BRANNAM WEALTH MANAGEMENT of RAYMOND JAMES®

Leslie Dix-Kwiatek, AAMS, WMS

Wealth Management Specialist

Financial Advisor

904-348-5403 // leslie.dix@raymondjames.com

www.brannamwealth.com

Why Robinhood & Social Media are Hurting the Retail Investor Rather Than Helping

Robinhood has been the in the headlines of the media lately for many reasons. I'm going to focus in on how Robinhood, along with social media, are potentially hurting the retail investor rather than giving them "the freedom to trade like the professionals do". My opinion is based on my perspective as a financial advisor that has been in the industry since 2005.

First let's start with how Robinhood makes their money. Didn't your Momma tell you nothing is free? A business needs to make a profit to stay in business. If you are getting trades for free, someone else is paying for it. Robinhood gets paid by brokering out their trades to market makers in a common practice called "payment for order flow". You have probably never heard of this because it is a part of the free-trading business model that is not very transparent. The more trades, the more money they make. So while they claim to be giving back to the poor and taking from the rich by providing free trading to the retail investor, in actuality they are marketing their product very well, but taking advantage of the retail investor.

They allegedly promote trading to their customers on their app and glorify day- trading rather than educating the retail investor and promoting them to have a coherent strategy with a diversified allocation that can help grow their money long-term. Instead they are pushing riskier assets like cryptocurrencies, option trading, and trading stocks on margin. These Retail Investors are deep in risk with no downside protection. When losses occur from not diversifying, but rather trading these risky assets, it may deter the retail investor from ever wanting to buy into the stock market again. This is sad considering if an individual invest their money properly for the long-term they can grow their wealth, which is necessary to do in order to keep up or outpace inflation so that their money will last for their lifetime.

Excessive trading is not investing and is not the way we should be teaching retail investors to take part in the stock market. Typically short-term trading leads to loses for the unexperienced investor. You win some and you lose some, but ultimately what does your return look like after a year or more of short-term trading? Funny how you never hear someone talk about the stocks they lost money on, but they do, and those are just overlooked by the wins. If you looked at the return over a 3-5 years period of someone short-term trading vs long-term investing, typically the long-term investor will win, but that isn't always the case. If you add in taxation on a non-qualified account, long- term investing will most likely win. Those short-term gains that you did make, they are taxed at your ordinary income tax rate vs. a long-term gain held for 12 month and 1 day or more is taxed at capital gain rates which for most is typically 15%.

To make matters worse, gamifying trading based on speculation and social media sentiment will most certainly lead to short-term loss as the trades are not based on fundamentals of good companies that can sustain themselves for long-term investing. To be able to trade for free isn't necessarily the best idea in my opinion. Free trading is gamifying investing and making it seem okay to trade obsessively. I think there should be some sort of buy in, even if it is $5 per trade. It will make someone really think about the opportunity cost regarding buying or selling a stock, and maybe, just maybe, research the stock they are wanting to buy to see if it makes sense to invest in because it is going to cost them to both purchase and sell the stock. If you remember the State Farm commercial that said "if it is on the internet it must be true", you are probably chuckling right now… or at least I am. Just because social media says you should go buy a stock because it's popular or it's going to go up to $1000, does that mean it is true? Did you do the research on it? If retail investors had researched GameStop it would be unlikely that the majority of them would have bought into the stock based on the fact that it was a failing company with horrible fundamentals. Hence why hedge funds were shorting it. Yet, a blogger on social media was able to convince all these retail investors to buy GameStop & it became a time bomb. A time bomb in that some made money and some lost a lot of money depending on the timing of when they bought in and sold because the stock was based on sentiment and speculation and not fundamentals to hold the price stable as a long-term buy.

With a company that is promoting and gamifying trading and social media bloggers influencing stock buys based on the wrong reasons rather than fundamental and financial reasons, we ask ourselves why are retail investors falling for this? They are not stupid or uneducated, but it falls on our human nature to emotionally react to market fluctuations. Investors will typically look to others to determine the best course of action. So when others are buying, human natures tells us this is what we should be doing. This is how trends are created. Everyone is buying toilet paper and the supply has become low, we should buy some too for fear of missing out. The main emotions that investors are acting on are greed and fear. Therefore, when markets or stock prices fall, fear kicks in and investors seek to sell for fear of losing all of their money. Once the market or stock has recovered and is on the uptrend, investors start getting greedy and want to buy back in at an already elevated price. What should be happening is investors should have a strategy in place and be in a diversified portfolio to weather volatile short-term volatility. Not to say they cannot take advantage of great buying opportunities and take profits on large gains, but that entails buying low typically and selling high, which we have pointed out is hard emotionally for investors to do with their own money.

This is why it can be beneficial to have a long-term strategy in place and a professional advisor who has experience with market cycles. An advisor can help take the emotion out of the equation by telling you the facts and providing you with the details you need to ultimately make the best educated decision for your money. In addition, advisors can also provide active management of your investments along with financial planning for your retirement and long-term goals. You have a job that you go to every day and you may consider yourself an expert in that area that you focus on day in and day out. In fact, you spend about 2,000 hours per year at your job. So would you rather have the help and guidance from a professional when it comes to managing your money that needs to last you your lifetime? Or would you prefer to be the expert of your investing in the market via an app on your phone?