Gamestop (NYSE:GME) Stock Plummets: Average Investors Lose Their Shirts

Description

Speculative: the word is often used to describe the crypto market. Still, after what happened with **Gamestop** (NYSE:GME) rally, it might be safe to say the speculations — especially once they gain traction in the social networking circles and build up a legit "hype" — can be just as potent at driving the price of stocks up and down as they are at controlling the price of crypto.

Whether or not you participated in the rally, made a profit, or lost a lot of money, there are a few lessons to learn from the rally and the perils of jumping on a perilous, short-lived bandwagon.

The cons of following a hype

It's effortless to see the Gamestop hype as some sort of justice that retail investors are serving to the institutional investors who have been shorting Gamestop for quite a while by creating a short squeeze. This rally began from a Reddit group, and it has taken social media, and now even mainstream media, by storm, and it's understandable why.

From the beginning of this year to the recent peak on Jan. 27, Gamestop stock grew by over 1,900%. That's more than how much Bitcoin grew from its lowest point after the 2017 crash to its 2020 peak.

And while it was glorious for people who bought and sold at just the right moment, it caused many average investors to lose their shirts to this bet. According to an analyst, that's what usually happens when a short squeeze meets its inevitable end. For an average investor, betting against the machine (or, more precisely, betting "late" against the machine and not pulling out on time) didn't go very well.

A small minority won the short squeeze, and even though it was a different minority compared to the elites, the situation only got worse for the average investors.

The good, old long-term holdings

For average investors, playing "trader" every once in a while doesn't bode very well. Sticking to a good long-term-holding strategy would be safer (even if it's not as explosive). One reasonably priced stock you might consider, especially for its mouthwatering yield of 8%, is **Timbercreek Financials** (TSX:TF). The payout ratio is a bit shaky at 119%, but it's sustainable so far. And considering the payout ratio history, the company might be able to pull through without slashing its dividends.

The company saw its revenue growing a bit in the last quarter, and if we look back further, the company has been growing its revenues every year since 2012. The company issues a loan to commercial real estate businesses. Most of its loans are short duration, so the company doesn't have to wait long to realize its gain. Companies like Timbercreek fill the gap left by the traditional lenders — i.e., banks — and real estate businesses seek such companies to fund many of their projects.

Foolish takeaway

One major takeaway from the Gamestop rally is that if you want to play trader or try to capture the upside of a hype that's building, try doing it with money you can risk losing. So, if you win, you win big. But if you lose, your overall financial standing won't suffer a severe blow.

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