



Market Commentary
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English Version

Insigneo Weekly Dispatch

From Warren Buffet to Roaring Kitty

A brief summary of the effects of social networks
on financial markets.

Guidance on investments and the major structural
factors behind your clients' portfolios.

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From Warren Buffet to Roaring Kitty

Over the years, markets have transformed significantly, becoming increasingly sophisticated and complex. This evolution has been marked by the introduction of various new technologies, the participation of diverse market players, and the emergence of numerous types of investments. Recently, a new and powerful dynamic has entered the investing landscape: the influence of social networks. Particularly in the last couple of years, we have observed several instances where individuals known as "influencers" have exerted a considerable impact on the performance of individual stocks. These influencers, leveraging their large followings on platforms such as Reddit, X, Instagram, and TikTok, have managed to create significant fluctuations in stock prices, demonstrating the growing power and impact of social media on financial markets.

A recent example occurred on February 17, when tech YouTuber Marques Brownlee decided to review one of the new Fisker models, a California-based electric vehicle producer. Using his Auto Car channel, Brownlee uploaded a video titled "This is the Worst Car I've Ever Reviewed", referring to Fisker's Ocean model. In the three weeks following the review, the stock plummeted 50% as Fisker's management failed to mitigate the criticism and exacerbated doubts about the company's financial health. But why does an internet personality like Brownlee have so much influence? Brownlee's tech-review channel, which is free for subscribers,

has more followers than The Wall Street Journal, The New York Times, The Washington Post, and USA Today - combined.

The Brownlee-Fisker incident is just one of hundreds of stories about social networks clashing with big corporations. So, why is this important? Because last week, one of the most influential investment characters resurfaced. We are not necessarily referring to well-known investors like Warren Buffet, George Soros, or Ken Griffin but to Roaring Kitty. The impact of Roaring Kitty on the financial markets, as we will explore further, is a testament to the increased influence of social media in our daily lives and in markets alike.

To understand who Roaring Kitty is, we need to go back to 2021, when interest rates were near zero and liquidity was abundant. At that time, hedge funds were profiting from the poor financial performance of the video game retailer GameStop (GME). As hedge funds were shorting GME's stock, Roaring Kitty and some other trading enthusiasts tried to convince people on forums and social media that the company was undervalued. The word spread, and a financial David vs Goliath scenario unfolded, with retail investors pushing large hedge funds to the brink of bankruptcy. As part of his analysis, Roaring Kitty encouraged people to short-squeeze hedge funds, which meant pushing investors to buy the stock en masse so short-positioned funds had to buy the shares to minimize their losses. The strategy worked, pushing GME stock up over 1,000% in less than a month. This buying frenzy spread to other stocks like AMC Entertainment (AMC), Bed Bath & Beyond (BBBY), and Koss Corporation (KOSS), achieving returns of

more than 100% without any solid fundamental reason, earning them the label of "meme stocks" as reference to the situation being a giant joke. The 2021 meme stock rally ended with more than \$6 billion in losses for short sellers, including the liquidation of the \$8 billion hedge fund Melvin Capital.

After investigations, authorities discovered that the person behind Roaring Kitty was Keith Gill, a 35-year-old trading enthusiast. During the rally, it was estimated that Gill transformed a \$53,000 investment into almost \$50 million. After disappearing from the public eye for three years, Gill returned to X (formerly known as Twitter) two weeks ago, posting a series of memes on his account without a clear message or intention. However, this was enough to reignite the 2021 meme stock frenzy. With Gill's comeback, GME shares surged an astounding 179% in just two days, while AMC posted a 135% return during the same period. Trump Media & Technology Group (DJT), the company that operates the Truth Social Media platform, surged on Tuesday after reporting a \$12.1 million loss with just \$770,000 in revenue.

In addition to DJT, GameStop released preliminary first-quarter 2024 results on May 17th, revealing an estimated 28% year-over-year decline in revenue and a projected loss ranging between \$27 to \$37 million. During this brief rally, notable figures such as Robert F. Kennedy Jr., nephew of John F. Kennedy and independent candidate for the 2024 U.S. presidential election, encouraged retail investors to purchase GameStop shares. While GameStop's management is leveraging this opportunity to issue additional shares at elevated

prices, these price movements are not reflective of the companies' long-term prospects and will not alter the fundamentals of their businesses. For instance, Bed Bath & Beyond's stock surged by 99% during the 2021 frenzy, driven by retail investors buying shares of a company burdened with debt. The stock price soared from \$18 to \$52 in less than a month, yet just two years later, BBBY filed for Chapter 11 bankruptcy.

After this short-lived rally, Gill disappeared, and the stocks began to trade down. An analysis made by Investor's Business Daily indicated that investors might have lost around \$13.1 billion in the three days following GME's peak.

Why have markets seemingly shifted from following Warren Buffet to embracing figures like Roaring Kitty? Perhaps they haven't entirely. In Buffet's 2020 investor letter, he stated that "A patient and level-headed monkey, who constructs a portfolio by throwing 50 darts at a board listing all of the S&P 500, will—over time—enjoy dividends and capital gains, just as long as it never gets tempted to make changes in its original selections." Does this mean we should entrust our savings to influencers and monkeys? If we had to choose, we might opt for the monkeys. In that investor letter, Buffet was referencing a 1973 study by Burton Malkiel, a Princeton professor, who argued that "a blindfolded monkey throwing darts at a newspaper's financial pages could select a portfolio that would do just as well as one carefully selected by experts." This study was corroborated in 2010 by Research Affiliates, who demonstrated that Malkiel was right: on average, 98 out of 100 randomly selected portfolios in their study outperformed the 1,000-

stock capitalization-weighted stock universe between 1964 and 2010.

These results are not merely due to luck but are a matter of probability. Each portfolio in this study contained 30 randomly selected, equal-weighted stocks. According to the Pareto principle, or the 80-20 rule, 20% of the stocks account for 80% of the market capitalization, while the remaining 80% of the stocks account for only 20% of the market capitalization. This means that, as luck would have it, our monkeys are more likely to choose small-cap stocks than large-cap stocks. Small-cap stocks tend to have higher returns because they come with additional risks. Historically, having small-cap stocks in a portfolio have helped to enhance returns, as these businesses have more room for growth than large, established companies. Even in current market conditions, as we approach the beginning of the easing cycle, if the Federal Reserve manages to make a soft landing, small-cap stocks will likely outperform as companies will have easier access to capital for their growth needs.

While we mention small-cap stocks' outperformance to explain the study results, this doesn't mean that we have to be invested in this sector to outperform the market. The "monkey portfolios" are simply a metaphor for a long-term investment strategy. Warren Buffet encapsulated the study and his investment philosophy in his quote, emphasizing the importance of long-term investments in quality stocks, using the S&P 500 as an example of value investing. As stated earlier, we would prefer to go with the monkeys in this context.

Nowadays, it is common to hear that a friend of a

friend made a fortune investing in cryptocurrencies and meme stocks, prompting many to question the necessity of a financial advisor, when it seems easier to capitalize on social media-driven market trends. Well, Roaring Kitty represents just one of the latest trends where markets seek exorbitant returns in short periods. We could replace Roaring Kitty with NFTs, unusual cryptocurrencies, or Ponzi schemes, and the narrative would remain the same. As mentioned, GME investors lost as much as \$13 billion due to a lack of strategy. Maintaining a balanced portfolio, adhering to a well-defined investment strategy, and occasionally missing the “party” will protect the capital over the long term.

With markets moving faster than ever, adhering to Buffet’s monkey portfolios makes more sense than ever.



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