What's Up with GameStop?

Investment vs. Speculation

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Anyone with even a passing interest in the stock market is aware of the GameStop saga that is going on in the market. It is all over the news. With this short message we will attempt to put the episode in perspective.

GameStop is a weak company that is currently losing money. Yet, in January its share price went from around $18 per share to a peak of near $400 per share. It continues to trade wildly, sometimes moving 50 to 60 percent in one day. We could write extensively about the many facets of this episode, but suffice it to say, all of this is happening due to a combination of day trading, herd mentality, shorting, option-buying, greed, and outright speculation. Many lay this at the feet of small investors who are banding together to defeat hedge funds, but professional investors are participating as well.

Our belief is that this speculative activity will not end well. It sends a message to uninformed investors that making money in the stock market is an easy task and that risk is not really a part of the equation. It is short term in nature, does not consider the fundamentals of the stock, and is a bet that the momentum of the price will continue indefinitely. Nothing could be in sharper contrast to the way in which we seek to invest on behalf of our clients. We use the word invest for that is what we do, but only after considerable analysis and due diligence. We do not speculate. Our approach is to research high-quality companies in an effort to identify value, and purchase them with the idea that we are owners of the company and expect to grow with it over time. Meanwhile, we are happy to receive dividends that the company is paying to its shareholders. This is a long-term approach that considers not only the potential for gain by holding a stock, but how much risk we are assuming with its purchase.

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Speculative episodes such as this one are of concern because they almost always occur when optimism is running high, too high considering the externals surrounding the market. Speculative excesses normally occur after stocks have had an extended move up. While trying to predict short-term moves in the market is futile, we would not be surprised if this spurt of speculative activity were to lead to at least a market correction. Things in the market have been very good lately, and it may be time for a rest.

If a correction were to occur, we would consider it to be normal activity within the confines of a market environment that is constructive. We believe we are in the early stages of a new economic recovery/expansion cycle that has the potential to last for a long time. While we are not yet out from under the pandemic and its effects, we expect the combination of vaccines, heightened public awareness, and further fiscal stimulus to lead to a favorable operating environment for corporate America later this year. This is what the stock market is looking forward to, and we believe it will materialize. We will be attempting to participate with our usual approach to investing: focusing on quality and sustainability.

Please feel free to contact us if you would like more detailed information regarding this topic.