



GameStop-Related Market Volatility: What Happened?

February 25, 2021

This Insight examines recent developments surrounding GameStop stock, online brokers (including Robinhood), stock market volatility, SEC inquiries, and trading restrictions. It is meant to complement CRS Insight IN11591, *GameStop-Related Market Volatility: Policy Issues*, by Eva Su.

Background

The past few years have witnessed a surge in securities trading by retail investors. Bloomberg Intelligence reportedly [estimated](#) that in the first half of 2020, retail investors constituted 19.5% of total domestic order flow, 50% higher than the 14.9% in 2019. (It should be noted, however, that even with retail investors at nearly 20% of the market, institutional investors such as mutual funds and pension funds dominate overall securities trading.) The surge appears to have been buoyed by a combination of factors, including pandemic-based lockdowns and accessible online trading platforms charging zero commissions for certain trades. [Robinhood](#), the seven-year-old securities broker-dealer firm, is arguably the “poster child” for phone-app-based trading with video-game-like features and zero trading commissions. That zero commission model was later replicated by other major online discount brokerages, including TD Ameritrade, Fidelity, and E*Trade.

By the winter of 2020-2021, a subset of the nation’s retail traders were playing an outsized role in large stock price gains by several financially struggling firms. Many of these traders were [millennial members](#) of Wallstreetbets, a social media community within the social media platform Reddit comprising millions of subscribers with an interest in securities trading. The firms, whose share prices exceeded analysts’ views on their fundamental value, included AMC, Bed Bath and Beyond, and Blackberry.

GameStop and a “Short Squeeze”

GameStop, a New York Stock Exchange–listed Fortune 500 video game retailer, saw the greatest stock percentage price gains. Early in 2020, GameStop [reported](#) that the consumer shift to online games was challenging its business model, and its stock fell to a low of \$2.57 a share in April 2020. Its stock price reversed quickly, reaching \$18.84 at the end of 2020 and \$483 on January 28, 2021. On January 29, in

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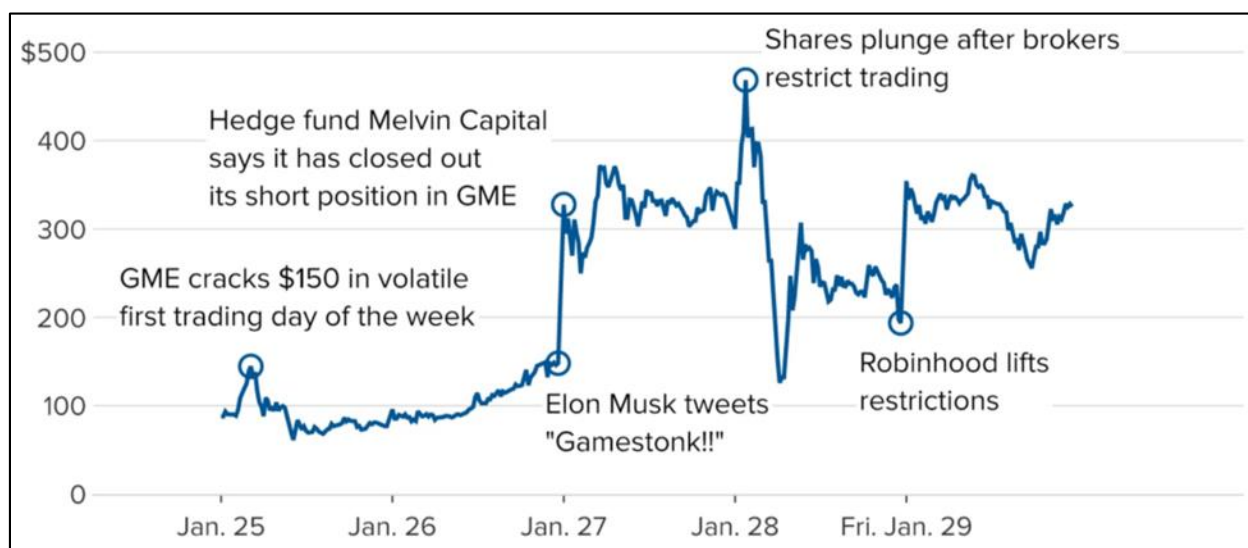
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apparent reference to the behavior of stocks such as GameStop, the Securities and Exchange Commission (SEC) commissioners [spoke](#) of “the extreme price volatility of certain stocks’ trading prices... [with] the potential to expose investors to rapid and severe losses and undermine market confidence.”

Behind the speculative (and, at times, reportedly [coordinated](#)) social-media-fueled support for GameStop shares appear to be various trader motivations, including (1) a belief that GameStop was genuinely undervalued; (2) “getting back” at Wall Street for losses suffered during the 2008 stock market crash; (3) a nostalgic attachment to the company whose products they had bought; and (4) the most widely discussed rationale, attempting to force losses on [hedge funds](#) who were short-selling the stock—that is, trading in the hope that the stock’s price will decline. ([Some funds appear to have bought the stock instead.](#))

Short-selling entails an investor borrowing a stock, selling it, and then buying it back to return it to the lender. If the stock’s share price has subsequently fallen, the investor will make a profit, but if it rises, he will lose money. If a stock appreciates sharply, a *short squeeze* can occur in which the rising share price becomes self-reinforcing as traders who had sold a stock short buy it back in order to avoid even greater losses, thus raising the demand and price for the stock further. In doing so, short sellers may have to liquidate other portfolio assets, which can have potentially broad systemic implications.

Figure 1. GameStop’s Stock Performance During the Week of January 25, 2021



Source: [CNBC](#).

As other investors successfully bid the stock up, reportedly according to [analysis](#) at Goldman Sachs, hedge funds that shorted GameStop stock faced short squeezes of a magnitude that had not been seen in a quarter of a century in the United States. Short-sellers lost nearly \$13 billion on GameStop in January 2021, [according](#) to the financial analytics company S3 Partners.

Trading Restrictions

Executed stock trades must generally be settled (when the seller is made whole and title is transferred to the buyer) within two days (T+2). Central to facilitating settlement are SEC-regulated clearinghouses such as the National Securities Clearing Corporation (NSCC). To avoid having broker-dealers being unable to deliver the cash or security, clearinghouses require broker-dealers to post collateral. Extremely

volatile stocks can intensify the risk that a clearing firm will be unable to complete a settlement within the two-day window, thus requiring larger amounts of broker-dealer collateral.

In late January 2021, facing several exceptionally heavily traded and very volatile stocks, including GameStop and AMC, the NSCC demanded that Robinhood post \$3 billion in cash collateral, [according to Robinhood's CEO](#). That figure was later reduced to \$1.4 billion when the broker-dealer agreed to restrict trading in 13 stocks, including GameStop, AMC, and Blackberry on January 28. Trading restrictions were expanded to 50 stocks on the following day and appear to have been permitted by a service [agreement](#) signed by Robinhood's customers. Also [adopted](#) by a few other online broker-dealers, including TD Ameritrade (the first to place trading limits), the restrictions led to varying responses. Some Members of Congress [condemned](#) the restrictions while hedge funds were still free to trade. The [House Committee on Financial Services](#) has conducted related hearings and the [Senate Committee on Banking, Housing, and Urban Affairs](#) announced related upcoming hearings. Some Robinhood clients filed lawsuits [alleging](#) securities violations, breach of contract, and fraud. SEC commissioners [said](#) that the agency "will closely review actions taken by regulated entities that may disadvantage investors or otherwise unduly inhibit their ability to trade certain securities."

GameStop's share prices [plunged](#) after the temporary restrictions were adopted. Robinhood subsequently [lifted](#) the restrictions on February 4, 2021. In February 2021, eight analysts offered 12-month price forecasts for GameStop that included [a high share price of \\$33.00 and a low price of \\$3.50](#). It closed at \$44.94 a share on February 23, 2021.

Related CRS Reports

CRS Insight IN11591, *GameStop-Related Market Volatility: Policy Issues*, by Eva Su.

CRS In Focus IF11663, *Robinhood, the Fintech Discount Broker: Recent Developments and Concerns*, by Gary Shorter.

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