

## Abstract

In this thesis, we study the impact of individual retail investors on the financial markets. We follow the GameStop retail trading frenzy from the beginning of 2021 and the retail investors aggregated on Reddit's *r/wallstreetbets*. The tools employed include natural language processing, wavelet analysis and vector error correction models. The results propose that the retail investor sentiment is highly susceptible to high volatility, extreme returns and frequent news coverage. Social media is shown to exacerbate these behavioural tendencies. We find evidence that retail investor sentiment is able to predict short-term returns for stocks specifically targeted by retail investors. The findings are, however, dependent on the investment horizon. Over long horizons, we find evidence for the reversal of the relationship. Lastly, while the effect of news and social media is similar in the long run, we show that Reddit sentiment, as opposed to news sentiment, is a significant predictor of retail targeted stocks in the near term.

**JEL Classification** C55 C58, G12, G14, G41

**Keywords** Sentiment, Social media, GameStop, Reddit, Natural language processing, Wavelet analysis

**Title** Gamified Stock Markets, Sentiment and Volatility: Evidence from the GameStop frenzy