



Are These Investors Beating Warren Buffett at His Own Game?

Description

Every three months, Warren Buffett's investment firm **Berkshire Hathaway** files its 13F with the Securities and Exchange Commission. On the day of its 13F filings, most stocks that he added to his firm's portfolio make big moves and start rallying. At time, Buffett's picked stocks even rise 20%-30% within a day.

This happens because many of his followers rush to buy stocks that Berkshire Hathaway is betting on. Such big stock rallies reflect the large following of this 90-year-old legendary investor of our times. However, such rallies are usually very limited and not sustainable — unless there's a big fundamental factor to support their gains. So, stocks don't simply keep on rising for a very long time — just because Buffett decided to buy these stocks.

The crazy Reddit trading

The recent Reddit trading saga seems to be getting much more following than Buffett lately. The stocks that are discussed in the subreddit WallStreetBets soon start rallying. For example, the shares of **GameStop's** — the American gaming company — jumped 400% last week. Similarly, **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) stock rose by 113% in January after it was discussed on the Reddit community.

Also, many Canadian silver mining companies' shares jumped by over 20% earlier today. These gains came after the subreddit members decided to fuel a rally in silver prices. These Reddit investors are fueling a rally that we haven't seen even after the news of Buffett's stake in a company comes out.

Squeezing the shorts

While most WallStreetBets Reddit community members appear to be retail investors, their identities are still unknown. That's why it's difficult to know their exact intentions while they're making [efforts to portray](#) it like "the poor vs. the rich." The community seems to be targeting stocks that are heavily shorted by the big institutional investors, including hedge funds.

So, if this is a fight between big institutions versus retail investors, you might not find anything wrong with what they're doing. Think again. In my opinion, they seem to be creating a market bubble by fueling a rally in many companies' shares without paying much attention to their fundamentals.

The risks

I don't claim that all the stocks that they are picking have bad fundamentals. For instance, BlackBerry stock has been on my watch list for the last few months. The company's [recent moves](#) to gain from the surging demand for electric vehicles and smart mobility make its stock attractive. But the company's recent updates might not be enough to make its stock rise 50% or fall 50% in a single day. But that's how its stock has been trading for the last couple of weeks.

Such huge volatility makes it difficult for individual retail investors to buy a stock based on the company's latest fundamental developments for the long term. If you bought BlackBerry stock on January 27 after carefully examining its recent fundamentals and recent updates, you might be in trouble today. The stock was trading around \$32 per share on that day. But the very next it fell by 40% to \$19 per share.

So, my primary concern with the ongoing Reddit trading mania is that it's making other retail investors' lives difficult. These traders are increasing small individual investors' risk of losing money due to extremely high volatility in random stocks.

Foolish takeaway

In such market conditions, it might not be easy to buy stocks for short to medium-term. However, if you're picking a cheap or undervalued growth stock to hold for the long-term, you're still safe. That's why the long-term investment philosophy — what Buffett also follows — might not let you fail.

After all, the market has seen many day traders and short-term investors come and go from time to time, but not everyone could replace the consistency of the legendary long-term investors like Buffett.

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