

Risky Meme Stocks Could Spell Financial Ruin for Young Canadian Investors

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EINPresswire.com/ -- Risky Meme Stocks Could Spell Financial Ruin for Young Canadian Investors

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Online applications such as TikTok, Discord and Reddit, have made it easy for groups of anonymous conspirators to collude and promote the pumping and dumping of “meme stocks” like Gamestop, AMC Entertainment and BlackBerry. Meme stocks is a newly coined terms for investments that have gained popularity among retail investors through social media. Investors who dabble in such stocks are often young and inexperienced.

Earlier this year, a frenzy of stock trading activity was fueled by online chatrooms with names such as

WallStreetBets, SuperStonk and ShortSqueeze. These groups banded together to dole out misinformed and inaccurate advice about investments to anyone who would listen, in an effort to runup the value of certain stocks.

Joseph Pullano is a Toronto-based Investment Advisor with iA Private wealth. When asked about these kinds of investments, he explains that he worries many young Canadians could succumb to financial ruin by taking investment advice from people who hide behind computer screens.

An entire cohort of impressionable, young, and inexperienced first-time investors hold these online communities in high regards as they believe the more subscribers and participants a chatroom has, the more reputable that chatroom is. WallStreetBets alone has over 10 million members within it. The majority of these subscribers hope to strike it rich in the stock market by blindly following the advice of the minority who run the chatroom.

In fact, Pullano explains that his office has seen an alarming increase in calls from clients asking them to purchase these risky meme stocks that their children have seen online. "It's not easy for us to reject a client order," says a distraught Pullano, "but we have a duty to ensure that the investments we recommended to our clients are both appropriate and suitable for them."

Many of these online chatrooms have even gone so far as to encourage these investors to treat the stock market as a casino and gamble their life savings into these stocks. This has caused these meme stocks to trade at prices that are above their estimated value based on fundamental analysis, and are known for being extremely speculative and highly volatile.

For those investors who acted early, a limited number, were able to double and in some cases, triple their original investments. However, the many more have purchased meme stocks at their peak and are currently suffering from abnormally large capital losses.

Both the Canadian Securities Administrators and the Investment Industry Regulatory Organization of Canada have cautioned Canadian investors to evaluate the source of information and advice they are turning to, when making investment decisions. While this message may be too late for some investors, regulators are hoping their message will prevent more Canadians from falling into financial turmoil.

“You need to be careful where you get your investment advice,” cautioned Pullano. “There are a lot of bad actors online who are trading against you. We have seen many losses and very little gains from these types of investments.”

When asked about what kind of advice he would give clients looking to purchase meme stocks, Pullano explains, “I’d recommended Canadians treat meme stocks as they would the lottery. Is there a potential to strike it big? Maybe. But it’s unlikely and the odds are stacked against you. A well diversified portfolio, a financial plan and time in the market are the most reliable tools to grow wealth and protect your portfolio.”

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