



AFM Market Watch

Newsletter on MAR, MiFID II and transaction reporting

June 2021, Edition 3

Investing and social media in light of GameStop

Editor's note

Dear reader, we are pleased to present the third edition of our recurring newsletter, the AFM Market Watch. It covers capital market related topics such as MAR, MiFID II and transaction reporting.

The newsletter consists of two parts: (i) a lead article tackling a current capital market related topic, supported by (data) analyses; and (ii) a recurring short facts and figures section tracking developments in the market. The AFM Market Watch will be published on a regular basis and will be sent to subscribers (click [here](#) to subscribe).

In this edition the topic 'Investing and social media in light of GameStop' will be discussed (pp.1-5), followed by the facts and figures section (p.6).

Introduction

Access to information about investing is becoming more readily available: influencers share their opinions about stocks and cryptos with their followers on social media and there are countless podcasts about investing. Followers make those opinions their own and act on them, but not always thoughtfully. Look at the hype surrounding GameStop shares at the beginning of this year.

Interest on savings has been historically low for a long time, the COVID-19 lockdown restricts our freedom of movement. Some distraction and excitement is easy to find: with a few clicks on your smartphone you can buy or sell some shares or cryptos via an app. It's almost like it is a virtual game. And such an investment decision is made faster if a celebrity tipped you through his or her social media channel.

But are such tips simply allowed? What conditions surround the freedom of expression? What responsibilities and obligations do influencers have with regard to making investment recommendations? And what is your own responsibility as an investor? What considerations do investors need to make?

In this Market Watch the AFM discusses the risks of investment decisions made under the influence of social media and what questions you should ask yourself before you decide to invest.

We also discuss the rules for investment recommendations and for disseminating information including those posted on social media.

1. GameStop and the power of social media

At the beginning of this year, there was sudden and worldwide attention from investors for shares of the US based company GameStop. There was a real run on these shares, fuelled by messages on social media and investor forums. Investors pounced en masse on GameStop shares and the share price exploded. Only to fall back considerably afterwards.

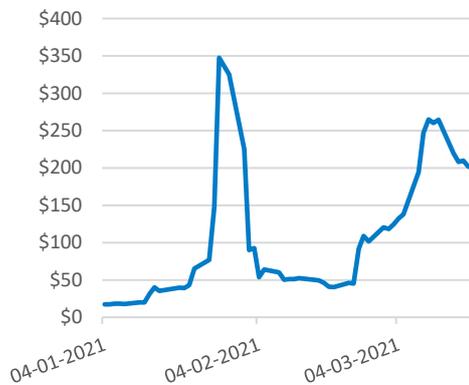


Figure 1

Investors in the Netherlands also traded GameStop shares: about 30,000 did so, while before the hype none of them ever traded GameStop shares.

GameStop shares are listed on Nasdaq in the USA. The price of GameStop shares moved strongly from January to mid-March 2021. During that period the price moved between \$17.25 and \$347.51 (closing prices) with an intra-day highest price of as much as \$483.

The AFM has analysed the trading in GameStop shares by Dutch retail investors over the period from 18 January till 18 March 2021. This analysis showed that:

- 29,394 individual Dutch retail investors traded in GameStop shares in this period.
- These investors had never previously traded in GameStop shares.
- At some Dutch brokers, the GameStop share was the most traded share in February and March 2021.

The distribution by age of these Dutch GameStop investors shows the following:

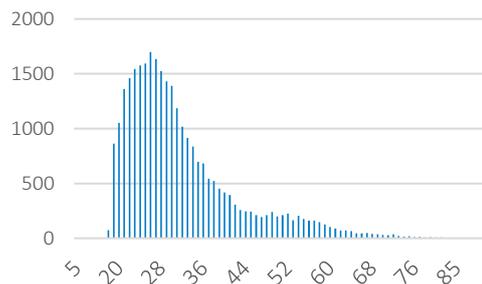


Figure 2

- The investors trading GameStop shares are mainly ‘younger’ investors.
- The average age was 31 years.
- Most common age was 26 years. That was 1,698 investors.

The distribution of prices at which Dutch investors bought GameStop shares shows the following:

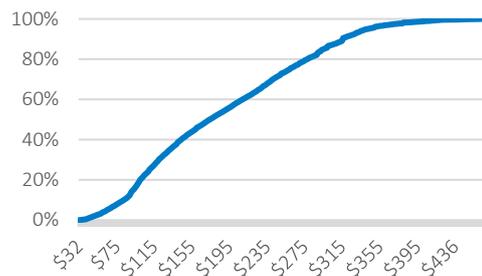


Figure 3

- 20% of the investors bought at or below \$101 per GameStop share.
- 80% of the investors bought at or below \$279 per GameStop share.

The average purchase price within this group of investors was \$189 per share.

The distribution of the total value purchased GameStop shares per retail investor shows the following:

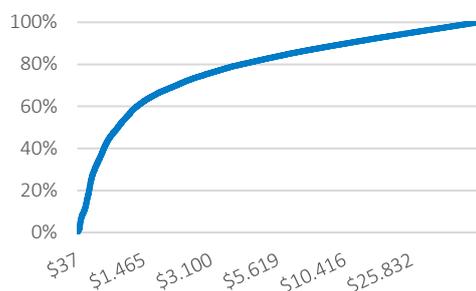


Figure 4

- 20% of the investors purchased for a total value of \$295 or less.
- 50% of the investors purchased for a total value of \$916 or less (median = \$916).
- 80% of the investors purchased for a total value of \$4,270 or less.

The average purchased total value within this group of investors was \$11,532. At least 40 investors purchased for a total value of more than \$1 million¹.

The GameStop case clearly shows that investors can be influenced to invest without the objective and / or fundamental grounds on which an investment decision is normally based.

Supervisory authorities research latest investment trends. A recent [survey](#) by the UK Financial Conduct Authority (FCA) shows that younger investors in particular become involved in investments with a higher risk profile. And that this may have been prompted by the result of the influence of social media and new low-threshold investment apps. There is also evidence that these higher risk investments are not always suitable for these investors, as 59% indicate that a significant loss on that investment would have a fundamental impact on their current or future lifestyle.

The research shows that for many of these investors, emotions and feelings (the thrill of investing) and social factors are the key reasons behind their investment decisions. This applied mainly to those investing in high-risk products. For them, the challenge, competition and novelty are more important than the conventional, more functional,

reasons for investing (such as achieving better returns or building up extra capital). In fact, of the respondents 38% do not mention a single functional reason for their top-3 largest investments.

In light of this research, the FCA expressed concern that some investors may be tempted to make high-risk investments that are probably not suitable for them. This group of investors rely heavily on social media for tips and news. According to the FCA, this appears to be prompted in part by the possibilities of gaining quick access to making investments that are offered by new investment apps.

The FCA's findings are in line with the findings recently published by the AFM in the [Consumentenmonitor Beleggen²](#) ('Consumer Investments Monitor'). The monitor shows that especially more young people have started investing in their search for better returns. They see themselves as above-average investors and have a higher risk appetite. These starters often invest independently, whereby the emergence and convenience of investment apps seems to play a role. Investors who invest using an app make more investment transactions.

The European Securities and Markets Authority (ESMA) also devotes a great deal of attention to investments and communications via social media. As a member of ESMA, the AFM contributed to ESMA's [statement](#) in response to the events surrounding GameStop. Amongst others, the AFM and the French L'Autorité des marchés financiers (AMF) have also published their own statements (see the [publication of the AMF](#) and see the [publication of the AFM³](#) where investors are reminded of the dynamics on social media that could lead to exceptional price movements of shares and the associated risks. As part of the continuing fallout related to January's initial GameStop stock surge, the US Securities and Exchange Commission (SEC) has stepped up its efforts to monitor the market for unusual activity driven by social media dynamics. In that context the SEC has suspended trading in securities of several companies in reaction to market volatility caused by "apparent social media attempts to artificially inflate the stock price".

The AFM recently has launched a broad exploration to map the working method and impact of (financial) influencers.

¹ An investor who buys (and possibly resells) GameStop shares several times (in the period from 20 January – 18 March 2021) could reach this figure of total purchased value. When an investor buys (and sells) for instance 100 times for

\$10,000 worth of GameStop shares, he purchased in that period for a total value of \$1 million.

² In Dutch

³ In Dutch

2. Investing; what questions should I ask myself in advance?

Investing can help people to achieve their personal goals, such as building up a pension or a savings fund for their children's studies. However, investing also involves risks. The AFM has published a practical checklist for investments on its website. The checklist contains a number of points to consider in the form of questions which are always important to answer before making an investment decision. Those questions are as follows:

1. What is the purpose of my investment?
2. How long can I do without my money (investment horizon)?
3. How much risk am I willing to run? How bad will it be if I lose my invested money?
4. Have I checked whether the company is subject to AFM's supervision?
5. What are the costs involved?
6. Do I understand the product that I am investing in?
7. Am I well-informed?
8. Have I spread my risks?

The checklist in which the questions are further explained is available [here](#).

3. Investment tips; what does the law say?

If a message is posted on social media, it has the potential to reach a large audience. Especially if the message is from a well-known person (influencer) or has been posted on a popular forum. Such messages can ensure that people are influenced to make certain (investment) decisions.

Freedom of expression is an important asset and that freedom applies just as much to statements on social media. However, if a message contains an investment recommendation, it must comply with legal requirements that equally apply to statements published on social media.

The [Market Abuse Regulation \(MAR\)](#) and underlying regulations lay down when an investment recommendation and/or strategy is deemed to exist and the rules that apply. In a nutshell, an investment recommendation is a public recommendation of an investment strategy concerning one or more financial instruments (such as shares, derivatives, bonds and commodities), including any opinion on the present or future value or price of such instruments.

The AFM has published a brochure in which the regulations on investment recommendations are

explained in detail. In short, the regulations entail that anyone who provides or disseminates investment recommendations, or other information recommending or suggesting an investment strategy, must ensure that such information is presented objectively and that they disclose their interests or provide information on conflicts of interest regarding the financial instruments to which that information relates. The status or credibility of an investment recommendation, the interests of the issuer of the investment recommendation, and the extent to which the investment recommendations are presented objectively, for instance, should be apparent from the information that must be provided pursuant to these transparency requirements.

This will enable investors to decide for themselves how much value they want to attach to the investment recommendation.

[This brochure](#) will be useful for anyone who distributes or issues investment recommendations.

4. Information manipulation

Disseminating incorrect or misleading information about financial instruments is harmful to investors. Equally, it is harmful to the publicly listed issuer concerned because the information manipulation compromises the reliability of the information available in the market in respect of that issuer.

Disseminating information (including rumours) which the disseminating party knows or ought to know are false or misleading is therefore prohibited by the MAR.

The AFM actively monitors media, including internet chat rooms, forums and social media, for incorrect or misleading information about financial instruments. For this purpose the AFM also uses data-driven models to analyse messages on social media.

5. Enforcement

The AFM is the supervisory authority for the financial markets in the Netherlands. Where necessary, the AFM will intervene. Social media postings are also bound by regulations. The familiarity or anonymity of a profile does not relieve the obligation to comply with regulations. In the event of non-compliance with the rules, relating for instance to investment recommendations or information manipulation,

measures may follow. This is laid down in the [Enforcement policy](#)⁴ of the AFM.

Whether the AFM will act in a formal or informal capacity, and what measures or combination of measures will be taken on that occasion, always depends on the circumstances of the infringement and the weighting of the related factors involved. In addition to the gravity and duration of the infringement, the AFM also considers factors such as the degree of culpability.

The AFM may impose an administrative fine if the rules are violated. The AFM can impose a fine for information manipulation of up to € 15 million (or 15% of the annual turnover if that is more than € 15 million). The basic amount is € 7.5 million. The AFM can impose a fine of up to € 1 million (basic amount € 500,000) for violating the rules regarding the provision of investment recommendations.

When determining a fine, the AFM takes the infringer's financial capacity into account. The AFM may also report the infringement to the police. This will trigger an investigation of the infringement and (potentially) lead to further investigation and prosecution under criminal law.

6. Final word

Influencing others to prompt them to make a certain investment decision is an age-old phenomenon; as is the need for a thrill and finding out by trial and error what investing is all about. It is important that you know what the rules and risks are when you enter the playing field of the financial markets.

Proper functioning and reputable financial markets are essential in enabling businesses and the government to raise capital and fuel the economy. The AFM supervises the conduct of players in the financial markets and monitors the robustness and integrity of those markets. Of course you could make a risky investment or give your opinion about a certain investment, but be aware of the rules that apply, the risks that exist and be prepared to act accordingly.

⁴ In Dutch

Facts & Figures

Development of net short positions (March 2020 - May 2021) as reported to the AFM.

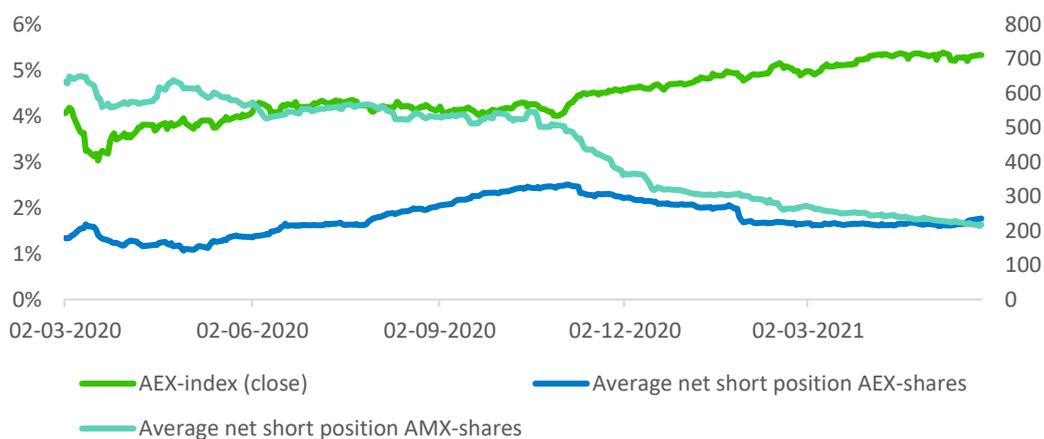


Figure 5

- Reported short positions in the AEX shares are relatively stable in the past year.
- Short positions in AMX shares declined towards the end of 2020, mainly due to a sharp decline in the real estate sector (see figure 6).

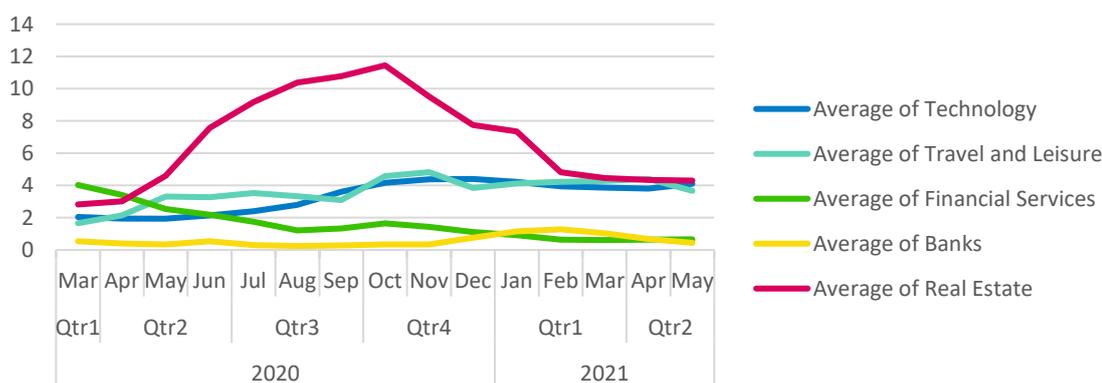


Figure 6

- The fluctuation of the average short positions in the real estate sector is striking. In the second half of 2020, the sector was impacted by the effects of the pandemic.
- The average of short positions in Banks is limited when compared to other sectors.
- Since the start of the pandemic, the average short positions in the Financial Services sector has decreased sharp, while the short positions in the sector Technology have doubled.



Autoriteit Financiële Markten (AFM)
The Dutch Authority for the Financial Markets
PO Box 11723 | 1001 GS Amsterdam

Telephone

+31 (0)20 797 2000

Fax

+31 (0)20 797 3800

www.afm.nl

Follow us: →



Mission statement:

The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

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