

# Robinhood's New Traders Ignore Danger Signs to Bet on Stocks

June 22, 2020

by Annie Massa, Sophie Alexander

Rich hedge fund managers are talking about it. So are not-so-rich millennials. And fast-twitch gamers, and bored sports fans and -- in all likelihood -- some 15-year-olds you know.

The "it" is Robinhood Financial's trading app, which is throwing jet fuel on the speculative fires of coronavirus-era equity markets. Not since the dot-com mania of the 1990s, when starry-eyed day traders dreamed of online riches, has a brokerage platform drawn such a frenzied following. Skeptics warn the hype could set up home-bound novices for disaster.

The rush of newbie investors flocking to Robinhood has sparked controversy over how much they're influencing markets, and whether it's appealing to those seeking to gamble at a time when casinos are closed and major sporting events are canceled.

Robinhood drew more scrutiny this week after a young user's death, which his family has called a suicide based on a note he left.

Alexander Kearns, 20, killed himself after his Robinhood account showed a negative balance of more than \$700,000, according to a series of tweets by his relative Bill Brewster. The figure may have been temporary and would have been updated when stocks underlying his assigned options settled to his account, according to Brewster. But Kearns believed it reflected how much leverage he had, according to the note, which was provided to Bloomberg by his family.

Robinhood pledged to change elements of its options trading platform on Friday, in response to Kearns's death. Its co-founders said they would alter how buying power is displayed in the app, and consider additional eligibility requirements for users seeking to employ more advanced options strategies. They also said Robinhood would make a \$250,000 donation to the American Foundation for Suicide Prevention.

"We are personally devastated by this tragedy," according to the blog posting written by Baiju Bhatt and Vlad Tenev.

"It is not lost upon us that our company and our service have become synonymous with retail investing in America, and that this has led to millions of new investors making their first investments through Robinhood," they said. "We recognize this profound responsibility, and we don't take it lightly. Our aspiration is to innovate, lead, and go beyond the status quo."

Some responses to Brewster's posts show traders grappling with losses in the value of their holdings, while others have highlighted that even teenagers seem to be dabbling in the app.

"They're not super finance-savvy," Brewster said of Kearns's family in a phone interview this week. "I don't even know that they would have known the questions to ask."

Robinhood's popularity reflects one aspect of modern investing culture, said Alex Caswell, a wealth planner at RHS Financial. It fits into a community that includes everything from Reddit's Wall Street Bets forum "where everything is seen as one big casino" to FinTwit (financial Twitter), and Barstool Sports's Dave Portnoy livestreaming his day trading to millions of fans.

"There is a culture that has been built around Robinhood," Caswell said. "That culture doesn't necessarily just come from the fact that Robinhood exists, rather Robinhood makes that culture easier to exist."

## Confetti and Rap

Menlo Park, California-based Robinhood encourages stock market newcomers with an irreverent tone and mobile-friendly trading system. The app shows confetti shooting when a user makes a trade, and features lists of the most popular stocks on its platform. A business news podcast Robinhood airs, "Snacks Daily," has used rap lyrics to issue legal disclaimers ("The snacks you're about to hear ain't food -- it's ear candy/They don't reflect the views of the Robinhood family.")

A Reddit page for Robinhood users has more than 300,000 members who share memes and “really dumb” questions. In April 2019, the page had about half as many members. There’s also a server for the app’s users on Discord, an online communication application originally built for gamers.

Robinhood has learning tools listed on its website, and potential investors must complete an eligibility questionnaire before they can trade options. Users must be at least 18 years old to apply for an account.

Applications go through a customer identification process that validates names, ages and Social Security numbers, among other details, according to a person familiar with Robinhood’s procedures.

Half of Robinhood’s new customers this year have said they are first-time investors, according to the company. More than 2 million new accounts opened in the first quarter, exceeding the number of new users at Charles Schwab Corp., TD Ameritrade Holding Corp. and E\*Trade Financial Corp. combined during that period.

To accommodate the influx, Robinhood’s customer support team has grown by more than 40% this year, according to the person familiar with the company’s operations. By the end of 2020, it expects to have more than twice the support staff it had in January.

Bhatt and Tenev, Stanford University classmates, founded Robinhood in 2013 and started selling trading software to hedge funds after graduation. Two years after moving to New York, the pair returned to California to launch Robinhood, which is now worth about \$8 billion. Both are billionaires.

Earlier this year, as the coronavirus pandemic sparked violent swings in equities worldwide, Robinhood’s trading platform repeatedly failed, leaving millions of customers in the dark. Some pulled their accounts and went to competitors. On Thursday, Robinhood was down temporarily.

As much as Robinhood portrays itself as an outsider in the financial world, it earns money in staid, traditional ways. The company relies on the same financial machinery that Schwab, E\*Trade and other decades-old trading platforms do.

Because the company doesn’t charge trading commissions -- which is now the industry standard for discount brokers -- it collects revenue in other ways. These include collecting interest income from uninvested customer cash, lending out securities and payment for order flow.

Those who seek out Robinhood may crave a non-traditional trading experience and are likely to embrace the platform no matter what, said Cait Lambertson, a professor of marketing at the University of Pennsylvania’s Wharton School.

“You don’t go to Robinhood unless you want what they’re offering,” she said. “People simply won’t show up who might be dissatisfied with the offer.”

*Bloomberg News provided this article. For more articles like this please visit [bloomberg.com](https://www.bloomberg.com).*