

Informed investing: Meme stocks

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You may have heard or read about companies discussed heavily on social media and online forums like Reddit, surging in value seemingly overnight. Now referenced as “meme” stocks, these companies have seen significant growth in their share price based on excitement and hype generated online and in the media.

The catch is that the hype may not accurately reflect the underlying fundamentals of the company. While the idea of buying into these companies with the expectation of huge returns may sound enticing, there are a few things you should consider before investing in meme stocks.

Consider if you are experiencing FOMO

FOMO, or The Fear of Missing Out, can be one of the most challenging obstacles for investors to face, especially when investment opportunities are championed on social media and online forums. It's important to remember that while some investors have made money from meme stocks, this is an exception. Most investors lose substantial amounts due to their volatility and the inability to assess the company's fundamentals properly.

Consider your financial plan

Before you begin investing in any company, it's wise to develop a financial plan and objectives you would like your investments to achieve. By considering your age, goals, time horizon, and level of risk you're willing to take, you can develop a suitable plan of action that may combine various securities like exchange-traded funds, mutual funds, and stocks to meet your objectives. While helping you achieve your goals, a financial plan also enables you to evaluate any new investment opportunity against those goals.



Meme stocks have gained more popularity recently and they could quickly derail your financial plans if appropriate precautions are not taken. The speculative nature of these investments and the hype that social media brings to them is not a guarantee of wealth. If you plan to incorporate meme stocks into your financial plan, seriously consider if you can absorb a loss of some or all of your investment.

Consider the risks of investing in meme stocks

Meme stocks may seem like a sure-fire way to quickly grow your money but carry significant risks, including:

Extreme volatility Due to meme stocks relying heavily on social media and online buzz, massive sell-offs and price corrections are common as real fundamentals collide with investor sentiment. These spikes in stock value are virtually impossible to predict.

Investment fraud Not all investment opportunities hyped on social media are fraudulent. However, scam artists also use this avenue to promote fraudulent investment scams. A popular investment scam is pump-and-dump schemes in which a scam artist begins to falsely promote a stock they have invested heavily into as an incredible investment opportunity. As new investors buy in, the stock price rises, and once the shares hit their peak, the scam artist dumps their shares making the stock's value plummet and leaving everyone else with worthless shares.

The bottom line:
The idea of buying into companies heavily promoted online with the expectation of huge returns may sound enticing. Please consider the risks and evaluate the investment through its underlying fundamentals.

How to invest wisely with meme stocks and avoid scams

Regardless of whether you are interested in a meme stock or simply a company mentioned in the news or suggested by a friend, invest wisely by conducting research into the company's fundamentals in the following steps:

- ▶ **Review public reports from the company**
Develop a clear picture about the company and how it makes money, including a deeper understanding of its history, business plan and model, revenue, cash flow, planned projects, and risks.
- ▶ **Understand the company's financials**
Learn about the company's debts and obligations, and its revenues and net income through its quarterly and annual reports. You can also gain insight into the company's return on equity, which helps you determine if it is using its investment money responsibly for the growth of the business.
- ▶ **Explore the company's industry**
Learn about the innovations, disruptions, and opportunities facing the company in question and its growth potential. This is also the time to dig into the competitors in the space.
- ▶ **Examine the company's leadership**
Review both board members and the executive team. This step aims to understand if the company has the right leadership to make key decisions for the company's growth.
- ▶ **Review expert opinions, articles and blogs**
The final step in your research is looking at additional information and a variety of perspectives about the company. This includes resources like Bloomberg News, Morningstar.ca, Tmx.com and Nasdaq.com.

Once these steps are completed, you can make a more informed decision on whether you want to invest in the company.

It is important to remember that while fundamental analysis is essential and will give you a much clearer picture of how the company is performing, it does not guarantee returns.