

## **THE EMPOWERMENT OF POST-COVID RETAIL TRADERS: A PARADIGM SHIFT IN WALL STREET DYNAMICS**

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### **ABSTRACT**

The Covid-induced stock market crash of March 2020 brought about an unforeseen transformation in the financial world. Traditionally dominated by fortune 500 corporations and their shareholders, the stock market was perceived as an exclusive playground for the wealthy. Individual retail traders, on the other hand, were often stigmatised as "dumb money," engaging in sketchy money-related activities. However, the post-Covid era witnessed a remarkable surge in retail trading volume, a shift attributed to user-friendly brokerage services, a risk-taking younger demographic, and an array of external factors such as stock price fluctuations, government lockdowns, and changes in monetary policies. This surge in retail trading marked the beginning of a revolution that has forever changed Wall Street dynamics. This journal delves into the factors contributing to this paradigm shift, the subsequent rise of "meme stocks," and the profound impact of post-Covid retail traders on the stock market and the broader financial landscape.

**Keywords:** Retail Traders, Meme Stocks, Market Manipulation

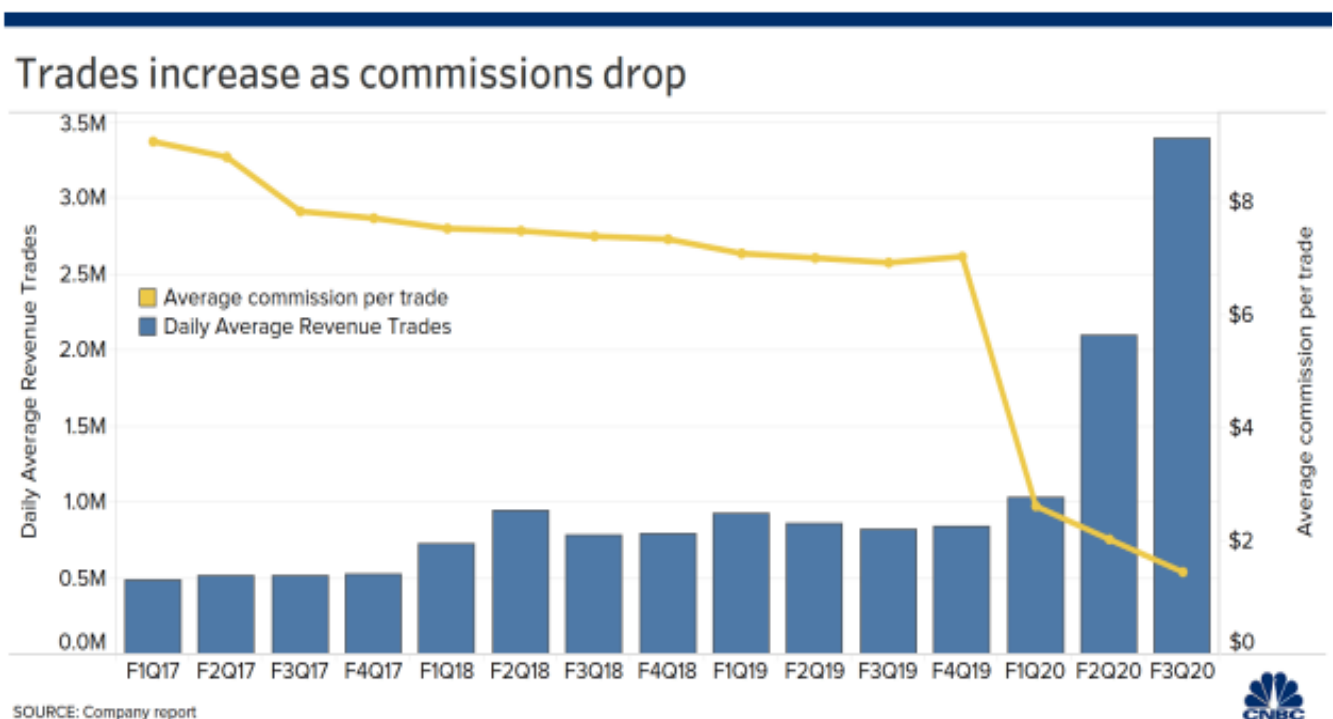
### **INTRODUCTION**

The stock market has long been a critical pillar of global finance where companies raise capital and investors seek financial opportunities. However, for decades, retail traders, despite comprising a sizable proportion of market participants, were overshadowed by large institutional players in Wall Street. The perception of retail traders as insignificant, uninformed, and prone to risky behaviour persisted, further perpetuating the notion that the stock market was a domain reserved for the wealthy elite. Nevertheless, the Covid-19 pandemic brought forth a series of events that would challenge this notion, culminating in a dramatic paradigm shift.

### Factors Contributing To The Surge In Retail Trading

**A. User-friendly Brokerage Services:** The proliferation of user-friendly and technologically advanced brokerage platforms played a pivotal role in democratising access to financial markets. Retail investors, armed with intuitive interfaces and access to real-time market data, found themselves empowered to participate actively in stock trading and investment activities, previously perceived as complex and exclusive endeavours.

Figure 1:



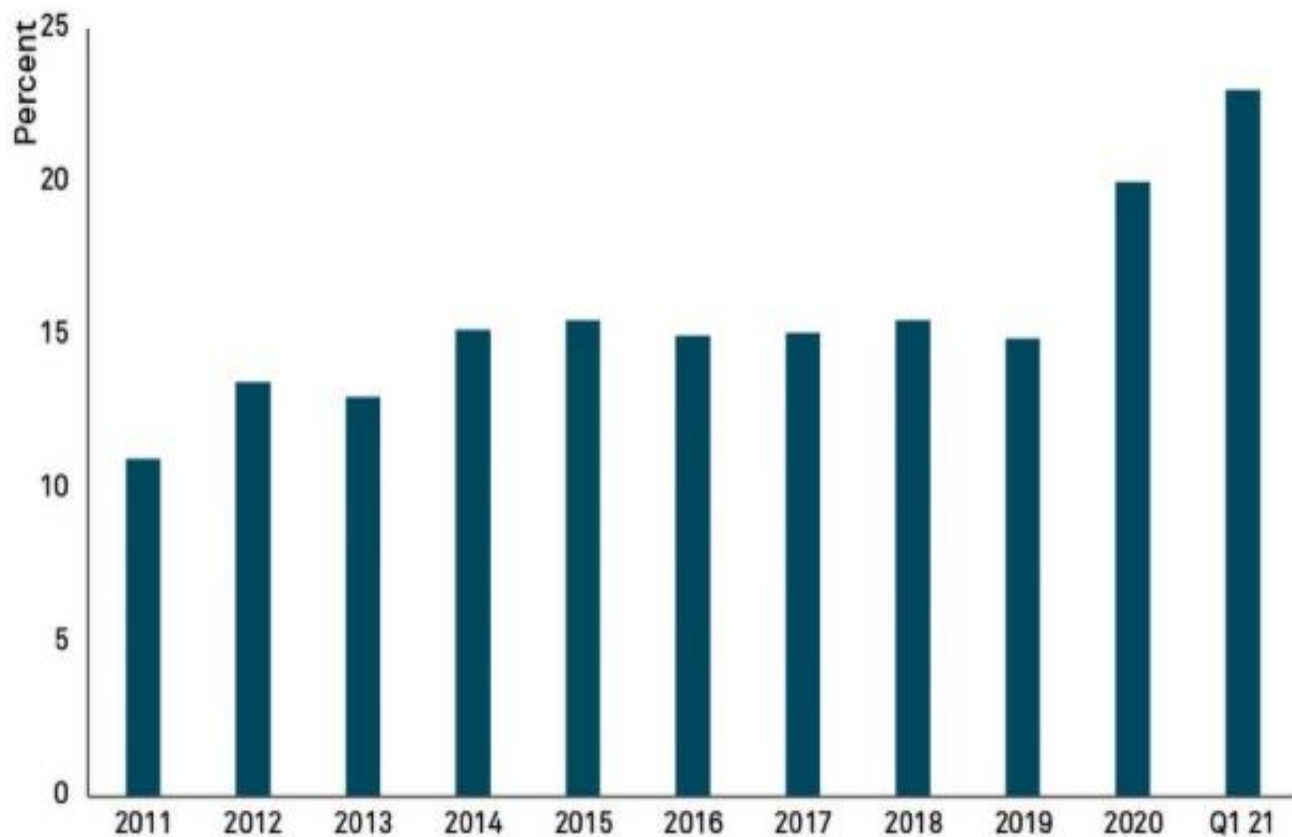
**Source:** <https://www.cnbc.com/2020/08/20/e-brokers-defy-odds-by-recording-record-trading-revenue-while-dropping-commissions-to-zero.html>

**B. The Younger Demographic:** A generational shift occurred in the financial landscape, with a surge of younger investors entering the market. This demographic, characterised by a penchant for risk-taking and digital fluency, sought alternative avenues for financial growth beyond traditional investment instruments. The ease of online trading and social media integration appealed to this tech-savvy cohort, further fueling retail trading activity.

**C. External Catalysts:** The Covid-19 pandemic had far-reaching consequences on the global economy. Stock market volatility became a defining characteristic of the pandemic era, with swift

and unpredictable market swings becoming a norm. Retail traders capitalised on these fluctuations, identifying undervalued stocks that presented potential growth opportunities. Moreover, as government-imposed lockdowns shuttered businesses and left individuals with limited income options, online trading emerged as an attractive means of generating income.

Figure 2:



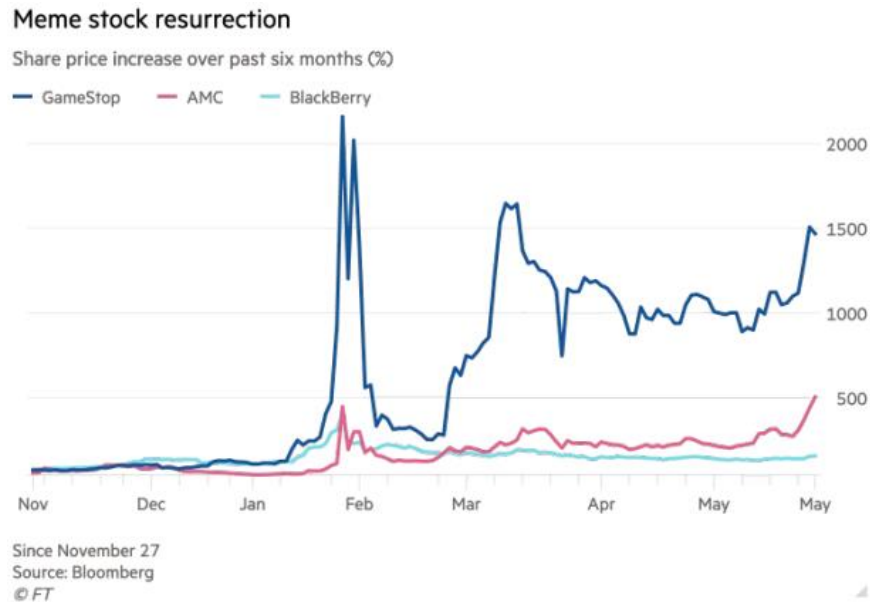
Source: Bloomberg Intelligence

Source: <https://www.bnymellonwealth.com/insights/the-rise-of-retail-traders.html>

### The Emergence Of “Meme Stocks” And Wall Street Retaliation

A. *The Rise of "Meme Stocks"*: The rise of social media platforms and online communities gave birth to a new form of market sentiment and investment strategies. Retail traders, leveraging the collective intelligence of platforms like Reddit and Stocktwits, identified certain stocks with high short interest from big institutional funds. These stocks, termed "meme stocks," were targeted for coordinated purchasing, creating a short squeeze that drove their prices to astonishing levels.

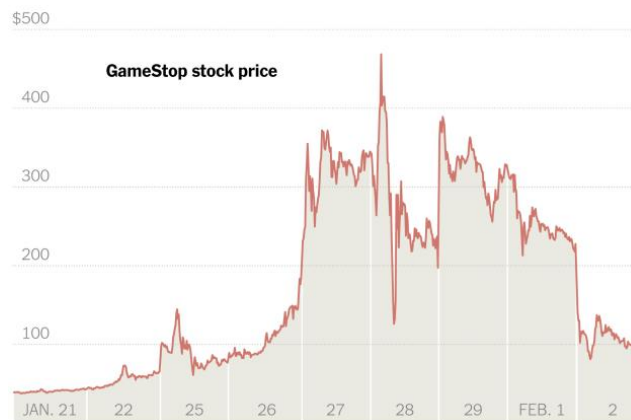
Figure 3:



Source: <https://www.ft.com/content/482ca65b-9eb3-40dc-97fe-b9a4383b8396>

**B. The Gamestop Saga:** The Gamestop stock became an emblematic representation of the retail trader revolution. Fueled by a social media-fueled rally, Gamestop's stock price skyrocketed by an astounding 2854% within a mere five days. The surge caught institutional short sellers off guard, leading to significant losses and creating a sense of panic in Wall Street circles.

Figure 4:

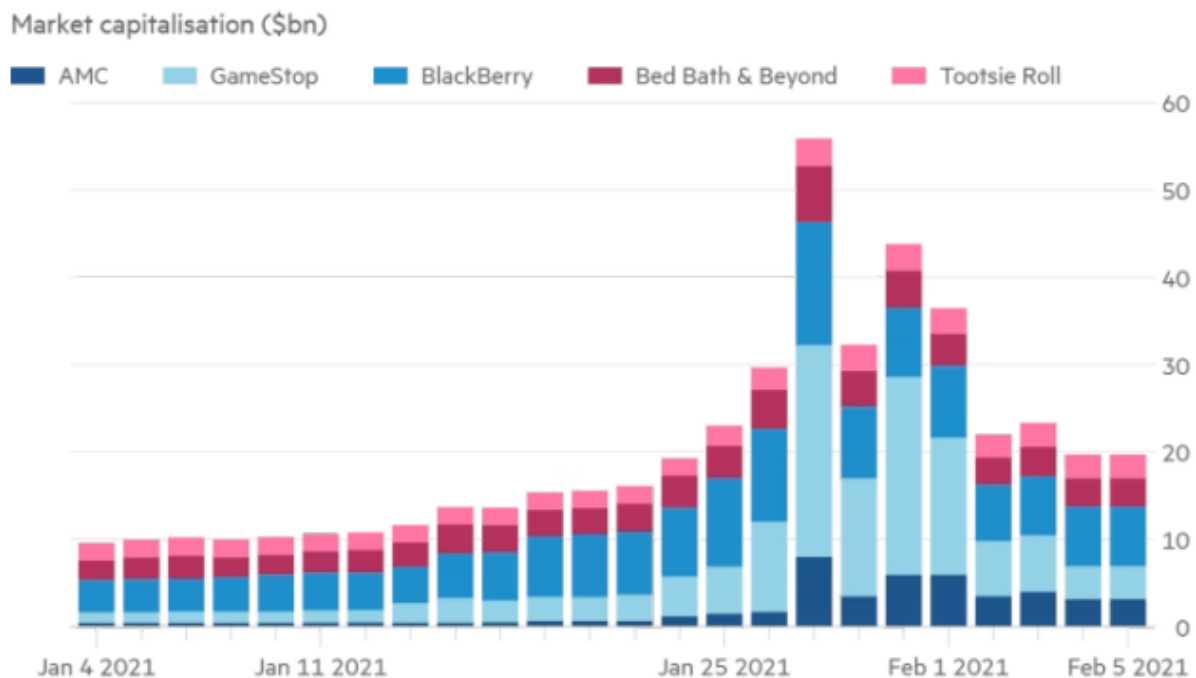


Source: <https://www.nytimes.com/2021/02/02/business/gamestop-investors-plunging-shares.html>

**C. Retaliation and Market Resilience:** The Gamestop saga sparked heated debates among financial experts, regulators, and market participants. Critics questioned the legitimacy and sustainability of retail-driven price rallies, arguing that such speculative activities could destabilise the market. Despite some retail traders benefiting from these short-term surges, others faced significant losses as stock prices quickly retraced, highlighting the inherent risks in such market activities.

**Figure 5:**

**The five main 'meme stocks' lose momentum**



Source: Bloomberg  
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Source: <https://www.ft.com/content/af74599a-2344-4a51-ac32-c299930bcdda>

**The Shift In Power Dynamics**

**A. Empowering the Retail Traders:** The Gamestop saga marked a turning point, granting a powerful voice to the common retail investor. The collective action of retail traders underscored their newfound strength as a cohesive force capable of challenging the traditional Wall Street establishment.

**B. Demanding Accountability:** Retail traders' actions shed light on potential market manipulation

by institutional investors. This exposure led to increased regulatory scrutiny and demands for greater transparency in financial markets. Retail traders sought to hold Wall Street accountable for its practices, pushing for a level playing field.

**C. The Role of Social Media:** Online platforms such as Reddit and Stocktwits facilitated information-sharing and collaboration among retail traders. These platforms democratised market information, providing small investors with insights that were previously reserved for financial institutions.

**Figure: 6**



Source: <https://www.bloomberg.com/news/articles/2021-01-28/wallstreetbets-gains-more-than-a-million-new-members-overnight#xj4y7vzkg>

### **Toward A More Equitable Financial Landscape**

**A. Striving for Full Democratisation:** The Gamestop saga and the surge in retail trading represent only the initial steps toward a more democratic financial landscape. Achieving a fully democratised market requires continued efforts to ensure that the voices of retail investors are heard and respected from both sides: Wall Street and Retail.

**B. Reducing Market Manipulation:** The increased focus on market manipulation has prompted regulatory authorities to tighten oversight and crack down on illicit practices. A more transparent and accountable financial ecosystem is emerging, bolstered by technology and public awareness. The Robinhood stock halting scandal emphasised this very phenomenon:

<https://www.cnbc.com/2021/02/17/robinhood-faces-lawsuits-after-gamestop-trading-halt.html>

**C. The Future of Retail Trading:** Retail traders continue to evolve, embracing new technologies and innovative approaches to investing. Their collective strength challenges the dominance of institutional players and fosters a more inclusive and equitable environment for all participants in the global financial market, and will continue to do so.

## **Conclusion**

The post-Covid era has witnessed a transformative surge in retail trading, marking a watershed moment in the history of Wall Street. The rise of "meme stocks" and the Gamestop saga have demonstrated the power of collective retail action, challenging the traditional power dynamics of the financial world. While the road to full democratisation remains long and complex, the impact of retail traders on financial markets and Wall Street practices is undeniable. As the dust settles and the industry evolves, the lessons learned from this transformative period will continue to shape the future of the stock market, fostering a more just and equitable financial landscape for all global participants. The era of empowered post-Covid retail traders marks the beginning of a new chapter in the evolution of the financial world.

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