



Reddit and BlackBerry (TSX:BB) Stock: A Doomed Alliance?

Description

There have been massive rallies in a few [meme stocks](#) fueled by Reddit users throughout the year. Retail investors have banded together to put short squeeze moves against hedge funds placing short bets on several stocks trading in the U.S. and Canadian stock markets.

These Redditor-fueled rallies have driven share prices up by significantly greater margins than the underlying companies are worth. Unfortunately, the alliance between Reddit and these meme stocks could spell bad news for the companies in the long run.

When investors typically initiate a new position in a company, they typically want more people to invest in it so that it appreciates on the stock market. Early **Shopify** investors were very lucky in that regard, generating significant returns from their investments in the tech sector darling stock.

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) investors might have felt fortunate that Redditors “discovered” the stock and started pouring money into the stock and sparking an enormous rally in January. The stock was trading for \$8.40 per share on January 4, 2021. By January 26, the stock reached a multi-year high of \$36.

BlackBerry stock is trading for \$16.61 per share at writing, and its recent decline could be a sign that its involuntary alliance with Redditors might be problematic for the stock.

A possible reason for the sell-off

While there’s no news about the company’s management selling its shares, the current sell-off might not be the result of moves made by Redditors or hedge fund managers. The trading volumes do not make it logical for hedge funds to buy BlackBerry stock right now.

The recent dip in its value could be because someone from the company’s management sold off their stake in the company, just as its CFO and chief marketing officer did in January when the stock was trading for \$17 per share at writing.

The company's management has been struggling to turn things around for BlackBerry. The management has its compensation tied to the company's success by offering executive compensation through shares and other resources besides their salaries.

BlackBerry CEO John Chen gets 67% of his compensation from other remuneration (shares and other sources). As per his contract, BB's chief can sell one million of his shares if the 10-day moving average of the stock crosses the \$16 mark. The trading volume of BlackBerry stock last week was around six to 6.7 million shares – a million more than the average trading volume of 5.57 million shares.

If hedge funds or [Redditors begin trading](#) the stock, the trading volume goes completely out of control.

Foolish takeaway

January saw hedge fund managers begin buying up BlackBerry shares when the company's management began selling their shares. If the same thing happens again, hedge fund managers could use the dip in BlackBerry share prices as an opportunity to set up their short positions in the stock. Another rally might not be likely for BlackBerry stock.

Given the precarious conditions for the company, I would not advise buying BlackBerry shares. The only profitable trade with BlackBerry stock as things stand could be a sell trade.

If you are bullish on the company's long-term prospects, it could still be a good buy on the dip. However, I would advise waiting for its share prices to decline further before making such a move.

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