

GAMESTOP, ROBINHOOD & THE RETAIL TRADING FRENZY

Several influences collaborated during the Covid-19 pandemic to create a unique movement for retail trading. The list below summarizes the factors that have accelerated the growth of discount brokerages and fueled the desire to get rich on GameStop and other meme stocks.

Factors Fueling the Phenomenon

- User friendly apps and \$0 trading commissions.
- Stay-at-home orders curbed consumer spending and increased investor engagement.
- Fiscal stimulus boosted disposable incomes.
- Low interest rates prolonged the equity bull market and encouraged borrowing to invest.
- Social media inducements from the likes of “Davey Day Trader” and Reddit message boards.
- Economic and wealth inequality.

THE CONNECTION BETWEEN RISK AND REWARD SHOULD NOT BE IGNORED WITH DAY-TRADING OR ANY OTHER INVESTMENT STRATEGY

Like most things in life, we should not expect something good to come without a cost. Similarly, the connection between risk and reward should not be ignored with day-trading or any other investment strategy. The benefits and drawbacks of managing your own investments in a discount brokerage are described in the table below.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> ▪ Low cost or \$0 trades on stocks, options, ETF, and cryptocurrency ▪ Accessible without much capital ▪ Fractional shares & margin investing ▪ Website & applications are easy to navigate ▪ Frictionless and streamlined 	<ul style="list-style-type: none"> ▪ Limited investing research and trading tools ▪ Limited customer service ▪ Fewer account types and fewer investment options ▪ Gamification: Reckless risk taking and a casino mentality

However, one significant disadvantage that is not understood by the common investor is the way in which discount brokerages, like Robinhood, make money. Traditional brokerages earn the bulk of their revenue by charging a commission on buy/sell orders. Since discount brokerages waive commissions, they earn revenue by selling customer data/order flow to willing buyers like hedge funds and other high-speed trading firms. This is an important distinction because Robinhood's real customer is the firm that is paying for order flow not the retail customer who is using the app for "investing". This is a controversial practice, in fact, in Canada, payment for order flow is not permitted. The conflict of interest that potentially arises from selling order flow became speculation for the reason Robinhood ceased trading in GameStop. Indirectly, the customer (Citadel Securities) paying for the order flow was being damaged by the rise in GameStop’s share price.

Technology has improved the access to investment opportunities for individuals in an affordable and user-friendly manner. Lower barriers to entry are critical for democratizing investing – giving everyone access to invest and manage their capital. However, trading and investing are not synonyms. With the absence of instruction and education, and without adequate investor protections, potentially more capital will be lost chasing dreams and hype than saved for retirement and other life goals. A slick app, an online bulletin board and zero commissions are not magic dust for creating and sustaining wealth.

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