



GameStop (NYSE:GME): Getting Rich in Meme Stocks 2.0

Description

GameStop ([NYSE:GME](#)) stock is rising again. As of this writing, it was at US\$255 — less than \$100 away from its all-time high of US\$347. It would take a 36% gain for GME to get back to its all-time high. If that sounds like a lot to you, remember that this *IS* a meme stock we're talking about. Backed by an army of Reddit fanboys, this stock has been known to rise by high double digits in single trading days. In this article, I'll explore GameStop's latest rally and whether investors can rely on it to continue.

What caused the second rally?

It looks like GameStop's second rally was caused by the [same factor that caused the first one](#): Reddit.

According to Docoh.com, GME is currently the second-most mentioned stock on Reddit after **AMC**. AMC is another "meme stock" like GameStop, **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)), and **Nokia**, which rose in the January/February meme stock rally. Since then, it has given up much of its gains. But it is now on the rise again, thanks to Reddit.

Will it last?

It's one thing to notice that GameStop is rising again in another Reddit-fueled rally but quite another to say that it will rise long term. GameStop is up against some serious challenges:

- A long-term decline in sales at physical game stores
- Declining net sales
- Declining gross margin

These are all serious challenges GameStop will have to deal with. However, the company did post \$80 million in net income in the most recent quarter and achieved 175% growth in e-commerce sales.

In many ways, GameStop is in much the same position as the Canadian meme stock, BlackBerry.

BlackBerry, like GameStop, is in the midst of a long-term sales decline but is also transitioning to a new business model. In GameStop's case, it's e-commerce; in BlackBerry's case, it's enterprise software. BlackBerry ended up being a big loser in the smartphone wars, after the iPhone and Android took all its market share. Later, though, it transitioned to software and saw its software and service revenue steadily climb. Its most recent quarter saw a setback to that general trend, but it could resume, as BlackBerry picks up more enterprise clients with long-term contracts. Likewise with GameStop, it could start posting positive revenue growth again once its e-commerce revenue becomes its predominant source of income.

Foolish takeaway

What a year it has been for meme stocks. After soaring to new heights in January, they [came crashing down](#) in March, only to rise again right before summer. Who knows where they'll go from here? But there are some causes for optimism. With GameStop's e-commerce sales rising, and BlackBerry locking down new contracts with Chinese automakers, the future may be bright. For now, though, it has to be said: this is a social media-driven rally, not organic gains based on strong fundamentals.

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