

## Investors Club: October 2022 Challenge

*This lesson is intended to be a short, engaging activity for students to dig deeper into the world of finance and investing. It is meant as a way to keep students engaged in their learning around the Investors Club, especially when they are not making daily trades within their portfolio.*

Lesson objectives:		
<ul style="list-style-type: none"> <li>• Students will learn what meme stocks are and consider examples of meme stocks</li> <li>• Students will analyze whether buying meme stocks is a good investment</li> </ul>		
Assessment:		
<ul style="list-style-type: none"> <li>• Classwork</li> <li>• Class Discussion</li> </ul>		
Key Points:		
<ul style="list-style-type: none"> <li>• Students will learn about meme stocks, understand how they work, and determine whether they are a good investment</li> </ul>		
Component:	Teacher & Student Actions	Materials
Do Now [5 min]	<ul style="list-style-type: none"> <li>• Do Now: What, if anything, do you know about GameStop stock?               <ul style="list-style-type: none"> <li>○ Ask students to think to themselves or write down on a piece of paper their response to the above questions</li> </ul> </li> </ul>	Student journal or piece of paper
Introduction [3 min]	<ul style="list-style-type: none"> <li>• Discussion of Super Bowl ads               <ul style="list-style-type: none"> <li>○ Ask students to share out what they've heard about GameStop                   <ul style="list-style-type: none"> <li>■ Explain that in January 2021, GameStop stock became a household name when retail investors purchased the stock and drove the stock price to skyrocket, which was the start of the meme stock surge.</li> </ul> </li> </ul> </li> <li>• Explain to students that in 2021 the term "meme stock" was coined to describe stocks that went viral on the internet and social media.</li> </ul>	
Mini-Lesson [15 min]	<ul style="list-style-type: none"> <li>• Distribute the handout to students</li> <li>• As a class, or in small groups, ask students to read through the article on meme stocks.</li> </ul>	Handout (see below)

	<ul style="list-style-type: none"> <li>○ Vocab: “Retail investors” are non-professional investors that trade in stocks. Retail investing has been made easier recently with apps like <a href="#">Robinhood</a>.</li> <li>● Allow a few minutes for any follow-up questions from students</li> </ul>	
<p>Student Activity [10 min]</p>	<ul style="list-style-type: none"> <li>● In investment teams or as individuals, have students complete the questions on the handout</li> <li>● If time allows, discuss answers as a class</li> </ul>	<p>Handout (see below)</p>
<p>Closing [2 min]</p>	<ul style="list-style-type: none"> <li>● Collect student work and wrap up the lesson</li> <li>● NOTE: <a href="#">Submit</a> student work for a chance to win the monthly challenge and win prizes! <b>Submissions due by Friday October 28, 2022 at 11:59pm</b></li> </ul>	<p><a href="#">Submission Portal</a></p>

## Investors Club

### Meme Stock Challenge

# What Is a Meme Stock?

BY ERIN GOBLER | The Balance | <https://www.thebalance.com/what-is-a-meme-stock-5118074>  
Updated October 31, 2021

A meme stock is a stock that has gone viral online, drawing the attention of retail investors. Meme stocks have greatly risen in popularity as of late. The term made media headlines in early 2021 when the popular meme stock GameStop (GME) skyrocketed in price in a David vs. Goliath–like tale. And while these meme stocks might make for a thrilling news story, they tend to have far-reaching meaning for the average investor.

### Definition and Examples of a Meme Stock

A meme stock is a stock that has seen an increase in volume not because of how well the company performs, but rather because of hype on social media and online forums like Reddit. For this reason, these stocks often become overvalued, seeing drastic price increases in just a short amount of time.

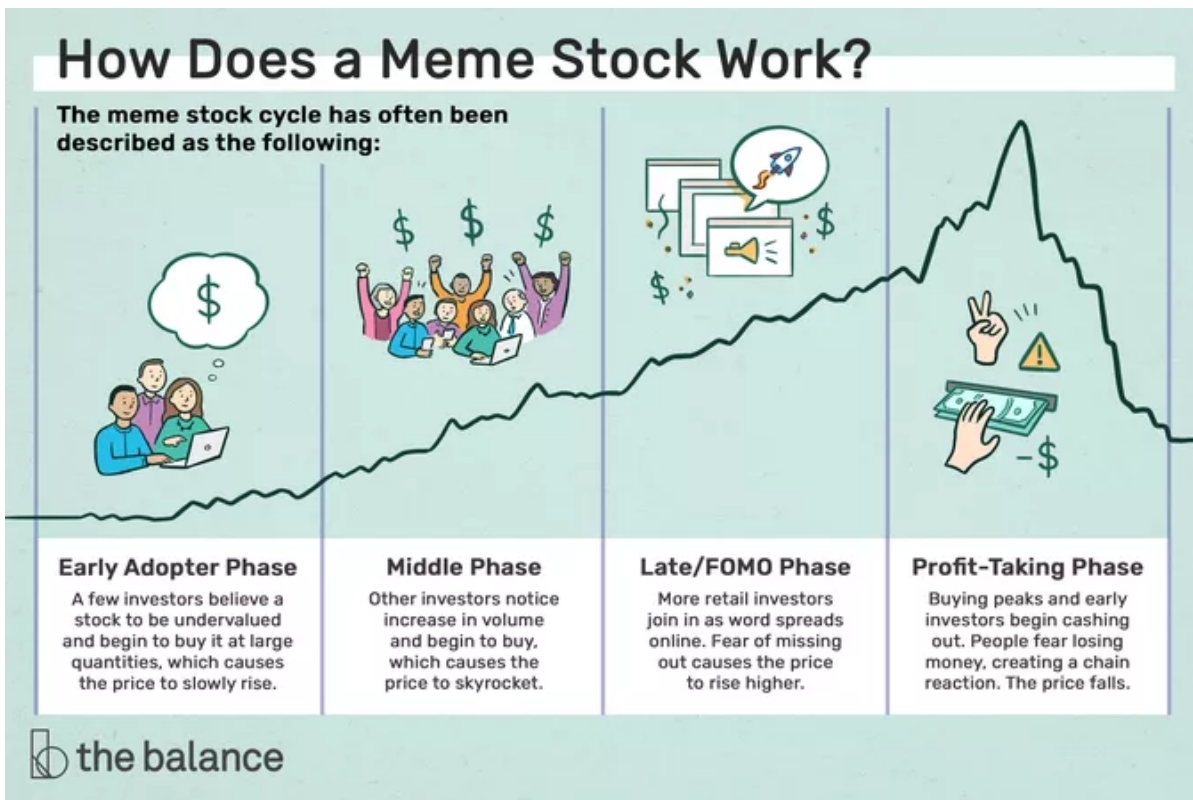
In addition to GameStop, examples of meme stocks include AMC, and BlackBerry. While the companies themselves have not performed well in recent years, all three stocks went viral on a popular Reddit forum, and saw massive price hikes in early 2021. BlackBerry's stock more than tripled, while AMC increased by nearly tenfold. But neither saw the same viral growth of GameStop, whose share price increased by hundreds of dollars in a matter of days.

### How Does a Meme Stock Work?

Meme stocks rise in popularity because of conversations held online. Word travels fast on the internet, and when a stock goes viral by word of mouth, it tends to see rapid price spikes. Because the price increase that follows is artificial and not the result of the company's actual performance, these spikes are most often followed by an inevitable crash.

These spikes in January 2021 were fueled by a forum on Reddit called WallStreetBets. In a thread on the WallStreetBets subreddit, one user explained the meme stock cycle as follows:

- Early Adopter Phase
- Middle Phase
- Late/FOMO Phase
- Profit-Taking Phase



Because of this cycle, it's the early adopters who really profit from these trending stocks. Once the meme stock cycle enters into the FOMO phase, it's most likely too late to make a profit.

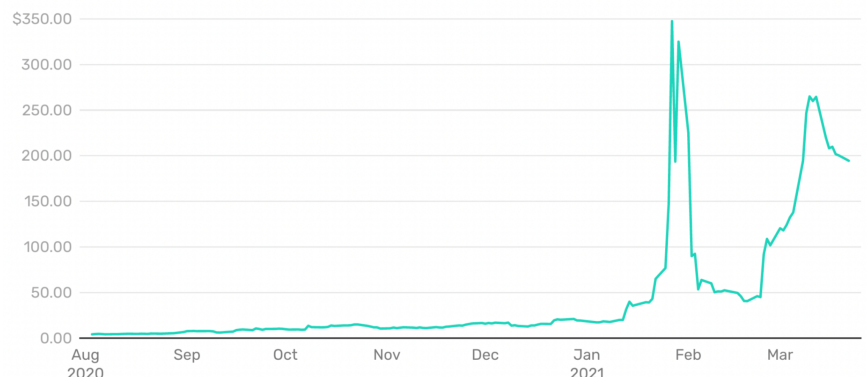
"Who do I think will suffer the most?" Lynch asked. "Probably the investors that buy shares of GameStop at the top and are last to the party. Once it reaches the dinner table in most homes in America, the people who will profit the most have been in the whole way up."

### Notable Happenings: GameStop

GameStop became perhaps the most publicized meme stock in January 2021 when its price spiked hundreds of dollars in a matter of days. Users on the subreddit WallStreetBets began buying GME after they learned a hedge fund had shorted the stock.

Let's take a look at the surge. At the start of January 2021, GameStop's stock (GME) was priced at \$17.25—a price that stayed in a steady range for all of 2020. Then, just about 20 days later, GME's growth spurred by hype online became clear: On Jan. 26, GME had reached \$147.98 to close the day, up from \$76.79 the day before and just \$39.36 one week earlier.

GameStop (GME): Aug. 2020–March 2021



Also on Jan. 26, Tesla CEO Elon Musk tweeted a link to the WallStreetBets subreddit where talk of GME was the main topic of conversation. Often in the case of recent meme stocks, the cycle has been fueled by praise and mentions from public figures.

Just a day after the tweet from Musk, the stock rose to new heights once again. The price of GME more than doubled to \$347.51 on Jan. 27. Then on Jan. 28, the stock reached a high of \$483, before dropping to close the day at \$193.60.

Lynch explained shorting a stock with a simple example: It's like what would happen if she sells her husband's Nike Jordans to someone for full price, with the intention to buy them at a lower price from the outlet mall and pocket the profit.

Except in the case of GME, the hedge fund's plans went wrong as so many retail investors started buying.

"Like if I went to the outlets to buy a pair of Jordans to replace the ones I borrowed, and they weren't there," Lynch said. "Now I'm over on eBay and get in a bidding war because they are now the hottest pair of sneakers around. The hedge funds will need to close the position and buy the stock for the new market value, even if it isn't worth it. The people in the forums that are orchestrating this are telling others to go buy GameStop—not because it is a good long-term investment. They want to beat the hedge funds at their own game."

As you might expect, the GameStop saga attracted legal scrutiny. The House Financial Services Committee and the Justice Department both took a deeper look at events that led to this surge.

### **What It Means for Individual Investors**

One visible outcome of the meme stock saga has been an increase in interest in retail investing. Despite the actions of Robinhood and other brokerage firms, new downloads of those apps skyrocketed after the events surrounding the GameStop stock. The Robinhood app alone was downloaded more than 1 million times in the last week of January, when the stock surged.

Such an increase in retail trading activity also prompted the SEC to issue an investor alert. The alert warned people about the risks of investing in a "hot stock" or "short-term investing based on social media."

There is no doubt that it can be exciting to make money on day trading and to be a part of something bigger, such as in the case of the GameStop surge. And yet, studies have shown that even the most experienced day traders lose money. So while it might be a positive thing that meme stocks have increased interest in the stock market, in the end, experts recommend following a much more prudent investing strategy.

"The biggest piece of advice I would offer individual investors is to invest for the long term," said Elizabeth Westendorf of Atwood Financial Planning. "Don't chase short-term profits; aim for long-term growth. Investing should be boring—that's a sign that you're doing it right."

Name: \_\_\_\_\_

## Investors Club Meme Stock Challenge

1. In your own words, explain what a meme stock is and why it can be exciting.

2. As an investor, would you want to buy shares of a meme stock company? Explain your reasoning.

3. You and your best friend have the following text exchange. What advice would you give your friend on investing in SportGO? Why?

