



## Reddit Stocks: Buyers Beware!

### Description

I don't know about you, but every week it seems like there is [a new Reddit stock](#) multiplying to new heights. Whether it is **BlackBerry**, **GameStop**, or recently **AMC Entertainment**, all of these stocks have been ravenously driven up by exuberant Reddit traders.

Generally, all of these stocks have had a large short position weighted against them. That in essence means large hedge funds or short investors are hoping to make gains by the stock declining.

However, when the stock is rapidly driven up, often these fund managers are forced by their brokers to cover their leveraged margin and even close their position (often at a huge loss). The problem with a short position is that the losses can be infinite. As long as the stock keeps rising, the losses keep multiplying. A Reddit attack can literally ruin a fund.

### Reddit stocks are incredibly volatile

While it sounds great hearing a bunch of retail investors crushing cutthroat hedge fund managers, it is a very speculative and dangerous game. Reddit stocks are incredibly volatile. Their price trend can reverse in minutes.

Similarly, gains can become significant losses just as quickly. I read about a family that lost most of their savings because they purchased GameStop at near \$347 per share and sold after it swiftly declined to \$53 in just four days.

### Reddit stocks are being shorted for a reason

The other thing to note with Reddit stocks is that often there is something fundamentally wrong with their businesses. Generally, that is why there is a large short position against them. Either the business has balance sheet issues, sales are in decline, or the business has lost its competitive edge. Unless an investor has a well-researched value investment thesis, Reddit stocks are probably best to be avoided as long-term investments.

## You are battling against highly sophisticated money managers

If you want to invest in Reddit stocks, feel free, but only do so with money you can afford to lose. The gains can be tremendous, but so can the losses. Keep in mind that you are battling against some of the world's largest money managers. You have to expect they can also use their substantial capital to somehow fight back.

## Just buy great quality businesses

Personally, my preference is to avoid Reddit stocks. Rather, I buy stocks in great businesses and then let those businesses compound my capital for me. Find stocks that have good balance sheets, smart managers, and products/services that are improving the world. I'm not smart enough to time Reddit stock trades. Hence, my preference is to buy good quality businesses and hold them for the long haul.

## A top Canadian growth stock

One Canadian [growth stock](#) I'd much rather own than a Reddit stock is **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)). Prior to the COVID-19 pandemic, this stock was growing by about 35% a year. The pandemic, however, has rapidly accelerated merchant adoption of its omnichannel sales platform. In 2020, Lightspeed saw sales grow by 85%. Management is expecting nearly 100% growth in 2021.

This company is attractive for a few reasons. First, over 90% of its revenue is recurring. Secondly, Lightspeed has a huge addressable market. There are hundreds of thousands of merchants that still operate with legacy point-of-sale systems. There is ample room for Lightspeed to keep disrupting the industry.

Finally, Lightspeed has recently made some key acquisitions that expand its reach by geography and service offering. Consequently, its platform has the scale and optionality to apply to a broad range of merchants across the globe.

Now, this stock is very expensive, so there is some valuation risk to consider. Yet, if management can keep executing as they have, this stock should continue to do well. Forget speculating on Reddit stocks, and just buy and hold top-quality businesses like Lightspeed for the long run.

### CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

## TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

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