

THE GAMESTOP INVESTOR PHENOMENON

The GameStop event is a unique market phenomenon, but one with the potential to impact how public companies view the growing power of retail investors.

It has sparked a renewed dialogue around the democratization of financial markets and the evolution of retail investors as an important stakeholder in today's financial sector. The events of the last week have brought new attention to Wall Street behavior and sparked bipartisan concern and calls for action among federal regulators and members of Congress.

Equity markets are highly dependent on investor confidence and, in turn, rules that provide a transparent and level playing field for everyone. Any decline in public trust in financial markets could have deep and broad economic consequences.

The experiences of stocks like GameStop and AMC require a unique set of market precursors and do not likely occur through just the collective action of online users like Reddit's famed r/wallstreetbets. In the case of GameStop, the events that enabled the stock's volatile movement began in prior months when large investment entities exposed themselves to risk through financial positions that reverted on their original intended goal. This risk was then identified by retail users who took advantage of the opportunity for profit.

We're now seeing the influence of an entirely new sect of online retail investors.

These investors may have limited professional experience in the financial sector, but they operate on a playing field more equal than ever with today's major financial hegemony. Whereas investment knowledge has traditionally been gained through sources such as financial media, SEC filings and analyst reporting, these new retail investors prefer to participate in online forums and social media communities. On these platforms, strategy is collaboratively formed, transparently circulated to thousands and in some instances, such as in the case of GameStop, collectively acted on.

As the extent of market influence controlled by established financial institutions and new retail investors begins to blur, it is imperative that communications and investor relations experts take this shift into consideration. It is not yet clear how these events will impact the future of investing. But there is a shift in how investing occurs, and companies should plan for different scenarios for what might come next.

Here are some guidelines for companies to consider:

- + UPGRADE YOUR MEDIA FORENSICS:** The GameStop "gamble" had been openly discussed and strategized on various public facing platforms for months. Yet it still was a surprise to the many in the financial sector who **hadn't monitored retail investor forums and platforms**. With continued activity of new retail investors on online forums, such as Reddit's r/wallstreetbets, investor relations and communications professionals must monitor these platforms and keep a pulse on topics of intrigue, misinformation and concern.

- + **PEOPLE HAVE THE POWER: UNDERSTAND THE RISING INFLUENCE OF RETAIL INVESTORS.** Retail investing has grown dramatically in the last year. Through the growth of commission-free trading platforms, retail investors can trade assets, access derivatives and leverage their market positions through just a few simple clicks on their smartphones. It is now more important than ever for organizations to understand in real time retail investor sentiments, interests and their ability to influence a corporation's financial position – for good or bad.
- + **EXPAND YOUR INTERNAL KNOWLEDGE.** Companies should ensure that their boards, executive leadership and relevant teams are gaining an understanding of the impact of retail investors, especially organized groups of investors. Retail investor action can have the potential to impact not just an organization's financial value but lead to brand reputational issues or unwanted media attention.
- + **BE PREPARED: HAVE A RESPONSE PLAN IN PLACE.** Many companies already have a plan in place in the event of wild, unexplained share price movements. For those that do not, they should accelerate this effort immediately. Be sure these plans meet all the legal requirements of your home country or exchanges. Response plans should include broader communications for employees, customers and other stakeholders. CEOs and CFOs, in particular, should be ready for questions on their earnings call.
- + **KEEP A CLOSE EYE ON REGULATORY DEVELOPMENTS.** Managing the issue should come first, but leading companies will also pay close attention to conversations around regulatory developments as new platforms and grassroots efforts may have regulatory consequences. The Federal Reserve, Treasury, the SEC and Congress all have a role in ensuring the integrity of financial markets. Monitoring their statements and responses can offer a company an early indication where legislative or regulatory action may be headed. Companies should also develop a point of view in the event they want to engage with policymakers on this issue.

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