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GameStop stock market surge captures attention, enriches Michigan billionaire Donald Foss

By Jordyn Grzelewski
(excerpt)

The dizzying, unlikely ascent of shares in brick-and-mortar video game retailer GameStop Corp. this week has set Wall Street and social media abuzz — and made one Michigan billionaire considerably wealthier.

GameStop's share price was \$347.51 at close of market Wednesday, a one-day gain of nearly 135% and more than 80 times higher than where the stock closed a year ago.

The stock's recent movement has pitted day traders and users of the social media site Reddit against Wall Street short sellers betting on GameStop's fall. It's a drama that has captured the attention of industry observers, prompted warnings of a bubble, and garnered scrutiny from the White House. ...

... In an emailed statement, David Kudla, founder, CEO, and chief investment strategist of Grand Blanc-based Mainstay Capital Management, LLC called the GameStop saga "fascinating."

"Confident retail traders from Reddit's WSB (WallStreetBets) subreddit have taken advantage of a perfect short squeeze opportunity to push back on traditional financial institutions," he said, explaining that on Reddit a "subreddit" is a community or collection of content focused on a specific topic.

"To be clear," Kudla added, "little has changed in terms of GameStop's fundamentals, but the strength of the retail investor has been amplified by recent fiscal stimulus measures, an accommodative Fed backdrop, and massive institutional short positions."

Wall Street analysts have pointed out that GameStop's ascent is largely divorced from the reality of its business fundamentals. The Texas-based company in December reported that its third-quarter net sales in 2020 were down more than 30%.

But, the Washington Post reported, the company's stock began to gain some momentum earlier this month after Ryan Cohen, co-founder of online pet supply company Chewy, as well as two other former Chewy executives, joined GameStop's board of directors in a bid to speed its shift to an e-commerce-oriented business. The company maintains a massive retail footprint, with thousands of locations across the country.

Kudla noted, too, that the same is now happening with other "heavily shorted" companies such as movie theater chain AMC Entertainment Holdings Inc., which was up more than 300% at close of market Wednesday. Another example: clothing retailer Express Inc., which closed the day at \$9.55 per share, up from just over \$3 per share at Tuesday's close.

"These retail traders are much savvier than many give them credit for," said Kudla. "That said, rallies in the market and specific individual stocks have been disconnected from fundamentals for some time now due to the aforementioned Fed actions. The future of many of these companies is still up in the air, but this new market dynamic has been interesting to say the least." ...

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