MarketWatch

Investors set to jump into GameStop frenzy until financial advisers talk them off the ledge

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By Morey Stettner

Appealing to reason with facts and a history lesson

As shares of GameStop **GME, 1.99%**, AMC Entertainment Holdings **AMC, 13.43%** and other targeted stocks started to soar last month, many financial advisers knew what was coming: clients wanting to know how they could get rich quick.

In response, many advisers can only appeal to reason. They tell clients that these stock-price surges almost always end badly. They explain the catalyst — in this case online traders collaborating to propel a stock price to an unsustainable level. They might even laud Reddit and Robinhood users for rising up against Wall Street while criticizing their foolhardy risk.

Ian Weinberg, a certified financial planner in Woodbury, N.Y., has received many of these calls from clients in recent weeks. He works with multigenerational families, and their inquiries tend to reflect their age.

“The ones in their 50s and up understand this is a big hype, but they’re still curious about how a short-squeeze works,” he said. “They also want to know if all this noise will impact their own money.”

Younger clients, in contrast, fixate on “how GameStop went from $5 to almost $500 overnight and want to know if they can get in on the action,” he adds.

Weinberg talks them down. Projecting GameStop’s intrinsic value (if it doesn’t go bankrupt) against its market cap, and comparing the company to more profitable businesses such as Apple — he concludes that GameStop resembles a speculative penny stock.

Along with citing empirical data, Weinberg reminds clients of the financial plan they have established. Referring to the client’s investment policy statement, he asks: “Is there any reason to deviate from this?”

“I tell them we don’t buy those stocks and we don’t get involved in short-term trading,” he said. “I don’t invest in any stock that has a wipeout risk.”

Weinberg also warns these investors that before buying, they need to set sell parameters. It takes discipline to stick to a strategy. Inexperienced traders, seduced by the braggadocio of online personalities, may pile on at the wrong time or sell too low.

Advisers employ other tactics to educate clients hungry to make a quick buck. Some highlight the difference between investing and gambling. Others recount lessons learned from the dot-com bubble that burst two decades ago.

Tom Balcom, a certified financial planner in Lauderdale-by-the-Sea, Fla., anticipated client interest in the latest craze after indications that retail traders were targeting vulnerable stocks. He wrote a 900-word blog post and sent it out on January 27, explaining his views about why GameStop stock was soaring and how it could affect the overall market.

“I wrote it to be proactive, to let clients know that I’ve seen this all before,” Balcom said. “It gives me street cred and gave my clients confidence that I’ve been through this.”

He adds that many of the people who are captivated by these “lottery stocks” are younger males, calling it “a testosterone thing.” Trying to appeal rationally to these investors may have limited success.

That’s why Ron Guay, a certified financial planner in Sunnyvale, Calif., prefers to give clients the freedom to speculate. But he works with them to set a cap on how much they’ll wager on a hot stock.

“We limit the speculative investments to a small portion of their total portfolio,” Guay said. “I find this more productive than repeatedly telling them, ‘No, these stocks are too risky.’ When we were growing up and our parents forbid something, it just made it more intriguing. The same is true here. Better to give clients some discretion to see what all the excitement is about in a contained manner rather than saying no and perhaps they make a bigger bet and do real damage.”