

Global Equities

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Social media and the problem of valuation



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- Social media has become a powerful market force, disconnecting prices from fundamentals.
- Meme rallies often persist, distorting benchmarks and testing traditional valuation models.
- Combining fundamental conviction with technical discipline helps active managers manage risk, and stay adaptable in volatile markets.

When social media drives a company's stock to levels few imagined, it puts the very idea of fundamental valuation to the test. In 2021, GameStop's stock rose more than 1,000% in a few days. The business had not changed. Social media and mobile trading apps gave retail investors the means to unleash a frenzy of buying. That surge lasted weeks – long enough to distort benchmarks and overwhelm professional investors. In 2024, a single post from "Roaring Kitty" on Reddit sent GameStop and AMC surging again, forcing multiple trading halts. Social media-driven stock buying is now a force that can significantly impact a fundamental investor's performance, particularly without a process in place to manage it. As Keynes warned, the market can remain irrational longer than investors can remain solvent. In the age of social media, those words have never been more valid.

How meme trading works

Social media has shortened the distance between a story and a trade. A post on Reddit or TikTok can reach millions within minutes, and mobile apps make it effortless to act. The sequence is familiar. Attention rises, sentiment turns, and retail money pours in. Options activity and short covering can magnify the surge, pushing prices well beyond their starting point.

What makes today different is that sophisticated investors no longer shy away from bubbles. Many now trade momentum directly, using it to lift returns rather than waiting for prices to fall back. Their buying extends rallies and raises the cost of hesitation. Those who wait for fundamentals to reassert themselves often watch from the sidelines as prices continue to rise.

The valuation problem

Investors are used to thinking about value as future cash flows. That still matters, but it is no longer the only driver. Social media and narrative now play a bigger role.

GameStop's 1,000% rise in 2021 was a notable example, but it was not an isolated case. The same stock surged again in 2024 after a single online post, and in 2025 names like Opendoor, Tesla, and Nvidia all experienced rapid spikes fuelled by attention as much as earnings. These episodes are becoming increasingly common as social platforms amplify stories and trading apps facilitate instant participation.

A 2021 study in Economics Letters found that "meme periods show persistent price and volume effects tied to social media buzz." Rallies can last well beyond the initial spike, often keeping valuations above what fundamentals support.

This persistence has knock-on effects. When heavily traded meme names sit inside indices, their inflated prices pull benchmarks higher, leaving investors who avoid them at risk of lagging performance.

Fundamental and technical analysis work best together

Price is the market's final arbiter. It condenses information, fear, and expectation into a single number. For investors, that makes technicals indispensable. They are often misunderstood as a way to predict the future. In reality, they measure the present. Trends, momentum, and participation show how the market is voting right now.

This discipline matters. Even the best research can be undone by bias. It is easy to dismiss a stock as too expensive according to valuation models, yet the market continues to buy it. Technicals highlight when momentum is building and when the market may know something you do not. They signal that conviction alone is not enough, and that ignoring price can mean missing powerful runs.

Once you see technicals in that light, the value of combining them with fundamentals becomes clear. Fundamentals show what a business is worth. Technicals confirm whether the market agrees. One without the other is incomplete.

The edge comes from blending the two. Fundamentals anchor conviction. Technicals guide timing and discipline. Together they create a process that cuts losers early, lets winners run, and builds portfolios that endure even when markets behave irrationally.

What this means for active managers

Over time, prices and fundamentals tend to align – i.e., the stock price returns to reflect the fundamental view. For active managers who focus solely on fundamentals, meme stocks create a difficult test.

Performance can be severely damaged by waiting for prices to revert, only to see valuations stay inflated for weeks, months or years.

There are opportunities. Rallies create liquidity to trim positions or sell into strength. By applying technical discipline to their fundamental convictions, managers can manage exposure while remaining alert to the pull of market narratives. A clear process also allows them to explain decisions to boards and clients in language that reflects both valuation and business performance.

Discipline over prediction

Meme stocks are not a fad. They reflect lasting changes in how information spreads and how investors behave. Prices can rise or stay inflated for reasons that have little to do with earnings.

The answer is not prediction but process. Fundamentals provide conviction. Technicals provide discipline. Attention and sentiment must be tracked in conjunction with earnings.

Markets will always test patience. Social media makes those tests sharper and faster. Investors who succeed will be those who follow a repeatable process that measures, manages, and adapts whenever momentum takes hold.

Key Risks

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