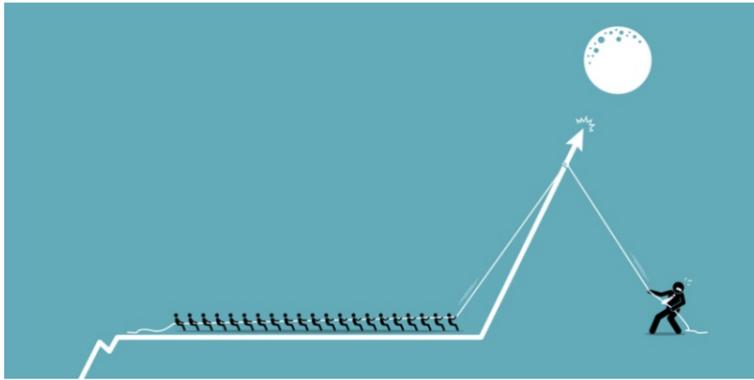


## Brad Brain: Meme stocks are not a sound investment philosophy

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Smart Money



Brad Brain: "Over the last few weeks, I have been fascinated with the stonk culture. I have been lurking in the internet chat rooms; amazed, and a little fearful, about what I am reading."  
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Friends, lets talk about stonks. 'Stonks' is an intentional misspelling of stocks. A stonk is a pop-culture reference to easy money. It's where you can throw dollars at outrageous ideas, but that doesn't matter; you will make big profits, and you will make them fast.

Stocks may require some time to show a return on investment, but not stonks. And while stocks may involve some downside risk, that's not the case for stonks. Stonks only go up.

In other words, stonks are a fantasy. But stonks have become a meme. And, as thin as that is, nowadays people are investing their money based on memes.

Over the last few weeks, I have been fascinated with the stonk culture. I have been lurking in the internet chat rooms; amazed, and a little fearful, about what I am reading.

One narrative is that if a group of regular people can stand united then they can fight back against the powerful elites. By the strength of iron will and unflinching in the face of adversity, the good guys will make the profiteers submit, and heroically make absurd gains while correcting historical wrongs. One catchphrase is "apes strong together!"

The talk about having "diamond hands," which is to never succumb to the temptation to sell their stock, even if they experience crushing losses. They speak of stonks "going to the moon," and they use rocketship emojis to symbolize the huge rewards that they expect to realize.

There is a significant amount of cheerleading. Events are interpreted so they fit the narrative, and fiction is portrayed as fact. People who don't wholeheartedly subscribe are mocked.

It's a video game mentality. Players are fully immersed in the game, which occurs on its own plane with its own perceptions of reality, and if you can beat the Big Boss at the end of the level then you win.

But video game thinking can make for bad financial advice. It can be the opposite of reasoned investing. And some people are gambling with money that they can't afford to lose.

It is not that unusual for pop culture to be wrong about how the stock market works. Just last night I was watching a popular TV series. Part of the story involved shorting stock and buying put options.

These are real stock market terms, but the script was just gibberish. The television writers got it totally wrong, but that didn't really matter much. It's just a television show.

The problem with the stonk fantasy is that people are taking it at face value, and they are making real life decisions with real money. If you can believe the chat rooms, some people are apparently going all-in with their rent money, and it's all based on a flawed narrative that will inevitably end in ruin.

One of the interesting themes that has developed is an “us versus them” mentality. It’s a morality play; a revenge story on a big, nasty Wall Street predator class that has been fleecing gullible Joe Average for years. I get the populist sentiment here but, trust me on this, you are really not sticking it to the man if you lose all your money. Not even a little. That is a purely futile gesture that will go absolutely unnoticed by anyone except you and your bank account.

Some of these people, who are operating under the fallacy that they will win if they just keep playing it like a video game, are down 85% in a matter of days. This is what the difference between a temporary market fluctuation and a permanent loss of capital looks like. Realistically, you don’t just bounce back from that type amount of destruction.

Meme culture is fun, but it’s a lousy investment philosophy — 85% losses are rarely recoverable.

As my video game playing, 12-year-old son would say, oof!

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