



BlackBerry Stock Soars Over 250% Then Plummets 50%

Description

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) is one of a handful of stocks affected by the battle between large institutional hedge funds and small individual investors. For most of January, shares of BlackBerry were trading below \$10. In the course of two weeks, BlackBerry stock soared as high as \$36, only to tumble back down to around \$15. As of this writing, the stock is trading at \$14.78.

The mayhem started two weeks ago, when a herd of members of the Reddit retail investor group “WallStreetBets” (WSB) decided to start buying shares of BlackBerry, **GameStop** ([NYSE:GME](#)), and a few other stocks en masse. This frenzied buying drove up the prices of these stocks and caused those investors who had “shorted” the stock into a “short squeeze.”

The short squeeze

A common practice of many hedge funds is to “short” a stock. These hedge funds focus on companies they consider to be non-investment grade. The funds short the stocks and make profits when prices of the shares fall.

Of course, the hedge funds make money when investors, who bought shares in the company hoping the stock would increase in value, lose due to the decline in the share price. These hedge funds have the potential to push stock prices of hot stocks down.

In an effort to thwart the hedge funds’ punishing of the handful of stocks, the WSB forum decided to “squeeze” these short-sellers out of their position.

According to fellow writer [Chris MacDonald of The Motley Fool](#), “Those on the Reddit group don’t like the influence these hedge funds and short-selling firms have on stock prices. They don’t like that some people are making money when others are losing everything. Furthermore, they really don’t like it when some hedge funds have gotten bailed out in the past for their risky downside bets.”

These small investors, who cumulatively bought massive amounts of shares of these companies, which were heavily shorted by the hedge funds, created a total disruption in the stock market over the

past two weeks. These small retail investors caused billions of dollars in losses to large institutional investors and created enormous profits for some smaller investors who got into the buying frenzy early on.

BlackBerry stock plummets

During the tumultuous past few weeks, BlackBerry issued public statements advising there was no material information that would cause the violent swings in the stock.

In fact last week, analysts at [Scotiabank downgraded shares of BlackBerry](#) to underperform. The banker left its price target unchanged at \$8.50 a share. Although Scotiabank recognizes the potential in BlackBerry's security software, the analyst recommends investors who have profited from the shares' surge to take their profits and count themselves lucky.

In a similar move, analysts from **Royal Bank of Canada** Capital Markets already downgraded BlackBerry shares to underperform. The analyst noted that BlackBerry's fundamental outlook did not change due to the rally and cannot support the massive increase in the stock's valuation.

Recent BlackBerry news

The only recent material news from BlackBerry was the announcement of the company's agreement with **Amazon** Web Services. The multi-year deal will see the two companies develop and sell the Intelligent Vehicle Data Platform (IVY), used in the automotive industry.

IVY will compress the time to build, deploy, and monetize in-vehicle applications and connected services across multiple brands and models. The platform will allow automakers to team with a greater pool of developers, ultimately accelerating the development of apps and services.

After this announcement in early December, shares of BlackBerry surged 20% but had remained relatively unchanged until the pandemonium erupted in the market due to WSB.

The bottom line

If you got in early on the buying frenzy of the last two weeks and then sold your shares when they reached their highs, consider yourself lucky. Otherwise, listen to the analysts at Scotiabank and RBC. The fundamentals of BlackBerry remain unchanged and the stock is rated as underperform.

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