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From GameStop To Tesla – How social media is driving the stock market

The influence of social media on the stock market is undeniable. In many ways, it's a double-edged sword: while social media can promote stocks and make them go viral, it can also lead to their downfall when investors start shorting them or betting against them.

The GameStop experience was one such instance when short-sellers lost billions of dollars in just a few days, thanks to Redditors who caught wind and made bets accordingly. But not all instances are like this: for example, Tesla saw its stock rise by 7% after Elon Musk tweeted about going private at $420 per share. And while some would say that these effects were temporary, we've seen how they're able to change prices dramatically within hours – so even if the spike is short-lived, it can still have a lasting impact.

This is why today, I'll be going through some of the ways social media can affect your investments and how you can leverage that knowledge in your favour.

The effects of social media on the stock

market

While Twitter and Reddit may be the most obvious social media that come to mind when it comes to investing and trading in the stock market, they are far from the only ones affecting the markets today. In this section, you'll learn what social media are currently driving the stock market and why.

Leveraging LinkedIn for due diligence

LinkedIn is a social networking service that has a focus on career connections. It was launched in 2003 with the aim to connect employers and potential employees by advertising available roles on their companies and by allowing jobseekers to post their CVs.

However, while LinkedIn is an excellent resource to find a job, it's also an excellent place to find accurate and relevant information about companies. This alone makes LinkedIn a gold mine for investors since it allows them to do their due diligence on potential investments. In other words, as an investor, LinkedIn can help you research a company you find promising or perhaps one you read about in an *investment newsletter* or other trusted source.

YouTube's influence on the stock market

In terms of platforms, YouTube is certainly king when it comes to online video. In fact, since its inception in 2005 as a video-sharing website, it has grown into one of the biggest brands on the internet. It's now a video hosting service and a social media platform with over a billion users – and it's still growing. But YouTube isn't just a platform for funny cat videos: it's also a hotbed for investment trends and online education that would-be traders worldwide have been leveraging to improve their game.

YouTube is a great way to see how a stock performs in real-time and what the general consensus among the public is about that company. Other ways in which traders are using YouTube are:

- Learning how to trade multiple assets and invest in equities.
- Learn about various trading approaches, including dollar-cost averaging and high-risk strategies like day trading.;
- Examining video evaluations of popular brokerages and trading platforms;

- Looking for investment advice from professional traders;
- Learning general information about what a company is all about, and
- Tutorials about using different trading platforms and their tools.

There are numerous YouTube channels dedicated to trading and current market events. One of the most well-known of these channels is the Bullish Investor, which is targeted toward novices, and Jason Raznick's BenzingaTV, which offers content for seasoned traders.

Using Facebook Sentiment to predict stock movements

Academics, scholars and data analysts have studied the correlation between Facebook (now *rebranded Meta*) Sentiment and stock market performance and have found the former to be an accurate predictor of the latter. Using a Facebook metric called the Gross National Happiness Index (GNH) to measure sentiment across the platform, they showed that sentiment is related to the way traders behave in the market. The results showed that you could even use that metric to predict the returns of different stock markets across the world for the next day.

One Tweet to rule them all

Twitter is a social media site best known for its 140 character tweets. Though it has evolved into more of a global news platform, people have discovered other uses for Twitter over time. One particular use that has caught on in recent years is investing and trading stocks.

This works in two different ways. On one side, just as with Facebook, Twitter *sentiment analysis* also provides valuable information about how the stock market will move. In this case, it was Twitter's Daily Happiness Index what researchers were able to link to stock market returns, especially in stock markets in developing countries.

On the other hand, Twitter influencers have a big impact on certain stock prices they tweet about. Two of the most notorious examples are Donald Trump (@realDonaldTrump) and Elon Musk (@elonmusk).

In the case of Donald Trump, before he was permanently suspended from Twitter, a study showed that his tweets that mentioned any of his companies could be used to predict the direction in which those stocks would move. In other words, whenever Donald Trump tweeted wonders about a company, its stock price would go up. However, it’s not possible to predict by how much it would go up.

Elon Musk’s Twitter and Tesla

The biggest example of how Twitter influencers can influence the stock market is Elon Musk’s Twitter account. Every time Elon Musk tweets something of importance about his companies, they tend to react immediately. The reason is fairly simple.

One example was a *tweet on August 7, 2018*, saying Tesla would go private if its stock price reached $420. Almost immediately, Tesla stock rose by 7%, causing massive losses for short-sellers who were betting that the company was overvalued and would go down.

This not-so-innocent tweet earned Musk a lawsuit and a slap on the wrists by the SEC, but he paid no mind and did it again by tweeting “Tesla stock price is too high imo” on May 1, 2020. This caused an immediate 10% crash in Tesla’s stock price that lasted a couple of days.

Apart from stocks, Musk’s influence also affects other types of assets, such as *cryptocurrencies*, which he’s particularly fond of. He has been seen championing Bitcoin and DogeCoin, to name only two. Whether we like it or not, it’s clear that Twitter is a force to be reckoned with when it comes to trading and investing in stocks.

Reddit, Redditors and the stock market

Reddit is another social media site that people have started turning to for investing advice. Groups of traders tend to band together on Reddit to discuss investments, and some search for penny stocks, which are assets that trade for under a dollar. Because these assets are less regulated and much more volatile, they give traders a higher chance to profit from a smaller investment.

Some Redditors have started using clever strategies to earn big money on penny stocks. They use people’s fear of missing out (FOMO) and human heard behaviour to influence hundreds to thousands of traders so they’ll buy a specific stock. This makes the stock price soar in a very short amount of time, after which they sell and cash out, and the price slams back down, translating into immense profit for some and devastating losses for others.

One recent case of this pump-and-dump scheme happened last January 2021, when some big-time investors started shorting (i.e., betting against) a company called GameStop, deeming it to be overvalued. A group of Redditors from the group WallStreetBets caught wind and decided to apply their proven method to this stock, so they started talking about GameSpot on the group and painting it as a sure investment. The stock price began to rise, so other traders on Reddit started taking notice, FOMO sank in, and in the ensuing wave, GameStop's stock price rose to a peak of $483 on January 28th, only to drop back down days later.

According to Bloomberg, short-sellers that bet against GameStop in January lost an estimated $8B.

Why people invest in stocks they don't know anything about

People invest in stocks that they don't know anything about for several reasons. Some people invest that way because someone they know or trust recommended it. This is particularly common when discussing stocks on social media.

Another reason is FOMO. FOMO, or *fear of missing out*, is a phenomenon that happens when an investor sees others make money from stocks he doesn't know anything about and wants to be a part of it, thinking that the same will surely happen to them. However, in most cases, investing in something you don't know anything about doesn't usually end well, which is why it's important to avoid acting on FOMO, especially in regards to the stock market.

Tips on how to avoid FOMO and make good investments

Tip #1: Learn all you can about investing

If you learn the ropes about trading and investing in the stock market, you'll quickly learn how easy it is to lose money and how hard it is to win it, so you'll think twice before getting on the bandwagon.

Tip #2: Do your research

Avoiding FOMO doesn't mean not investing in the related stock. It just means avoiding using FOMO as the main reason to invest. One way you can avoid FOMO and make good investments is by researching the company you're considering investing in. Make sure to read the news and look at the company's financial reports and recent business developments. If everything looks solid, you can invest. If not, then move on to your next potential investment.

Tip #3: Never invest what you can't afford to lose

Finally, remember that no matter how well-researched your stock might be, there's always the chance of losing. So never risk money you don't have or can't spare, no matter how many millions your next-door neighbour made.

Tip #4: If you're not sure, sleep on it

This tip is about self-restraint. Try not to let yourself get carried away on a whim. One way to avoid your emotions getting in the way of your better judgement is to sleep on the decision to invest. If, by the next day, you still feel like it's the best deal of a lifetime, then go for it.

Social media has a huge impact on the stock market in terms of crashing stocks or creating hype for investments. The effects can be unpredictable and have a significant effect on all parties involved. Whether you're getting ready to invest or not, it's important to stay informed about what is going on with your money so that you avoid FOMO, which could lead to devastating losses like the ones experienced by those who shorted GameStop last January. If anything seems fishy or sketchy when looking at an investment opportunity online, don't hesitate to move on to another one. You may risk losing out on a big opportunity, but it's much more likely that you'll avoid losing your money instead.

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