FOR USE WITH INSTITUTIONAL INVESTORS ONLY.

Date Issued: November 2021

Contact: mtuttle@tuttlecap.com

Matthew Tuttle is CEO and owner of Tuttle Capital Management, LLC, and manages publicly-traded ETFs.

TUTTLE
CAPITAL MANAGEMENT

The Benefits and Drawbacks of Using Retail Investor Sentiment Data in Investment Decisions

Tuttle Capital Management

Introduction

In business school we learned that stocks go up for one of two reasons: they are either undervalued, or they are expected to grow. Now there is a third reason: social media interest. This may not be surprising to retail investors already aware of what can happen when a social media post triggers a mass move to buy or sell a stock, but it appears Wall Street is finally beginning to pay attention to stocks that are popular with retail investors. ETFs have launched around this theme and JP Morgan has a weekly research note highlighting the most popular stocks with retail investors. Just like the markets, though, social media interest is not static but rather changes minute by minute. Knowing what's popular, even on a weekly basis, may often not be sufficient enough; by the time you find out people have been talking about a stock they could have moved on to another one. Additionally, just because a stock generates interest on social media does not mean it is going to go up. In general, if you are going to use social media as a tool, then you need to be watching it constantly and using it to identify stocks for further research.

The meme stock craze of early 2021 got investors to notice the power of social media. Retail traders were almost able to take down a billion-dollar hedge fund with the coordinated buying of AMC stock. The hedge fund, Melvin Capital, had rightly shorted AMC, betting that the shares were overvalued and would drop. Retail investors saw a situation where they could move the stock up in a coordinated effort, which would cause a short squeeze, forcing shorts to panic buy shares back, moving the stock up even more. Retail traders then found other stocks that had high short interest and used social media to convince investors to buy in coordinated efforts. This caused large moves in these stocks as well, along with losses for short sellers. Wall Street took notice.

The traditional Wall Street establishment initially talked about this in terms of the tech bubble of the late 90s. During that period, investors were making money hand over fist on anything with a dot com at the end of its name, only to see everything tank in 2000. While the meme stock phenomenon shares some characteristics of the tech bubble, there are major differences as well.

During the 90s, brokers controlled the information and access, and investors had no way to connect with each other. Fast forward to now, investors can trade commission free from their phones, they have access to as much information as Wall Street does, and social media connects them. Time after time they have been able to move stocks with high short interest and/or low floats. They have power and they are not going to give it up.

In light of this ongoing retail investing environment, there are two ways investors can use social media: 1) as a third-party research service to make them aware of stocks that may not have been on their radar screen or 2) to identify the "finfluencers" (i.e., influencers on social media who focus on money-related topics) who have the power to move low float/high short interest stocks and watch what they are talking about.

Using Social Media for Third Party Research

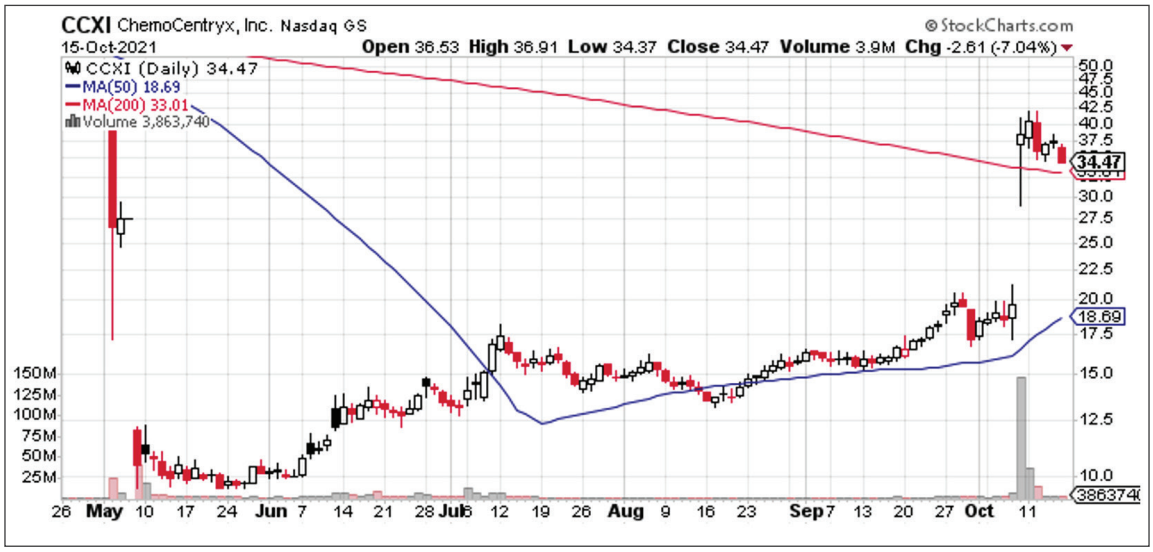
In evaluating if and how to use social media for research purposes, it is important to remember that, like life, not all experts or "finfluencers" are operating with the same degree of industry knowledge. However, if one can cut through the clutter, there are former Wall Street professionals, ex hedge fund managers, engineers, PhDs, etc., all tweeting about what they are thinking and seeing. In decades past, if you wanted to expand your reach on the stock market you could rely on Wall Street analysts. Unfortunately, they may have certain biases. First, Wall Street firms make money on investment banking business, so it is rare to see an analyst post anything negative about a firm it is, or wants to be, doing banking business with. It's also rare to see an analyst go out on a limb; it is easier to be wrong when everyone is wrong than to be the only person who missed something. It is also frustrating to see stocks zoom much higher, only to be issued a buy rating after the fact.

Here are two tweets from October 7 about CCXI stock, which was seeking FDA approval for a drug:

> **@drippy2hard Oct 7**
>
> $CCXI Today's chatter up +1500% monthly and +300% weekly

> **@drippy2hard Oct 7**
>
> $CCXI FDA approval news is today
>
> Mistyped Oct 17
>
> All eyes on it

Here's what happened to the stock on October 8th when its drug got FDA approval (see next page):



Here's another one about RDW:

> **@AlanStonkson Oct 12**
>
> $RDW Very reasonable valuation and room to grow on its own merits, yet has the *potential* to go off at any moment if speculation becomes reality (in this case, the $AMZN rumor). Tough to strike out totally w/ adds in the 9's. Just a matter of 1B, 2B, 3B, or HR, IMO.

And what the stock did the next day:

These are two examples that popped, but I am sure there are just as many that fizzled. Just because someone tweets something positive doesn't mean you should run out and buy the stock. However, what social media research can do is expand your reach and give you things to look at that you may have missed. You can then apply whatever analysis techniques you use to decide if a tweet is something you want to act on or not.

Low Float and High Short Interest Stocks

There are many finfluencers who have hundreds of thousands of followers. These people are often interconnected and the viral nature of twitter means that if they tweet something it could be seen by millions of people. Even with this reach they are not likely going to be able to budge the stock of a large cap company, but they can budge a stock that has very high short interest and/or a low float.

Datchat (DATS) is a good example. As of 10-15-21, the stock has a fairly small market cap of 212M with 19.6M shares outstanding, but the float is only 6.2M shares. The float is the amount of shares that are actually out there for people to trade, subtracting things like restricted stock that cannot be traded. According to S3 BlackLight, 15.34% of these shares have been borrowed by short sellers who believe the stock is going to go down. Because of the nature of short selling, these people will be forced through margin calls to buy these shares back if the stock goes up precipitously. Since the float is small, it is not as easy to find shares. This is what creates a short squeeze. Finfluencers will find stocks like these that they can move. You can debate whether this is ethical or legal for them to do, but it can create some interesting opportunities. Here is a daily chart of DATS. It has some rather large percentagewise up and down moves.

Now remember one key point: this stock doesn't have a high short interest because it is a "blue chip" company. There is probably something wrong here which the short sellers have sniffed out. Most people should avoid a situation like this. Finfluencers can move these types of stocks for a time, but eventually fundamentals are going to win out and a bad company is going to trade accordingly. However, if you know the support and resistance levels, use limit orders and stops, and don't hold overnight, there can be some large opportunities in these types of situations.

Every day my email in box is flooded with research from different Wall Street analysts. Most I just delete, some I will read if I have time, and some I will drop what I am doing to read. Social media is the same way. After extensive research we have been able to create a list of people on Twitter that we want to follow. Not only does Twitter allow you to follow people, but it also allows you to set alerts so that you get a notification every time they tweet. There are also third party vendors who synthesize all the data to give you a constantly updated list of the most popular stocks. Be careful of this, however. Sometimes a stock is popular because most people hate it.

Additionally, just because stocks show up on these lists doesn't mean you should buy them. It just means that a lot of people on social media are talking about them. You can then search who is saying what and decide if this is something that merits further analysis.

The rise in AMC and GameStop shares caught Wall Street and the public's attention. Retail investors now have the ability to move stocks with their preferences the same way that institutional investors do. Through social media, investors can tap into these ideas in real time and use them as a filter to help them make more informed investment decisions.

Disclaimer

The views and opinions expressed herein are those of the Chief Executive Officer and Portfolio Manager for Tuttle Capital Management (TCM) and are subject to change without notice. The data and information provided is derived from sources deemed to be reliable but we cannot guarantee its accuracy. Investing in securities is subject to risk including the possible loss of principal. Trade notifications are for informational purposes only. TCM offers fully transparent ETFs and provides trade information for all actively managed ETFs. TCM's statements are not an endorsement of any company or a recommendation to buy, sell or hold any security. Trade notification files are not provided until full trade execution at the end of a trading day. TCM typically rebalances on Monday, however there could be daily trades that are not reflected in this recap. The time stamp of the email is the time of file upload and not necessarily the exact time of the trades.