

## **ANALYZING THE IMPACT OF ONLINE INTERNET INFLUENCERS AND SOCIAL SENTIMENT IN THE 2020-2021 US STOCK MARKET**

Christian Lee

Dulwich College Seoul, Seoul

DOI: 10.46609/IJSSER.2023.v08i07.019 URL: <https://doi.org/10.46609/IJSSER.2023.v08i07.019>

Received: 8 July 2023 / Accepted: 24 July 2023 / Published: 28 July 2023

### **ABSTRACT**

This paper explores the unprecedented market inflation experienced in the United States following the Covid-induced recession in 2020. The surge in market values, with the NASDAQ and S&P increasing by 136% and 103% respectively from March 2020 to December 2021, created opportunities for previously unknown penny stocks to rise dramatically in value. This surge also led to the emergence of "gurus" and personalities in the social media market, attracting new and inexperienced investors. While these gurus appeared knowledgeable and successful due to their timely entry into the market and the overall bullish sentiment, their success was largely fueled by the market's euphoria rather than accurate predictions of undervalued stocks. Companies like Open door, Lemonade, Tilray, Peloton, and Tesla experienced significant value declines after the market sentiment shifted to fear, panic, and doubt in the summer of 2021, accompanied by increasing inflation, tightening interest rates, and geopolitical turmoil. The downfall of these influencers revealed the fallacy in their valuation models and predictions, as investors realized that their reasons for stock increases were not based on actual market drivers. However, it is important to note that these influencers were driven by naivete rather than ill-intent or malevolence. Their impact on the investing community was significant, fueling retail participation and bringing about unprecedented moments in the market. The subsequent bear market in 2022 served as a valuable lesson for many investors, emphasizing the importance of self-belief, due diligence, and the influence of fear, uncertainty, and doubt (FUD) on rational thinking and valuations.

Retail investors became more aware of their role in the market and the need to rely on personal decision-making rather than following internet personalities. The paper concludes by highlighting the lasting impact of these gurus on the retail investing mindset and the importance of experience and scrutiny in navigating the world of trading.

## **INTRODUCTION**

The period since the onset of the Covid-induced recession in the spring of 2020 has been characterized by an unprecedented and rapid increase in the value of the broader US market. This surge in value has been particularly remarkable for technology stocks, as evidenced by the NASDAQ's staggering 136% surge and the S&P index's 103% increase from March 2020 to December 2021. This prolonged period of market growth created an atmosphere of seemingly limitless possibilities, with market values consistently rising on a monthly basis, fueling both optimism and greed among investors. One notable consequence of this extraordinary phenomenon was the rise of previously unknown penny stocks, which quickly ascended to billion-dollar valuations, often rivaling more established and well-known companies. The influx of capital into the market provided smaller enterprises with unprecedented opportunities for self-promotion and growth. As a result, these companies attracted bolder and more speculative investors to their ranks, seeking to capitalize on the upward trend.

In parallel with this surge in smaller stocks, there was a significant increase in the presence of self-proclaimed "gurus" and social media personalities who capitalized on the flourishing trends in the market. These individuals positioned themselves as experts and influencers, leveraging the growing interest in investing and the allure of substantial returns. Their charismatic personas and online presence captivated the attention of inexperienced investors who sought to replicate their success. The proliferation of these "gurus" and social media personalities was facilitated by the ease of access to information and investment platforms provided by the internet and social media. These platforms allowed for the rapid dissemination of investment tips, strategies, and success stories, further fueling the hype and attracting a larger following of aspiring investors. The allure of quick and significant profits, coupled with the excitement generated by the market's meteoric rise, contributed to a heightened sense of speculation and risk-taking among these inexperienced investors.

However, it is important to note that this surge in market values and the subsequent rise of penny stocks and self-proclaimed experts also carried inherent risks. The rapid escalation of stock prices in some cases may have been driven more by market speculation and hype rather than underlying fundamentals. As a result, investors who blindly followed the advice of these self-styled "gurus" without conducting thorough research and analysis exposed themselves to significant financial risks.

## **GREED OR BENEVOLENCE?**

Despite the potentially negative portrayal, it is important to acknowledge that these individuals were predominantly well-intentioned, seeking to impart their trading insights and offer what they

believed to be prudent investment advice. As their popularity and exposure reached new heights, owing to their fortuitous timing of market entry during periods of decline, and given the steady appreciation of tradable stocks on a daily basis, they appeared to possess an uncanny understanding of the market, akin to a profound mastery akin to the Matrix. Their limited or non-existent investment losses, coupled with their steadfast adherence to a long-term holding philosophy despite prevailing fears, inadvertently left little room for failure.

In turn, their growing subscriber bases, comprising individuals who also adopted their strategies and reaped financial gains, bolstered their influence further. Many of these individuals espoused the belief that growth stocks were undervalued, outlining their intentions to retain ownership of these enterprises for several years before considering divestment. For instance, they might confidently proclaim, "I shall maintain my stake in Stock Y until 2025," substantiating such convictions with their meticulously researched investments. During a period marked by prevailing optimism and euphoria in the market, these individuals emerged triumphant, basking in the belief that their astute acumen rendered them enlightened visionaries in possession of an unwavering grasp on market dynamics. Yet, they remained largely unaware of a fundamental flaw inherent in their convictions – the surging market values were not indicative of their accurate assessment of long-term undervalued stocks, but rather a consequence of the collective hopeful sentiment and euphoria pervading the market. In essence, their success lay in correctly timing the market and riding the upward trajectory, attributing their profitability to their research and diligent analysis, rather than recognizing the true driver: the prevailing euphoric sentiment prevailing within society.

### **PROMINENT EXAMPLES**

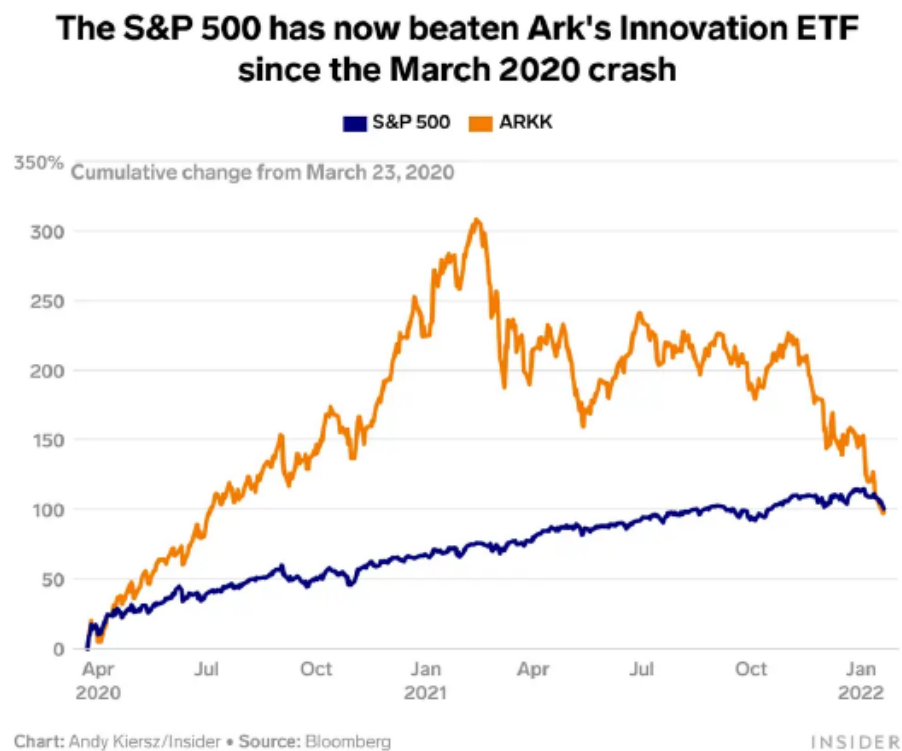
Among the notable companies affected by these dynamics were Opendoor, Lemonade, Tilray, Peloton, Tesla, and others of similar ilk. However, an ominous turn of events unfolded after the summer of 2021. The market sentiment underwent a stark reversal, characterized by heightened trepidation, panic, and doubt. A palpable decline in capital inflows ensued, accompanied by rampant selling frenzies, precipitated by mounting inflation, tightening interest rates, and geopolitical tumult.

Above shows ticker symbol: ARKK, a prominent exchange-traded fund that garnered a lot of attention for having the technology stocks that experienced the stock boom from covid.

During the 2020 market crash, the performance of the ARK Innovation ETF (ARKK), represented by the ticker symbol ARKK, diverged from the broader market represented by the S&P 500. ARKK, managed by ARK Invest and focused on innovative and disruptive companies, experienced a notable decline during this period, which was lower compared to the S&P 500.

This discrepancy can be attributed to several factors. Firstly, ARKK's concentrated exposure to high-growth sectors, such as technology, biotech, and renewable energy, made it more susceptible to heightened volatility and investor concerns during the uncertain economic climate of the crash. Additionally, the ETF's holdings were heavily weighted towards small- and mid-cap stocks, which generally exhibit higher levels of volatility during market downturns. Furthermore, ARK Invest's actively managed approach, with a focus on long-term growth and thematic investing, can lead to divergent performance in the short term, as the fund's allocations may not align perfectly with the overall market sentiment during turbulent periods. While the ARKK ETF may have underperformed the S&P 500 during the 2020 crash, it is important to consider its long-term performance and its potential for generating significant returns as disruptive technologies and innovation continue to shape the future. With the overall hype and sentiment dying down from early 2021, the drop in ARKK's prices can be represented by the graph below.

Figure: 1



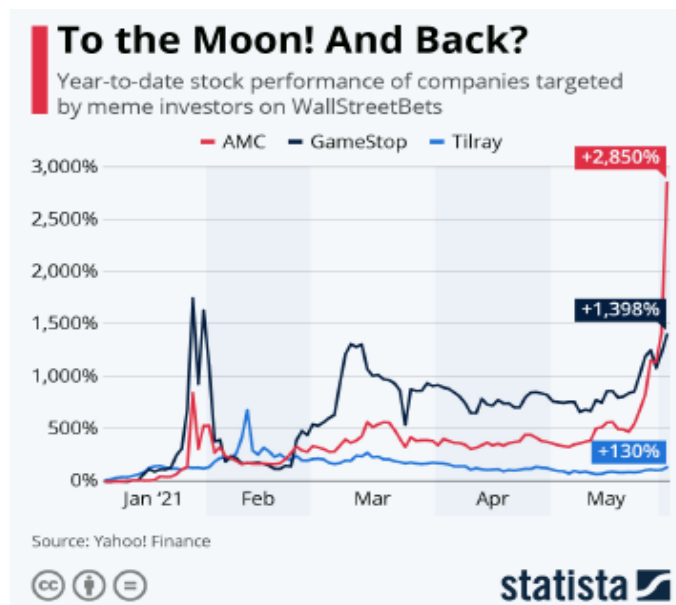
Source: [https://i.insider.com/61ead14bd265300018041ac4?width=1000&format=jpeg&auto=web\\_p](https://i.insider.com/61ead14bd265300018041ac4?width=1000&format=jpeg&auto=web_p)

Consequently, the aforementioned companies experienced a precipitous decline in their market valuations, with certain entities witnessing staggering depreciations exceeding 95% within the span of a single year. For these influencers, a mere "rude awakening" would inadequately

capture the magnitude of the upheaval they confronted. Their meticulously constructed valuation models and predictions, rooted in extensive future-oriented research, crumbled before their eyes. They found themselves bereft of loyalty, pride, and financial resources, as the insidious undercurrent of prevailing sentiment loomed ominously within their domain. Those who initially fell victim to this fallacy were jolted by the realization that the assertions made by these influencers—such as the projected upswing of the European insurance market for Lemonade Inc. (LMND) or the surge in demand for at-home workout equipment for Peloton Inc. (PTON)—proved illusory as the true catalysts behind the corresponding stock rallies. The investing community experienced a profound rupture, as the once-trending stocks of 2020 and 2021 vanished irretrievably into the annals of market history.

Below is a graph showing the year-to-date (YTD) stock performances of companies targeted by "meme investors" on WallStreetBets, an online forum on Reddit where these investors gathered to discuss and coordinate their investments. From January 2021 to May 2021, the meme stock phenomenon took the financial world by storm, with a significant impact on the prices of certain stocks. Stocks such as GameStop (GME), AMC Entertainment (AMC), BlackBerry (BB), and others experienced unprecedented price volatility driven by the collective action of retail investors participating in the subreddit.

Figure: 2



Source: <https://cdn.statcdn.com/Infographic/images/normal/25004.jpeg>

In January 2021, these meme stocks saw an astronomical surge in prices, driven by a

coordinated effort of small investors sharing investment ideas and encouraging each other to buy these heavily shorted stocks. The graph shows an initial steep climb, indicating the remarkable rise in prices during this period. This surge was fueled by a combination of factors, including high short interest in these stocks and a desire to challenge and potentially squeeze institutional investors who had taken significant short positions. The skyrocketing prices during this phase attracted widespread media attention and ignited a fervor among retail investors to join the movement. However, by February 2021, the meme stock rally began to show signs of strain as some stocks faced substantial price corrections. This was partly due to regulatory concerns, profit-taking by early investors, and potential limitations on trading imposed by certain brokerage platforms. The graph demonstrates a period of volatility, with fluctuating prices as the market reacted to these developments.

In March and April 2021, the meme stock frenzy regained momentum, leading to another surge in prices for some stocks. The graph reflects another notable climb during this period, as meme investors continued to drive up the prices of their targeted stocks. However, it is important to note that not all meme stocks followed the same pattern, and some experienced more significant fluctuations than others. By May 2021, the initial enthusiasm for meme stocks started to wane, and the prices of many of these stocks began to stabilize or decline. The graph displays a subsequent decrease or leveling off of prices, indicating a transition from the extreme volatility seen in previous months. This phase marked a shift in sentiment as investors reassessed their positions and the market absorbed the implications of the meme stock phenomenon.

## **CONCLUSION**

The characterization of ill-intent and malevolence should be resolutely discarded when considering these self-proclaimed "gurus." Instead, a more apt adjective to ascribe to them would be "naivete." It was through the actions of these individuals that enthusiasm and audacity within the investing community surged, propelling them to the forefront and engendering unprecedented moments in the market. They became catalysts for retail fervor, effecting a transformative shift in the playing field. In fueling the bull run of 2021, they indirectly beckoned a greater number of participants to engage in this financial realm, constituting a net positive in and of itself.

However, the subsequent bear market that unfolded in 2021 served as a profound educational lesson for many, underscoring the significance of self-belief, meticulous research, and a comprehensive understanding of the impact of fear, uncertainty, and doubt (FUD) within the market. This awareness becomes especially crucial given the substantial influence wielded by retail investors in the current landscape.

While these stock market gurus may have now faded into obscurity, their indelible mark on the

world of investing shall forever resonate within the minds of retail participants. Though many who witnessed their trusted "geniuses" investments plummet to zero and subsequently lost all hope, opting to distance themselves entirely from the realm of trading, the true heroes of the post-Covid market milieu are those who absorbed the invaluable lessons, extricated themselves from the abyss into which they had unwittingly ventured, and ultimately learned to rely on their own discernment, independent of the influence of internet personalities. The ability to discern between "dead-cat bounces" and genuine market rallies, as well as transient bearish downtrends and periods of economic recession, necessitates experience and unyielding scrutiny within this intricate domain. Such acumen cannot be acquired overnight but requires a substantial investment of time and effort.

## **REFERENCES**

1. Vanatta, N., & Ruiz, A. (2021). Lessons for the DoD when Planning for the Future of S&T. *The Cyber Defense Review*, 6(4), 133-151.
2. Bazzana, D., Colturato, M., & Savona, R. (2021). Learning about Unprecedented Events: Agent-Based Modelling and the Stock Market Impact of COVID-19, 36-42.
3. <https://www.statista.com/chart/25004/stock-performance-of-companies-targeted-by-eme-investors/>
4. <https://markets.businessinsider.com/news/stocks/stock-market-analysis-sp500-cathie-wood-ark-tech-selloff-rotation-2022-1>