

## The Secret Formula Of Meme Stocks and Robinhood Traders Discovered

June 14, 2021 | By Alex Gavrish, Etalon Capital Ltd; author of "[Story Investing](#)"

The story of David and Goliath is an extremely powerful [narrative](#).

It speaks to many people.

Currently unfolding events in the market and volatile speculative trading in shares of different meme companies, such as GameStop, AMC, Clover Health Investments, Workhorse Group, and others just proves it over and over again.

So, what is the “secret formula” of meme stocks?

The first main ingredient is high short interest.

This is needed in order to capture the audience with David vs Goliath, or us vs them story.

The second main ingredient seems to be a fun stock symbol or company name. Take a quick look at some of [meme stocks](#): GME (game), WISH (wish), UWMC (a play on AMC), WKHS (horse), WOOF ([the woof of wall street](#) 😊), RIDE, etc.

What this means is that so far reddit traders are fighting for the fight itself, as creating art for the art’s sake, not with the end objective in mind. They push forward the idea of joining the crowd just because it is good or cool or fun, not with some sober financial objective in mind. And to do this effectively they need to have an attractive slogan or catchphrase, in this case a fun stock symbol or company name.

However, it seems that slowly but steadily, reddit robinhood traders are growing up. The number of stocks they more or less actively talk about is increasing.

Similar to the battle of “proletariat” vs hedge funds in shares of GameStop and short squeezes in other stonks, proletariat gaining power in October 1917 revolution was just the beginning.

It was not enough to overturn the regime. It was necessary to start a lengthy process of building the new country and the new system. For this purpose, for example, Soviets invited a huge number of qualified professionals from different fields to help with industrialization and building Soviet Russia.

So far meme stocks trading is seen by many as a fad or speculation phenomenon. But imagine how important these crowds could become when instead of manipulation and speculation these resources will be channeled in a positive and legitimate way into sound investments.

Once the list of high short interest and funny stock symbol stocks will come to an end, the crowd will have no other choice but to continue growing up and becoming smarter. Otherwise, it will disappear, at least in the form we see it now.

The only direction for this crowd to move into while at the same time retaining the power of crowds is to use narratives in a more methodological as opposed to more emotional way.

For example, the power of David vs Goliath story lies in the fact that it is a very emotional and a very universal story as it speaks to life experiences of many people. And this is why it was picked up as a major idea by reddit and robinhood traders.

At the same time, there is a less popular but important fact about narratives. Any good story has a lot of methodology behind it: three-part story structure, important turning points, foreshadowing, intrigue, drama, surprises.

Great investment managers are good storytellers. But they are more methodological storytellers as opposed to emotional ones. Many investors believe that making good investments requires excellent skills in the analysis of financial accounting statements, building complex and detailed valuation models,

forecasting future profitability of companies, and otherwise analyzing numbers “to death”.

In my book [Story Investing](#) I argue that best investments are just like good stories or movies. One of the highlights of the approach is the proposal to develop both a historical as well as future narrative for the company and its share price. It is not only a question of providing verbal and common-sense explanation for the numbers.

Activist investors, for example, are especially good at identifying a three-part story structure of complication, development, and resolution. It allows them to develop a sound investment thesis for the company. And of course, they aim to jump aboard the train at the beginning of the resolution part. For example, we [highlighted](#) story structure in shares of International Flavor & Fragrances in October of 2020 and subsequently activist investors [disclosed](#) investment in IFF shares.

Of course, such approach is highly dependent on one’s personal interpretation of company’s story. This storytelling should be supported by standard analytics and fundamental valuation. But it is this art of methodological narrative thinking and story composition that can take the crowd of reddit robinhood traders from speculative fad to game-changing players of the investing world.