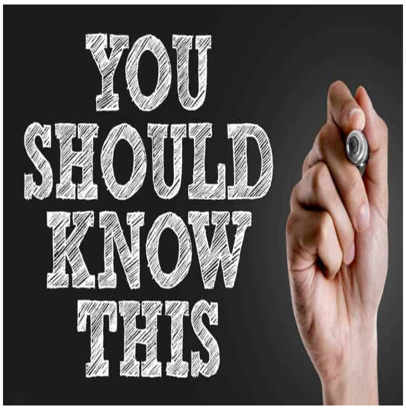

3 Crucial Lessons From the Gamestop (NYSE:GME) Fiasco

Description

The battle between amateur investors and hedge fund managers is the main plot of the **GameStop** saga in the United States. Wall Street experienced a roller-coaster ride, because retail traders were propping up shares of a floundering video game retailer. *CNBC's* Jim Cramer describes the drama as the squeeze of a lifetime.

GameStop attracted short-sellers who anticipated the stock price to go down with malls dying and store closures very likely. Reddit and retail traders saw hedge funds and investors shorting GameStop. The group then acted together to scoop the stock and push the price higher.

As of February 12, 2021, GameStop's market value is down to US$3.65 billion after skyrocketing to US$33.7 billion on January 28, 2021. There are three crucial lessons from this Wall Street fiasco. The play is only for sophisticated investors with high-risk appetites.

1. Avoid the short-selling strategy

Short-selling is a strategy where an investor speculates that the price of a particular stock will go down. The next step is to borrow under a broker-dealer arrangement. There's a set date when the value sinks and the investor sells at market price. You can lose big time if you short the stock at $10 but the price soars to $100. The loss is more than 100% of the capital.

2. Don't buy into the hype

Often, investors get carried away with hype surrounding a stock or a sector. For instance, companies going public starts with a roadshow before an IPO to drum up investor interest. The same thing happened when the Cannabis Act was passed in Canada. Many expected a marijuana boom in 2017 but saw a bust instead.

3. Invest in companies with real value

If you were to analyze GameStop as an investment prospect, its business has struggled in the last 10 years. Customers can buy games online rather than visit the malls. The situation at Wall Street is bizarre if not a head-scratcher. Even the chances of a miraculous turnaround are zero. GameStop could hardly sell games to cover employee salaries, rent payments, and interest costs on debts. The stock will fall back to reality and seek its actual price.

Visible growth potentials

A better option than GameStop is **Nuvei** (TSX:NVEI). This tech stock has multiple growth opportunities. Since its market debut on September 18, 2020, the price has soared to nearly 65% on February 12, 2021. You can purchase the stock at $76 per share today.

This $10.34 billion company provides technology solutions to merchants to improve conversions, drive sales, and reduce fraud. Thriving brands use Nuvei's global payment technology. The technology enables merchant partners to remove payment barriers, increase acceptance rates, and optimize operating costs.

Management expects to be on the road to profitability soon. Based on preliminary earnings results, total volume for the full-year 2020 climbed by 70% versus the previous year. The e-commerce business accounts for approximately 76% of the total volume. Both revenue and adjusted EBITDA increased by no less than 40%.

According to Nuvei's chairman and CEO, Philip Fayer, the company is well positioned for the future. Currently, Nuvei caters to 200 markets globally. A full set of payment capabilities can accept more than 450 different payments in 150 different currencies.

Investors beware

Free online trading sites fueled GameStop's surge, so investors beware. The army of retail traders could prop up other distressed companies next.

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