating buying pressures that forced the price of GameStop stock to skyrocket. Many were investing based on the information they received and the prospect of significant profits. Yet many also invested as a way of rebelling against big finance and corporate institutions. Initially, GameStop struggled as a company, which led to institutional investors being interested in shorting the stock. Shorting, or short selling, is the process of borrowing shares to sell them with the hope of repurchasing them at a lower price, essentially betting on the stock price to fall to profit from the price drop. Retail investors took note of the short selling occurring and in response, instituted a short squeeze to disrupt such effort. A short squeeze is when a shorted stock rises in price, forcing those who bet on the price to fall to buy back their shares at higher prices to cover their positions. This dual catalyst of informational herding and rage against institutional finance corporations led to the GameStop stock price rising at an incredible scale and speed.

Thus, this research paper aims to explore how herding mentality among retail investors influenced the stock price of GameStop during the 2021 short squeeze. The paper's primary focus will be characterizing the display of herding mentality in the specific case study of the GameStop short squeeze to shape future awareness around the prevalence of herding mentality and its power on the market to ensure adequate measures are taken to control it. The characteristics will be conducted by stress testing Christian Hott’s framework for herding mentality against the events of the GameStop case study to assess the accuracy of such models and develop regulatory frameworks through relevant guides for the neuro-economic phenomenon of herding mentality.

The remainder of this paper is outlined as follows. Section 1 details the role of herding mentality, specifically exploring Hott’s framework and its intricacies. Section 2 provides a comprehensive review of the literature published surrounding herding mentality and the role of social media, diving into the GameStop short squeeze. Section 3 explains the research methodology of the paper through the genesis of the research question and the process of conducting the case study. Section 4 depicts the course of events of the GameStop short squeeze and details exactly what happened. Section 5 showcases the results of performing the case study and the effect of Hott’s framework on the short squeeze events. Section 6 stress tests the framework by analyzing the accuracies, inaccuracies, and overall shortcomings of Hott’s framework as a measure of herd mentality as well as the display of herding mentality in the short squeeze.

1. THEORETICAL FRAMEWORK

Herding Mentality

Countering the rational investor, the herding mentality observes investors disregarding their own information and independent analyses to follow the decisions of a larger group of investors (Dang and Lin, 2016). The herding mentality in financial markets exemplifies group-think patterns. In the herd, investors often lose their individual investing decision-making, dropping their accessibility and analysis of information in favor of the broader group of investors. They model their behavior after a larger group of investors in the same market, often assuming they're better informed (Baddeley, 2010).

The primary cause of herding mentality is informational asymmetry. Informational asymmetry pertains to investors defaulting to following the crowd because they believe the larger group of their peers in the market have more quantity of or better quality of information and data than they do. If they feel that their own decisions may be inferior to those of the group, investors will mimic the behavior of the larger group to mitigate possible risk and loss (Chohan, 2023). Particularly in volatile and uncertain market climates, investors may also feel a fear of missing out or simply a desire to conform to a society that urges them to align their actions with the majority (Sahlberg, 2021). The main effect of the herding mentality is causing bubbles and crashes. To meet such demand around an asset caused by herding, the price increases too. Therefore, the herd can inflate asset prices to a point where it misrepresents the asset's value. A primary example is the Dot-com bubble in 1990, which saw investors take interest in tech company stocks and incite a herding mentality that artificially inflated the market through speculative investments, causing a price bubble that eventually burst (Mancini, 2022).

The main focus of this paper will be the effect of herding mentality causing market volatility, particularly through the formation of a price bubble and its subsequent burst. Collective movements in asset buying and selling an asset can lead to severe price changes and bubble formations. Specifically, the short squeeze of the GameStop stock in 2021 saw retail investors partake in group collective buying of GameStop stock, leading to its extreme market volatility and the formation of its bubble in January 2021 (Maiz, 2021).

Hott's Framework

In his 2009 research paper on herding mentality as a cause of price bubbles, the model Christian Hott developed and the mechanism of his model is as follows. If a positive signal about the value of an asset gets into the market, the mood of the investors increases. The enhanced mood misleads some investors to interpret uninformative signals positively and, therefore, to improve their investment further. In the following period, all investors could observe that some acted according to a positive signal. This further increases their mood and the asset price. This process repeats itself and pushes the asset price higher and higher when the investors learn that their good mood is based on uninformative signals the bubble burst (Hott, 2009).

For this paper, I have recomposed Hott's framework for the display of herding mentality into a numerical, 7-step sequence as follows:

Step 1: Initial Positive Signal
A positive signal about an asset's value enters the market. Investors' mood and sentiment towards the asset improve.

Step 2: Positive Feedback Loop
The enhanced mood leads some investors to interpret uninformative signals as positive, increasing their investment in the asset.

Step 3: Observational Influence
In the next period, all investors observe that some have acted on the positive signal. This observation reinforces the positive sentiment among the broader investor group.

Step 4: Further Investment and Price Increase
The reinforced positive sentiment encourages more investors to buy the asset.

Step 5: Repetition of the Process
The process repeats with each cycle of investment and observation. Each iteration pushes the asset price higher, creating a feedback loop.

Step 6: Bubble Formation
Continuous positive reinforcement drives the asset price to unsustainable levels. Investors' good moods and buying behavior are based on uninformative or misinterpreted signals.

Step 7: Bubble Burst
Eventually, investors realized that their optimistic mood was based on unreliable information. The asset price rapidly declined, causing the bubble to burst.

Hott's framework makes some critical assumptions upon which it is founded. One assumption is that the herding mentality is conceived from positive sentiments surrounding the asset's value and that investors act based on the asset's value and profit from investing in it. Another assumption is that investors' observations are just of their peers actively investing in the asset. Also, Hott assumes that investors are making such observations through traditional market signals. Furthermore, it is believed that the bubble forms due to investors thinking the asset's value is undercharacterized and feeling positively about its actual value. Lastly, Hott assumes that the bubble bursts due to investors' internal self-realizations and that their conception of its value was misguided. The paper will explore these assumptions to stress test Hott's framework as a measure of assessing herding mentality.

2. LITERATURE REVIEW

As stated previously in Section 1, Christian Hott's framework provides a structured approach to becoming aware of the warning signs of herding and characterizing herding through specific actions and behaviors that can be empirically tested and observed. Hott (2009) notes that price bubbles can form independently of speculative incentives and instead be purely derived from herding behaviors. His model establishes that collective investor action is a key driver of price bubbles and will result in an asset being inflated above its intrinsic value.

Referencing Hott's paper as foundational in developing the theoretical basis, Xu (2023) explores repeated and continuous price bubbles and another market phenomenon, citing herding behaviors as the cause of such anomalies. Xu establishes that collective trading strategies amongst retail investors directly result in severe market disruptions. This analysis can prove that the GameStop short squeeze falls under an empirical example of a price bubble caused by a herding mentality. Even though Xu primarily explored the Dot-com bubble of the 1990s, the GameStop short squeeze observed similar patterns and trends, signaling that herding could also be prevalent in the GameStop short squeeze.

Maiz (2021) goes a little deeper, explicitly recounting the details of the GameStop episode. Maiz investigates the primary drivers of the short squeeze, chalking it up to the influence of the short interest that institutions took into the asset, the prevalence of options trading that retail investors partook in to drive up the price, and the role of online platforms in disseminating information swiftly across to the entire demographic of retail investors, allowing them to take collective action. Maiz argues that modern communication technologies and the role of social media significantly influenced the events of the GameStop short squeeze, allowing investors to take collective action. This is, again, a significant example of a herding-caused market phenomenon. Yet, Maiz overlooks the role herding mentality had among retail investors, instead focusing primarily on trading platforms such as Robinhood and market measures to mitigate the short squeeze. This paper aims to dive deeper into the cause of such a market phenomenon to allow policymakers and institutions to gain awareness of more effective solutions by targeting the root cause and cutting herding off at the source.

As markets evolve and grow over time, so do the channels of distributing market information. One prevalent factor influencing the dissemination of crucial market information is the rise of digital and online platforms as a breeding ground for herding mentality. Hasan, Tunaru, and Vioto (2023) investigated digital platforms in more depth, aiming to underscore the influence of such platforms in the genesis of herding behaviors. They urged regulatory measures to mitigate the effects of rampant discourse and dissemination amongst digital platforms. Within the study, Hasan, Tunaru, and Vioto call for more empirical case studies that investigate the role of social media data in association with traditional financial signals to offer a more comprehensive understanding of the dynamics of current market trends.

All of this literature suggests the significance of being aware of and characterizing herding mentality in the modern digital age of the market to develop effective policy countermeasures that can adapt to the dynamic nature of such issues and social media-fueled herding. Case studies are pivotal in highlighting empirical evidence as a baseline for effecting policy changes, using real-world examples to understand the intricacies of modern herding mentality further. The GameStop short squeeze is a novel case study that provides an intersection of retail investor psychology, social movements rebelling against institutions, market dynamics, and online forums as influences of market phenomenon. This paper investigates the impact of herding on retail investors in GameStop short of offering foundational investigations that express awareness of herding mentality in the digital age and urge proper countermeasures from policymakers, stress testing fundamental frameworks in the field to ensure in the future these measures are taken accordingly with solid and relevant frameworks that can characterize herding mentality.

3. RESEARCH METHODOLOGY

Research Question

The central research question this paper aims to investigate is as follows: what impact did the herding mentality among retail investors have on the price of the GameStop stock during the 2021 short squeeze? The independent variable being tested is the presence of a herding mentality among retail investors. The dependent variable being measured is the price of the GameStop stock during the 2021 short squeeze. The research question aims to uncover the prevalence of herding mentality in retail investors, highlighting the significance of retail investors as an investing bloc. During the 2021 short squeeze, retail investors could upset the trends and forecasts of the market set by institutional investors and instead change the market's direction. These market phenomena upset the current market perspectives and destabilized it. The massive movement around retail investors and the inflated price bubble the GameStop stock underwent showcased the power retail investors have when acting as a collective and should serve as a warning not to underestimate the influence of the ordinary person in the market. Generally, hedge funds and institutions overlook retail investor behavior when conducting their analyses, assuming they are rational and act according to the market. The GameStop short squeeze saw a movement of retail investors acting against the market and collectively being able to disrupt it. The research question aims to dig deeper into the origin of such an upset and explain the market phenomenon through the presence of a herding mentality. Highlighting herding as a key stimulant of the market's volatility, institutions and policymakers can be wary of collective action growing amongst retail investors and set preventative regulations to avoid such destabilization in the future.

Case Study

The research will be conducted using a case study approach. The case study approach was chosen to assess the impact herding mentality can have on stock price, specifically in the case of the GameStop stock. Exploring herding mentality in the market would be difficult, and it is still a growing and developing field. A metric needs to be introduced to act as a basis for observing and researching the specific effect of herding mentality in the market. Herding happens quite often and in different sectors of the market. Assessing herding as a whole would generally be challenging. Pinpointing the effect and narrowing it down to one specific case study allows for a much more nuanced exploration that unpacks the impact herding mentality can have in different situations. Understanding the nuances and complexities of herding mentality in a specific case study can be used for broader applications of the research to study herding mentality further and work towards developing control measures and preventative regulations. The case study approach allows a specific market phenomenon to be selected and then explored deeper into the origin and the role of herding mentality to gain a more comprehensive, focused discovery into the intricacies of herding mentality to flesh out its function and its processes for future applications.

Evaluating The Case Study

The scoring metric used to assess the cross-examination of Hott's framework through the GameStop case study is as follows

Score	**Description**	**Criteria**
3	Fully aligned	Hott's framework fully accurately and comprehensively represents the events of the short squeeze assuming all nuance and complexities in the stage being assessed.
2	Mostly aligned	Hott's framework accurately displays the overarching structure of the stage that is occurring but is missing a level of nuance that the case study demonstrates.
1	Partially aligned	Hott's framework gets the gist of the stage occurring and represents what happened but mischaracterizes the nature of the event.
0	Missing or not aligned at all	Hott's framework completely mischaracterizes the event and falls short of addressing that stage of the case study.

Fig 1: The chart displays the scoring metric used to characterize the assessment of Hott's framework as conducted in the cross-examination of the case study. The scoring metric will be used to assess each stage of Hott's framework and how well it holds up to the events of the case study. The chart depicts the possible scores on a 0-3 scale.

The case study approach this research paper takes will be evaluated using the above scoring metric. To tangibly characterize the level to which each of Hott's stages of herding mentality are displayed in the case study, this scoring metric will be used. Each of the 7 stages that are explored and discussed as they appear in the GameStop short squeeze will be graded on a scale of 0 to 3. A score of 0 represents complete misalignment. A 0 would indicate that the stage being discussed is either not present at all in the course of events or is frankly erroneous. A score of 1 represents partial alignment. A 1 would indicate Hott's framework can identify the event occurring and the framework accounts for a certain event. However, at this level, Hott's framework simply misunderstands the circumstances around the stage occurring and is not able to provide a comprehensive description of retail investor actions past a simple statement of acknowledgment. A score of 2 represents substantial alignment. This would mean Hott's framework can describe the events occurring and largely understands the phenomenon occurring amongst investors. The step is still displayed but without a full understanding of the context. A score of 3 represents complete alignment. At this level, Hott's framework can demonstrate an acute and precise understanding of the step of herding mentality being displayed while accounting for the larger nuances and context.

Nonetheless, the aforementioned scoring metric is nothing more than an assessment of the relevancy of Hott's framework to the events of the case study. The rubric should not be interpreted as a granular measure of the quality of Hott's framework or grading of his work.

4. CASE STUDY

Setting the Stage

During the COVID-19 pandemic, the brick-and-mortar video game retailer GameStop struggled to find footing and maintain business. Amidst the COVID closure policies, GameStop insisted on staying open and refused to close business, calling themselves an "essential" business. However, due to alternate digital distribution services and a severely reduced number of in-person shoppers, GameStop's business struggled, and its stock price declined (Tassi, 2020). Seeming to be on its last legs with signs of its stock price falling, many hedge funds and institutional investors began to bet the business was going under. These institutional investors believed the stock price would continue to fall, so they started short-selling the stock (Ponciano, 2021).

Public Awareness

With such high short interest from institutions, retail investors began to notice. Using Reddit as a forum to share their findings, users of the subreddit r/wallstreetbets, known for high-risk stock trades, started posting the short interest data on the subreddit to garner attention. In late 2020, u/CommonTwist posted "GME short interest - a summary," where he shared the daily short volumes in October 2020 as well as calculated that at the time, there was "126M in short interest". Users of the subreddit began to express disdain for significant hedge funds short-selling the stock, complaining that "This shit is also like over 100% institutionally owned," as expressed in a comment by u/robbinhood69 (u/CommonTwist, 2020). Partly in defiance of Big Finance, users began suggesting a short squeeze, raising the stock price so that short sellers couldn't profit, GME stock, and public opinion was that the stock was undervalued.

Rise of Keith Gill

In 2019, Keith Gill, u/DeepFuckingValue on Reddit and RoaringKitty on YouTube and Twitter, decided to invest in GME stock and began chronicling his returns on r/wallstreetbets. He was a major player in the short squeeze, setting in place the sentiment that GameStop was undervalued. (Gill, 2019) On his YouTube channel, RoaringKitty, Keith Gill posted livestreams urging the public that GameStop was a good investment and explaining why GameStop should be invested in it (Roaring Kitty, 2020). In fact, in the beginning, the public was opposed to his insights and didn't believe him. Keith Gill posted on Reddit in 2020, "Dude everyone thinks I'm crazy, and I think everyone else is crazy" (u/Expensive-Two-8128, 2024). Gill is credited with inciting the short squeeze by consistently posting his positive returns on r/wallstreetbets, but he wasn't the only influential figure.

Other Influential Involvements

In mid-2019, investor Michael Burry's Scion Asset Management acquired a 3.3-percent stake in GameStop and wrote to the company's board of directors, identifying overlooked value in the company and urging them to buy back shares (*Bloomberg - Are You a Robot?* 2021). In August 2020, Ryan Cohen -the former CEO of online pet food retailer Chewy- revealed a 9-percent investment in GameStop, leading some to believe the stock was undervalued. (*Bloomberg - Are You a Robot?*, 2020). Also, due to the pandemic, more average citizens had the time to stay at home and start day trading with little experience. These new traders joined online forums such as r/wallstreetbets and were privy to following the popular trades (Fitzgerald, 2021).

Anti-Institution Sentiments

With a running sentiment of GameStop being undervalued and the opportunity to dismantle significant hedge funds, the anti-institution new retail investors decided to take on Wall Street head first and demand respect by squeezing the stock that institutions were attempting to sell short, forcing Wall Street funds to capitulate and buy shares to cover their positions at significant losses (u/SnooWoofers9008, 2020). Retail investors were coordinating efforts to buy GME shares in direct opposition to hedge funds, driving the stock price up (u/RobBobheimer, 2020). The price surge forced short sellers to cover their positions by buying back the stock, further driving up the price. Amid the squeeze, influential figures started expressing support for the retail investors of Reddit, with Elon Musk tweeting on Jan 26th, 2021, "Gamestonk!!" with a link to the r/wallstreetbets subreddit attached (*X.com*, n.d.-b). Musk also criticized the general practice of stock shorting, calling it a "scam legal only for vestigial reasons" (Graziosi, 2021). Similar sentiments sympathetic to the retail investors were expressed by billionaire investor Mark Cuban (*X.com*, n.d.-b). and Chamath Palihapitiya (*X.com*, n.d.-c). And the squeeze was working.

Aftermath

In January 2021, the hedge fund Melvin Capital initially shorted GME, experienced a 49% loss in its investments in early 2021, and required a $3 billion bailout (Mathis, 2023). At its peak, GameStop's share price was $483 (Phillips, 2021). At a certain point, the sheer volume of trades happening over GME stock overwhelmed trading platforms. The most popular is Robinhood, which froze trades on GameStop on January 28th, 2021 (CNBC Television, 2021). Halting the trades caused a massive public uproar. Retail investors were outraged and accused Robin Hood of colluding with prominent hedge funds such as Citadel (MacMillan & Torbati, 2021). Investigations were sparked into the nature of the squeeze by the SEC to investigate possible market manipulation. The squeeze, fueled by an online rebellion against Wall Street institutions whose returns inspired the public to follow the crowd and join the crusade, had created and destroyed 30 billion in on-paper wealth (Phillips, 2021).

5. RESULTS

Framing

The paper will investigate the case study of the GameStop short squeeze by cross-applying Hott’s framework for herding mentality to characterize the display of events as they happened in the episode. More specifically, the actual case study will be conducted by delving into each step of Hott’s framework established in Section 1 and analyzing the presence of said step in the course of events of the GameStop short squeeze as detailed in Section 4. The research will go one by one through each of Hott’s steps, detailing the specific stage of herding it displays, the events that happened in the GameStop short squeeze, and ultimately which events strongly displayed said stage of herding and where it falls short. To offer a broader perspective, a big-picture view of the results of the paper, and the results of the stress test, the chart below was constructed. The chart offers a comprehensive, concise overview of the results, highlighting the events that displayed each stage of herding mentality as established by Hott’s framework, the strong points of the framework, and the nuances that escaped it. The chart also showcases the scoring for each stage as explained in Section 3 and the total score Hott’s framework received during its stress test against the case study of the GameStop short squeeze. The purpose of the chart is to summarize the main data of the paper and outline the key outcomes of conducting the case study which are used to draw the analysis and the insights the research paper contributes.

Hott’s 7 Steps	**Corresponding Event**	**Alignment**	**Misalignment**	**Score**
Initial Positive Signal	Ryan Cohen and Michael Burry invested in GameStop in August 2020.	Boosted investor sentiment towards GameStop.	Keith Gill's early advice was ridiculed despite positive signals about GameStop's value.	2
Positive Feedback Loop	Keith Gill's Reddit posts gained attention in mid-2020.	Led to increased investments by retail investors.	No misalignment.	3
Observational Influence	GameStop's stock began rising in January 2021.	Broader investors observed the surge and joined the buying frenzy.	Sentiment against institutional investors, endorsed by figures like Elon Musk, played a significant role.	1
Further Investment and Price Increase	GameStop's stock surged from $20 to	Rapid price increases	No misalignment.	3

	$483 by January 28, 2021.	attracted more investors, driving demand and stock prices up		
Repetition of the Process	The investment and observation cycle repeated throughout January 2021.	A continued feedback loop pushed the asset price higher.	No misalignment.	3
Bubble Formation	Trading volumes and stock volatility reached unprecedented levels.	Positive reinforcement and anti-institution sentiment formed a speculative bubble.	Retail investors' intentional behavior to harm hedge funds drove the bubble.	2
Bubble Burst	Trading restrictions by platforms like Robinhood on January 28, 2021.	Restrictions led to a drastic fall in stock price, bursting the bubble.	External restrictions and regulations, not investor realization, caused the bubble to burst.	1
Total				15/21

Fig 2: The data table displays each of Hott's 7 steps from the Hott's Framework section under Section 1 along with its corresponding event from the GameStop short squeeze and possible nuances. Refer to Section 1 for a description of each step. Refer to Section 4 for detailed explanations of the events that occurred in the GameStop short squeeze. Refer to Section 3 for a detailed explanation of the scoring metric. Refer to the rest of Section 5 for a thorough exploration of the nuances

From the framing, it is clear that Hott's framework details the beginnings of herding mentality and its characteristics accurately and relevantly with the initial positive signal and the positive feedback loop all occurring in the events of the GameStop episode, matching the description of its corresponding step in the framework. However, the falling action of the herding display observes shortcomings from Hott's framework. Hott's framework does not account for the intentional coordination and emotional drivers that fueled the formation of the bubble as well as the external restrictions and regulations that caused the burst of the bubble. These nuances of the modern market in the digital age are not captured by Hott's framework which otherwise does a substantially accurate job of characterizing behaviors of herding. Each step of the framework and its corresponding event in the GameStop short squeeze will be analyzed in a more focused and thorough manner below.

Initial Positive Signal

Marking the onset of the herding mentality, Hott's framework details the genesis of a herding-caused price bubble in the asset market to be an initial positive signal entering the market. Positive signals arise when some information reaches retail investors suggesting that an asset's value may be greater than previously thought. In the GameStop episode, this happened when Ryan Cohen and Michael Burry, the cofounder of Chewy and founder of Scion Asset Management respectively, purchased significant stakes in GameStop and joined its board. To retail investors, this suggested that the value of GameStop may be greater than previously thought. Institutional investors and hedge funds disseminated the sentiment that GameStop was on the downturn by expressing a heavy short interest in the asset. However, with Ryan and Michael expressing their interest in investing in the company, investors started to change their mood and feel more positively towards GameStop as an asset. Hott (2009) claims if a positive signal about the value of an asset gets into the market, the mood of the investors increases. The large investments made by these two successful, powerful financial players led to a more positive mood among investors, thereby fitting the framework that an initial positive signal entered the market that catalyzed the presence of a herding mentality.

Ryan Cohen is known for his entrepreneurship in business and his strategic acumen in transforming businesses into successful companies as he did with Chewy Inc. His investment into GameStop was a vote of confidence for the company, signaling a potential turnaround for the company as Cohen has empirical evidence of turning businesses into successes. He advocated for GameStop to become a digital retailer, reassuring retail investors and giving them hope for GameStop's future. Micheal Burry's claim to fame was his prediction of the housing crisis in 2008 which boosted his credibility. He and his firm Scion Asset Management were known for their inept analytical rationale and for singling out undervalued assets to invest in. With his background in market expertise, his investment in GameStop was a strong endorsement of the stock's future potential, signaling that its fundamental value may have been overlooked. Thus, because of their combined expertise and credibility in the field, the investment these two made into GameStop acted as the initial positive signal that increased investor's mood towards the asset.

However, even though Cohen and Burry's investment was the catalyst of retail investor's herding mentality, it was not the first positive signal about the GameStop stock entering the market. Starting from a year before Cohen and Burry's stake in GameStop, Keith Gill has been making YouTube videos under his channel Roaring Kitty and Reddit posts under his username u/DeepFuckingValue suggesting GameStop as a good stock to invest in. Keith Gill's socials are directed towards providing investment advice to retail investors and he has been commending GameStop as a good deal for such investors. Yet, his efforts were to no avail initially. His advice was not heeded and some retail investors commented on his posts, rejecting his analysis. Even though Gill was providing positive signals before Cohen and Burry, his signals didn't increase investors' moods. Thus, a level of credibility and expertise is required to substantiate the positive signal for it to act as an initial signal of herding mentality.

Ultimately, Step 1 of Hott's framework is mostly aligned, earning a 2 out of 3 on the scoring metric, in the events of the GameStop short squeeze.

Positive Feedback Loop

Once the initial positive signal enters the market, it influences the prevailing sentiments investors have about an asset, or as Hott (2009) defines it: market mood. The market mood responded more positively to GameStop stock after Cohen and Burry's investment. The increase in the market mood that is experienced was observed through the subreddit r/wallstreetbets as users were posting positively about investing in GameStop. According to Hott (2009), "If the market mood increases, some of the mood investors believe that they are receiving a positive signal" Mood investors are "investors that can also receive signals, but these signals have no informative value…However, they do not act randomly but react to a market mood" (Hott 2009). The establishment of a positive mood after the positive signals from Cohen, Burry, and Gill disseminated across digital platforms, led to some retail investors strategizing around the market mood, choosing to invest because the prevailing trend on GameStop was that it was a strong asset and a good deal. Many retail investors, as mentioned in Section 4, were novices in trading and did not have access to a lot of information, leading to a prevalence of mood investors in the market.

Yet, the increase in the market mood "leads to an overestimation of the informative signals in the market" (Hott 2009). The positive sentiments floating around digital platforms convince retail investors that GameStop is a good investment, not the actual market information about the asset. Retail investors are then, not consulting information or data, but rather the decisions and thought processes of other investors in the market. This misleads the investors to interpret uninformative signals positively and, therefore, to further increase their investment. At this stage of the framework, not all signals in the market are informative or accurate. Rather it is the market mood that establishes the reaction retail investors conduct in response to the signals they come across. Since the market mood surrounding GameStop was positive, retail investors were interpreting any signal about the asset positively, simply assuming they were informative even when they were not.

Hott (2009) argues that due to this misinterpretation of uninformative signals as positive, the market mood will increase again in a subsequent period. This creates positive feedback. Retail investors continued to increase their investment in GameStop, conforming to the prevailing market mood. This further increased the market mood, corroborating the positive feedback loop Hott (2009) established.

Ultimately, Step 2 of Hott's framework is displayed quite strongly, earning a 3 out of 3 on the scoring metric, as the retail investors, who already bought into GameStop, acted on the market mood by continuing to invest positively in GameStop stock which further increased the market mood, fostering a positive feedback loop.

Observational Influence

In the next stage, all retail investors can observe that some previous investors have already bought positions on GameStop. In the third stage of Hott's framework, the influence of the market is de-emphasized and the majority of retail investor influence is the actions of their cohort. Observing their peers, and other retail investors, buying GameStop and making a profit becomes prevalent in the market. Especially in the digital age, these observations happen rapidly and become commonplace. Every day, retail investors would be posting their returns and positions on social media platforms, especially Reddit at the time.

Hott (2009) argues that "In general, herding behavior could emerge if agents not only consider their private information but also consider the behavior of other players. In parts of the literature… it is assumed that the behavior of other players can be observed directly. In other parts of the literature… it is assumed that this information can be generated via the development of the price". The GameStop episode saw an emphasis on the former, with behavior being able to be observed directly through said investors directly posting their decisions and strategies online, influencing their community to partake in the trend. The latter was not as important in influencing the broader group of retail investors into following their peers. The prevalence of social media amplified the observational influence stage significantly. The barrier to finding other retail investors' actions was substantially lowered. Before the rise of social media, the only way to be aware of retail investor's behaviors was to follow traditional market signals and track prices, shares, and other market trends.

Online platforms offered retail investors the space and ability to not only share their decisions and strategies but also discuss and coordinate investments. The latter was not as important in influencing the broader group of retail investors into following their peers. Especially in the case of r/wallstreetbets. Retail investors were sharing their returns on the stock, however, more predominantly there was a torrent of retail investors discussing investing in the asset and raising the price of GameStop. Within the forum, retail investors shared their disdain for large financial institutions and contempt for firms shorting the stock. They began discussing raising the price of GameStop intentionally by continuing to invest in the stock to conduct a short squeeze. Retail investors wanted to damage and threaten large firms by forcing them to have to cover their positions. Therefore, it was not as much observational influence that occurred in drawing the broader group of retail investors, but rather emotional influence.

Ultimately Step 3 of Hott's framework experiences shortcomings, earning only a 1 out of 3 on the scoring metric when being applied to the case study of the GameStop short squeeze. While observational influence was occurring and retail investors were aware of previous investor's positive returns from investing in the asset, the majority of the influence was emotional as online platforms allowed retail investors to discuss and coordinate a short squeeze. Retail investors were behaving according to the social mood in conjunction with the market mood.

Further Investment and Price Increase

Observing the cohort of retail investors that have invested successfully in the asset then leads to further investments, pulling asset prices higher. Retail investors became charmed by the allure of GME stock and continued to increase their investments, buying more shares. This brought GME's price from only around $4 when closing out 2020, to $20 in early January and eventually even to $483 on January 28th. The asset price was climbing up due to prolonged engagement from retail investors. Hott (2009) explains that “agents put too much weight on their current information and, hence, overreact to new information.”. Retail investors, through online platforms, emphasized and dramatized the stock price of GME throughout January by consistently posting the price into forums and encouraging the broader group to hold their positions and maintain the squeeze.

Even major celebrities and influential figures supported the squeeze such as Elon Musk and Mark Cuban. As mentioned in Section 4, these financial icons carried disdain for large firms and hedge funds, encouraging retail investors to continue investing and further the price to hurt these firms. This only cemented retail investor’s determination to commit to the squeeze. Thus, the fervor of this pseudo-social movement strengthened as new information caused retail investors to overreact. Reddit posts became increasingly critical and insulting towards hedge funds and social discourse online directed towards the goal of bankrupting such firms.

Ultimately, Step 4 of Hott’s framework was displayed heavily in the events of the GameStop episode, earning a 3 out of 3 on the scoring metric, as the broad group of retail investors began furthering and strengthening their investments in the stock which caused price increases.

Repetition of the Process

The asset price continued to climb higher and higher as the herding strengthened and more retail investors were influenced into buying stock. The herding mentality is prevalent and begins to repeat itself as retail investors keep observing increases in market mood, other retail investors continue to invest, discourse online advocating for action against institutions, and asset prices rise which all culminate into conviction among retail investors to follow the crowd and buy into GameStop. Hott (2009) discusses his mathematical model, showing that “Since in period $\tau+2$, some mood investors acted according to the signal +, investors will overestimate the informative signals in the market ($(\gamma H-\gamma L)x\tau+2>0$). Hence, in $\tau+3$ the market mood increases again. This process repeats itself in the following periods and inflates the asset price further and further.”

Hott describes how investors being influenced by positive signals and other investor’s behavior will cause them to interpret further information as a signal to invest which leads to the market mood increasing again. Thus the positive feedback loop is sustained and the process keeps repeating itself, further developing the presence of a herding mentality among retail investors

Ultimately, Step 5 of Hott’s framework is again strongly displayed in the events of the GameStop episode, earning a 3 out of 3 on the scoring metric and seeing a strong repetition of the process occurring, further raising asset price

Bubble Formation

Constant and continuous rises in asset prices can only result in a price bubble of the asset. GameStop rose to unsustainable prices by the end of January, egregiously overrepresenting its intrinsic value. The peak of GME stock price occurred on January 28th, 2021 when its price reached $483. The stock was experiencing large inflation and a severe price bubble. Trading volumes reached unprecedented levels and the stock was extremely volatile by late January.

Hott (2009) argues that “investors try to derive information about the asset from the actions of the other market participants. If they underestimate the fraction of the mood investors…, they follow them. This can lead to… a price bubble on the asset market.” He claims that bubbles form because of a lack of information in the market or the assumption that there is more accurate information in the market than there actually is. Hott’s model is founded on the assumption that price bubbles form as a result of misguided perceptions of the available information or simply misinterpretations of such information.

However, in the case study being conducted, the bubble was conceived as a result of coordinated efforts by retail investors to actively inflate the price as a form of rebellion against financial institutions as well as investors online sharing their returns and decisions to continue investing in GameStop. Hott (2009) continues to assess herding mentality “in a poorly informed asset market” as a result of investors who “follow the mood investors and their non-informative signals. This herding behavior leads to an ever-increasing asset price [bubble]”. Yet, in the events of the short squeeze, traditional market signals, no matter how non-informative they may be, simply were being disregarded. Retail investors were predominantly engulfed by the emergence of an anti-institution social movement and the rise of trading discourse through online platforms

Ultimately, Step 6 of Hott’s framework was very much apparent as a bubble did form, but rather fell short to encapsulate the nuances and complexities of the case study. Thus, this step earns a 2 out of 3 on the scoring metric. Hott’s framework was founded on assumptions that didn’t necessarily prove to always be true, as observed through this case study showing that price bubbles can form independent of information.

Bubble Burst

Bubbles cannot be sustained forever. Thus the bubble must burst eventually. After reaching its peak price of $483 on January 28th, 2021, the stock price of GME began falling. The bubble was beginning to correct. By February of that same year, GME closed at about $25, highlighting that the buying frenzy was coming to an end.

Hott (2009) acknowledges that “There are two crucial shortcomings of the model so far: first, it only describes a price increase but not a return to the price of a fundamentally justified value. This contradicts the fact that a strong overvaluation of an asset cannot exist forever.” Hott (2009) then develops a solution to this oversight by claiming such “shortcomings could be eliminated by considering that investors learn over time how high the level of information in the market really is." Hott argues that the reason for the bursting of the price bubble is retail investors' self-awareness. Hott (2009) argues that "During the development of the price bubble investors learn about the true level of information in the market. In so doing, they slow down the price increase and the bubble might burst at some point.".

However, this is another issue of contention with Hott's framework. During the events of the GameStop short squeeze, the price bubble did not burst as a result of the true nature of the information in the market coming to light. In fact, it could be said retail investors, to a certain extent, were always aware of the true level of information. Online platforms such as Reddit were being constantly monitored and participated in by retail investors. These investors were aware of the information as they could easily access it through such social media outlets. The prevalence of social platforms in the digital age of the market allows price bubbles to occur, even when retail investors are fully aware of the nature of the information being circulated in the market.

The GameStop bubble only burst when digital trading platforms placed external restrictions and halted the trade of GME stock. Once the price reached its peak, Robinhood restricted trading of GameStop and other heavily shorted stocks on January 28, 2021. Such restrictions caused the stock price to fall drastically, due to a lack of investors making trades, which was the direct cause of the bubble bursting. It is possible the bubble would've continued and worsened if digital trading platforms didn't place external restrictions.

Ultimately, Step 7 of Hott's framework fails to characterize the display of herding mentality in the specific case of the GameStop short squeeze. It does mention that the bubble burst, so it earns a 1 out of 3 on the scoring metric. Hott claims awareness of information as the driver behind the asset's price bubble bursting, whereas in reality, the GameStop bubble only burst because Robinhood and other trading platforms were forced to impose restrictions and halt trading. However, Hott is correct that the last step of the herding mentality is the bubble bursting as the GameStop price bubble did eventually burst, even if for different reasons.

6. ANALYSIS

Overall Hott's framework characterizes herding mentality in a comprehensive manner, covering the major steps and stages displayed in cases of herding. The framework earned a total score of 15 out of 21 on the scoring metric, proving it is largely representative of herding. The case study proves Hott's framework to be a qualified judge of the display of herding mentality. The results of the case study answer the research question: the impact of herding mentality among retail investors on the stock price of GameStop during its short squeeze in 2021 was that it massively inflated the price, causing a huge price bubble and inciting the short squeeze.

The strengths of the framework were observed in the beginning stages of the herding mentality, surrounding the concept of the positive feedback loop and the repeated price increases. Steps 1, 2, 4, and 5 showcased significant alignment between Hott's framework and the events of the GameStop case study. The basic, fundamental structure of herding mentality seems to be characterized effectively by Hott's framework. The process of retail investors investing in an asset, then the market mood increasing, which leads to further investments, causing other investors to observe such behavior and follow the crowd, until it results in a bubble, is all identified strongly by Hott's framework and maintains relevancy even in the modern market. However, there are still shortcomings present in steps 3, 6, and 7 of the framework that will be discussed in the following subsections.

Information Must Be Credible

Hott's framework is generally quite accurate in characterizing herding as a result of informational-based drivers. Hott's framework suggests that investors base their decisions on others who are acting on any informative signal in the market. However, in this specific case study, nuances arise surrounding the source of such information. In the GameStop episode, there were many initial positive signals, but not all of them stimulated the second stage of the process. Keith Gill, as discussed in Section 5, was posting and sharing information about GameStop being a valuable asset and a good deal but people initially weren't receptive to his signals.

It wasn't until the initial positive signal came from a qualified, reputable source that the information drove people to herd. Having Ryan Cohen and Micheal Burry, who are known and revered for investing in undervalued assets, show their interest in GameStop incited the retail investors to move to stage 2, inciting a positive feedback loop.

For the initial positive signal to be effective, it must come from a credible source (Banerjee, 1992) Thus, Hott's framework is accurate and relevant in characterizing informational drivers as a cause of retail investors following the crowd. However, the initial positive signal has to come from a qualified, credible source in order to move retail investors into engaging with a positive feedback loop. Thus, in the future, when watching for beginning signs of herding mentality, it is important to note that the initial positive signal tends to come from a more reputable, credible source, so those types of sources should be watched more heavily by firms and policymakers.

Social Moods Exacerbate Herding

While Hott's framework mentions informative signals and the presence/overestimation of information in the market as the primary driver of herding mentality, the case study reveals another motivator amongst retail investors: social mood. In the case of the GameStop short squeeze, there was a component of emotion and vehemence that pushed retail investors to invest in the asset. As mentioned in Section 4, the short interest expressed by hedge funds and other firms sparked anti-institution sentiments amongst retail investors. This sentiment fueled a rebellious fervor of retail investors wanting to act against Wall Street by raising the price of GameStop stock so firms would lose money and be damaged, having to cover their positions. Informational drivers were still present, however, the majority of the discourse and content retail investors were engaged with, especially on online platforms such as Reddit, were mostly the social movement of taking down large financial firms.

The majority of retail investors who invested in GameStop were exposed to and interacted with the prominent anti-institution sentiments fostered by online forums allowing traders to have a platform to discuss their opinions which inevitably led to a rise of shared detest of large firms who take advantage of retail investors. Shiller (2000) theorizes irrational exuberance: retail investors can fall victim to acting on emotional impulses which can cause severe asset mispricings. GameStop was an idiosyncratic case as it took place during a socioeconomic movement of unity amongst retail investors in fighting large firms, which could have impacted the presence of a natural, organic herding mentality. In conjunction with the market mood stimulating positive feedback loops, in the case study, there was also a presence of social moods influencing retail investors into following the crowd. De Bondt and Thaler (1985) corroborate that social forces when present among investors can significantly influence the price of an asset due to inciting levels of herding mentality.

Hott’s framework falls short in addressing the possible emotional drivers that can draw retail investors into disregarding their own information and following the behaviors of others as displayed in the GameStop case study. Thus, addressing herding mentality and developing preventative measures for it should be founded upon acknowledging the presence of emotional drivers and social moods disseminated across retail investors. Policymakers and firms should be watchful for signs of heightened emotional fervor in trading contexts across social platforms.

Coordinated Herding Is Dangerous

The results of the case study and the events of the GameStop short squeeze demonstrate that Hott’s framework for herding mentality is compatible with cases of coordinated action. The sequence of events starting from Cohen and Burry’s investment into the shorted GameStop stock to the developing herding mentality among retail investors to the formation and burst of the bubble, hits all the benchmarks that Hott’s framework displayed. Each of the 7 steps is apparent in the case study, demonstrating that there was a major impact herding mentality among retail investors had on the price of GameStop stock. Hott’s framework still characterizes herding mentality quite aptly, yet the presence of coordinated action is still a nuance that needs to be addressed.

Retail investors were actively recruiting and rallying each other to invest in GameStop stock, due to the anti-institution fervor sweeping across digital platforms. This phenomenon exists in theories where investor demographics can have a significant influence on markets through actions that are coordinated and predetermined (Gabaix et al, 2006). The coordinated aspect of such behaviors influenced the presence of a herding mentality and added subtleties to the GameStop case that Hott’s framework did not account for. In the future, coordinated actions among retail investors should be regarded as a threat to market conditions and stability and should be considered more drastically lest another GameStop short squeeze-type phenomenon occur, destabilizing the market once again.

External Restrictions Can Crash Asset Prices

Throughout the GameStop short squeeze, the presence of a herding mentality fueled a rising price bubble that eventually burst, meeting Hott's seventh step. Yet, that is the only aspect of Hott's final step that was met in the GameStop case study. Hott claims the reason for the burst was the investor's self-awareness and understanding of the reality of the nature of the information being circulated in the market. However, this is where his framework fails to characterize the specific display of herding mentality that the GameStop case study experienced. Retail investors were actually forcibly prevented from investing in GameStop and other shorted stocks causing the bubble to burst

Other literature in the field attempts to cover this gap as Brunnermeier and Pedersen (2005) discuss market liquidity and how the presence of an external factor that shocks the market can lead to market corrections. Hott's framework, developed in 2009, cites an intrinsic force as the cause of the bubble bursting. However, External restrictions and market regulations were more effective in bursting the GameStop price bubbles than the retail investors in question. As discussed in Section 5, the investors possibly would've continued the short squeeze and further inflated the bubble due to the continued disdain for financial institutions and the emotional drivers that pushed them to invest in GameStop in the first place.

Restricting the trade prevented them from channeling those emotional drivers into a way to destabilize the market. The gap in Hott's framework demonstrates the need for more updated models of modern herding mentality that consider external restrictions and regulations (Allen and Gale, 2000). Hott's framework may have failed to characterize external restrictions as one of the ways herding-caused price bubbles tend to burst, but in the future when considering herding mentality, it is important to acknowledge external restrictions as policymakers develop countermeasures to the prevalence of herding mentality in the market.

Digital Platforms Trivialize Markets

To begin, the role of social media in its socioeconomic context allows for the dissemination of information and sentiments to spread swiftly amongst the public and retail investors. Sites such as Twitter and YouTube saw the public expressing and sharing their opinions on the events of GameStop's episode and another market phenomenon. The vast swaths of content that retail investors produce and share on social media are critical in influencing the larger public's decisions and behaviors. Similarly, having such platforms allows for information to spread rapidly, having global reach in a matter of seconds. Informational efficiency is a theory that considers the influence of digital accessibility and dissemination of information in amplifying herding through the rapid spreading of signals and sentiments (Barber and Odean, 2001). Social media has become an information and opinion superspreader, influencing the larger public's decision with the massive reach and rapid spread of its content.

Furthermore, the recent popularity of online forums has also allowed many retail investors to share and discuss their opinions online. Especially, the forum Reddit where much of the discussion around GameStop and its respective short squeeze occurred, acted as a platform for discourse amongst traders. Decisions were made as a group rather than an individual. Instead of having to research information individually and invest based on that, traders could now go online and heed other's advice or follow their decisions. Online forums paved the path towards collective and coordinated action amongst retail investors which as the case study demonstrates, is exceptionally powerful in disrupting the market. Online forums became a platform for discussing, debating, and coordinating actions and decisions to turn individuals into a like-minded united front.

Last but not least, the creation of digital trading platforms has changed the dynamic of the market and investing in it. The GameStop case study observed Robinhood externally placing restrictions on retail investors to change market conditions, preventing retail investors from making certain investments, as an effort to burst the bubble on such assets. This case study demonstrates the loss of autonomy and control that retail investors face as a result of the chokehold digital trading platforms have on the market. Digital trading platforms have become major players in financial markets, being able to enact some influence over both retail investors and market conditions through restrictions and other policies they make.

The GameStop case study demonstrates the dynamic role of digital platforms in the modern financial markets, highlighting a need for updated frameworks that account for them (Tetlock, 2007). Therefore, for financial stability, policymakers and institutions should be aware of the power digital platforms hold, especially social media, online forums, and digital trading platforms, in order to develop efficient and relevant regulations that address these areas of concern to address future instances of herding mentality among retail investors

CONCLUSION

The paper discovers that herding mentality among retail investors, as outlined by Hott's framework, had a major impact on the price of GameStop stock, being responsible for its 2021 price bubble. The stock price of GameStop was proportional and was positively correlated to the impact of the herding mentality among retail investors. However with some nuances and complexities. The presence of emotional drivers fostering an anti-institution fervor, coordinated actions amongst retail investors, and external restrictions from digital trading platforms all influenced the display of herding mentality and appear to be significant issues that need to be addressed. These all result as a function of the rise of digital platforms which policymakers need to regulate effectively to prevent future phenomena that could destabilize the market. Conducting this case study and stress testing Hott's framework was pivotal in unearthing the nuances and complexities of herding mentality in the modern digital age of the market experience in order to open up theoretical frameworks of herding mentality to discussion, allowing for their adaptation and evolution to remain relevant as the market matures and advances. Having relevant frameworks is crucial for policymakers and institutions to be aware of the significance and power herding mentality among retail investors holds and allows them to be better prepared in addressing herding through developing countermeasures and regulations.

Research Limitations

Even though the paper proved to be conclusive and unearthed significant findings, there were still limitations in the research at play. One limiter was the lack of access to comprehensive market data. Trading volumes and detailed transaction data were unavailable and weren't able to be assessed for the purposes of the paper. This lack of access to market information limited a more trading-data-focused exploration and mathematical analysis of trading behaviors through market data which would have provided for a more granular, detailed assessment of the GameStop short squeeze. Furthermore, another limiter was the moderation of online platforms that prevented access to relevant and pertinent sources of information from the retail investors themselves. Many of the original posts on r/wallstreetbets and other social media were removed and deleted which limited a thorough examination of the discourse and sentiments circulating digital platforms that would have influenced the herding mentality present among retail investors along with the coordinated efforts being discussed online.

Opportunities for Future Studies

To further explore the significance of the findings of this paper, there are opportunities for future studies that could be relevant in expanding upon the main takeaways. One opportunity for relevant research could be exploring and developing a more sophisticated, robust model to characterize the display of herding mentality in a more modern context. This model could integrate trading analytics with contemporary social media data for the purpose of structuring herding mentality in a more predictable and understandable manner, especially in the context of the rise of digital platforms in the modern market. Additionally, future studies could examine the role of regulations and policies in the modern market, identifying their strengths and weaknesses to better understand the characteristics of effective policy. Establishing effective measures in policies for mitigating the potential threats and dangers herding mentality poses is critical in shaping and molding practical strategies for addressing this issue to support market resilience and stability.

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[42] u/RobBobheimer. (2020). *Good day, fellow retards. We are entering a new stage of the short squeeze. It's apparent by now that it's not playing out like the VW short squeeze because the setup was so long and out in the open. Hedge funds had time to collude and plan how they're going to deal with the fallout. As we saw last week, they came up with some clever fuckery. For a recap, here are some tactics we saw from them: - Short attacks driving the price down, triggering stop loss sells and trading halts. - Spreading the word through the media that they had already closed their short positions - Putting pressure on brokers to limit buying of GME and killing the buy side of the trade, making it easier to drive the price down. - Low volume ladder attacks to drive the price down and forcing out paper hands. We held strong, guys and gals. We closed Friday just a few dollars shy of the highest closing price on Wednesday. But now the real trench warfare begins. Melvin told CNBC that they closed out their short positions. I have a theory that this may not be technically false, with a caveat. I think it's very possible that Hedgies have closed out their ORIGINAL short positions, but they've been replaced with new short positions. These guys are not going to lose billions of dollars lying down, so they must have their own end game for how to get out of the trade alive, and perhaps even*

make a profit. If GME was a tasty short target at $15, imagine how irresistible it is at $320. These fuckers lost their shirts on the original trade, but they see an opportunity to make it back on this new trade by repositioning their old shorts from the $15 to new shorts in the $200-300s. How can we know this is likely true?: - The short interest has fluctuated, so we know there has been some covering - The short interest has remained high, somewhere around 100% or above - There have been short attacks in $100s, $200s, and $300s, so we know there are new short positions at those levels. - Hedge funds are cocky assholes and they'll do anything to turn a losing trade into a winning one, and if it fucks over the little guy to scare them back to submission, all the better. So basically, nothing has changed. This is still a short squeeze play, just with much higher stakes. We have the advantage however, because it doesn't cost us anything to hold onto our shares, whereas it's costing Hedgies billions of dollars to hold out. We will know we are winning next week if we continue to see more de-grossing in the broader market. If we can hold out, we can take this to the next leg up, ACT III, and eventually the end game. TLDR: 💎 🙌 🚀🚀🚀🚀 Edit: Positions: I own Shares Disclaimer: I am not a professional. This is not a recommendation. Reddit. Retrieved July 30, 2024, from https://www.reddit.com/r/wallstreetbets/comments/l8nvir/gme_short_squeeze_act_ii/

[43] u/SnooWoofers9008. (2020). *"To the extent aggregate short exposure exceeds the number of shares of our Class A Common Stock available for purchase on the open market, investors with short exposure may have to pay a premium to repurchase shares of our Class A Common Stock for delivery to lenders of our Class A Common Stock. Those repurchases may in turn, dramatically increase the price of shares of our Class A Common Stock until additional shares of our Class A Common Stock are available for trading or borrowing. This is often referred to as a "short squeeze." " We're right. They know it. The street knows it. Shitadel is saying "All buyers must sell". I respond "ALL SHORTS MUST COVER".* Reddit. Retrieved July 30, 2024, from https://www.reddit.com/r/wallstreetbets/comments/mbrcze/short_squeeze_potential_confirmed_taken_from/

[44] *X.com*. (n.d.-a). X (Formerly Twitter). https://x.com/elonmusk/status/1354174279894642703?lang=en

[45] *X.com*. (n.d.-b). X (Formerly Twitter). https://x.com/mcuban/status/1354613692239925249

[46] *X.com*. (n.d.-c). X (Formerly Twitter). https://twitter.com/chamath/status/1354947541125611526

[47] Xu, Y. (2023). Behavioral finance: an introduction of herd effect - Take the dotcom bubble in 2000s as an example. In *Advances in economics, business and management research/Advances in Economics, Business and Management Research* (pp. 216–224). https://doi.org/10.2991/978-94-6463-142-5_25