



## What Are Meme Stocks and Can They Make You Rich?

### Description

You've probably heard the term [meme stock](#) thrown around a lot this year. Young traders with barely any experience seem to be making millions on companies that are on the verge of bankruptcy. It seems like a cruel joke to ordinary savers and dividend investors. But now, it's more than a joke.

Here's a closer look at the meme stock phenomenon and whether investors should brace for a permanent change to the way stock markets function.

### What is a meme stock?

The phenomenon of meme stocks is so new that there's no official definition yet. But let me try to make one of my own. A meme stock is any stock that's seen excessive trading volume from retail investors who've targeted it on social media. In other words, this stock has "gone viral" on social media and has seen its price skyrocket as a result.

By this definition, Dogecoin — the cryptocurrency that was launched as a parody — is a meme stock. However, some meme stocks have an important differentiator: they're ripe for a short squeeze.

A short squeeze is when a short-seller is squeezed out of their position by excessive price action. A group of ordinary investors on social media can target a company with tremendous short interest and push it "to the moon" by forcing these short-sellers to close their positions.

This is what's happening right now to **AMC** stock. The company has seen its value surge by 2,800% year to date. To put that into context, you could have invested a tiny amount into this boring company at the start of the year and have enough to buy a car or put a down payment on a house now.

Another example is **BlackBerry**. BlackBerry has seen excessive short selling over the past year, which is why retail investors on Reddit targeted it. Last year, the stock jumped 280% between April and December 2020. This month, it's up 83% again as Reddit rediscovers it.

## Has the stock market changed?

For most investors, the rise of meme stocks shouldn't make any difference. For a stock to be "meme-worthy," it needs to be devastatingly beaten down, funny enough to be viral, or have enough short interest to justify a squeeze. Reddit users aren't going to target **NorthWest Healthcare Properties REIT**. There's nothing funny about it.

However, if you're a short-seller or hold a position in a heavily shorted stock, this volatility might affect you. Coordinated short squeezes that are organized on social media are not illegal, and there's nothing preventing the crowd from attacking your position.

Investors should also consider the prospect of tighter regulations. Regulators in America are already taking a closer look at social media activity and its impact on capital markets. If they tighten rules about investment content or group coordination, meme stocks could become a thing of the past.

## Bottom line

The rise of meme stocks is, perhaps, the most fascinating aspect of the market in 2021. For most investors, this phenomenon has no impact. But it could attract regulators or impact you if you're a short-seller.

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### Date

2025/08/31

### Date Created

2021/06/05

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