

DWAC: Should You Buy Donald Trump's Internet Stock?

Description

Donald Trump is back in the news again.

And no, it's not because of a 2024 political run. Rather, it's because he's launching a new company: TRUTH Media & Technology Group ("TRUTH Social"). TRUTH Social is a new social media platform that aims to recruit Trump supporters as users. It purports to be "free, open and honest," and vows not to "...discriminate against political ideology."

Trump has made his forays into online publishing in the past. He was a famously active **Twitter** user, launching a Twitter-style personal website and running a huge email list to support his political campaigns.

This isn't the first time Donald Trump has jumped into digital ventures. But backed with big money, TRUTH Social is by far the most "serious" of Trump's social media efforts. The company is going public through a merger with **Digital World Acquisition** ([NASDAQ:DWAC](#)), which means that you can buy stock in it. In fact, the shares are already trading today, even though TRUTH Social doesn't exist yet. As you're about to see, though, you might be better off leaving those shares alone. Here's why.

DWAC is a special purpose acquisition company

The first thing to note about DWAC is that it's a special purpose acquisition company (SPAC). SPACs are [notoriously risky assets](#). They are companies formed with the express purpose of acquiring or merging with other companies. People often start SPACs in order to make acquisitions. They will raise money from investors and commit to spending that money on buying out a company.

Many investors willingly buy in having no idea what company will be purchased. Sometimes, it's pure speculation; other times, the name of the SPAC's CEO draws them in. Investing in a SPAC run by, say, Bill Ackman, can seem like one way for retail investors to get in on rare venture capital-like deals that the little guy usually can't access.

Investing in a SPAC is quite different from buying a normal stock. When you buy stock in a company like **Shopify**, you know the company's financials, its products, and its track record. For a stock like SHOP, it is quite possible to perform a reasoned financial analysis. For a SPAC like DWAC, that's not always possible. When you buy Shopify stock, you're buying a business; when you buy DWAC, you're buying an idea.

SPAC returns

While SPACs may sound like a good idea on paper, in reality, they don't actually perform well. According to Reuters, the average SPAC is [trailing the S&P 500 Composite Index by 15 percentage points this year](#)

. That's some serious underperformance. You may have heard about how active mutual fund managers almost never beat the S&P 500 long term. That's true, but the mutual fund managers' performance has been absolutely peachy compared to what SPACs have returned in 2021.

About TRUTH Social

Now, DWAC is a little different from the usual SPAC. It is well known what company this SPAC will be buying. And we know a fair bit about the company itself:

- It's a social media startup.
- It's valued at \$875 million.
- Trump gets 15 million shares if the stock price is between \$15 and \$20.
- He gets another 15 million if it stays above \$30.
- The stock closed at \$67.75 on Friday.

Based on the above information, it looks like Donald Trump will get a hefty payout if the current stock price will be maintained.

Does that mean that retail investors like you should invest in it?

Probably not. Alternative social media platforms don't have a great track record of taking off. The established players cover most of the ground already, putting copycat sites at a distinct disadvantage. TRUTH Social is based on an open-source framework for building Twitter-like sites.

It really looks like this is going to be a Twitter clone, which begs the question of why it even needs to exist. On that note, Mastodon, the creator of TRUTH Social's open-source framework, is accusing Trump's company of violating the agreement. If TRUTH Social doesn't make its source code public, it could get into legal trouble. That's not a great start to Trump's latest social media adventure.

CATEGORY

1. Investing

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3. TSX:SHOP (Shopify Inc.)

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