**Robinhood Effects**

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**Introduction**

Robinhood effect is the stock price movement due to the surge of retail investors pumping liquidity into stocks without prior fundamental analysis or knowledge, often overvaluing the stock. It is an unusual time for the United States (U.S.) economy because of the massive stock market crash (Pagano et al., 2021). Notably, millions of Americans remain unemployed, which puts the entire country in distress. People are scrambling to generate their customary returns. Investors, analysts, and stock experts have heated debates over near-term market prospects because they rely on unfolding events to predict when and where to invest their stocks.

The new stock market apps such as Robinhood have made significant changes in the industry. These apps have increased stock market exchange activities because they rule young people into the trade (Berger et al., 2018). This strategy has introduced a new generation in investing because the apps are cheap and reliable. Notably, the investors only need a few steps to get started and get access to certain stocks. Most Robinhood traders invest in speculative stocks because they have low share prices and more volatile compared to traditional blue-chip stocks. This enables investors to realize windfall profits in the market.

**Factors that made Robinhood so popular for Retail Investors**

**COVID-19 was a Massive Stocks Market Crash**

The new twist in the stock market is who is currently leading the industry in terms of stocks. Many individuals have used their quarantine time to explore stock market trading through no-commission apps such as Robinhood. According to Fortunado (2020), Coronavirus pandemic has assumed a fundamental part in the influx of retail financial investors in the U.S. securities exchange. Robinhood effect result from an increase in dark trading activities in the stock exchange due to an increase in trading volume and high-frequency sites encouraging online trading. Seemingly, Robinhood has been a victim of stock manipulation through the initiation of dark pool stock trading, which generates a lot of profits. In such a manner, the Robinhood impact has brought about sketchy value developments of stocks that empower easy control of stocks influencing the U.S. securities exchange (Osipovich, 2020). In this way, the worries brought up in the context above concerning the impacts of the retail investor boom in the U.S. market have led to requirements for additional standards and guidelines to protect financial organizations and investors on Wall Street.

The literature review in the context establishes Robinhood as the primary firm that led to the influx of traders upon cancelation of sports during the COVID-19 pandemic. According to Moss and colleagues (2020), the notion is true because the company used its trading platforms to offer a gamification strategy that enticed both investors and gamblers to continue trading, leading to the influx of traders in America. With the recent elimination of brokerage fees, the company saw fit to attract more investors through the strategy above as the number of trading per customer increased in the first quarter of 2020. Besides, Robinhood found a way to make more money as they provided the flow of orders to market markers at a specific price, thus hurting the U.S. market. With the increase in high-speed online trading, Robinhood's strategy covered approximately 47% of the U.S. market by the fourth quarter of 2020.

Robinhood sold millions of dollars of their orders to market makers, intending to democratize finances for all citizens as market makers make their money back via high-frequency trading and dark pools. The narrative mentioned above is an interesting and detailed analogy since the result analysis shows that Robinhood was paid by market makers approximately $221.4 million as the daily trading volume increased from 7 billion shares per day in 2019 to 14.7 billion in 2020 hence depicting a turnover of 100% increase in trading volumes (Fortunado, 2020). In this regard, the trading volume results from the increase in retail investors, who increased by 48.6% by January 2021, leading to the retail investor boom. Figure 1 represents Robinhood revenue since 2015

**Robinhood Revenue**

Figure 1: Robinhood Revenue growth since 2015.

**Quarantine increased the need to explore day Trading and Investing**

The COVID-19 pandemic has a lot of effects on contemporary society. People were subjected to quarantine to curb the spread of the virus. People have remained indoors for the better part of 2020, and the same trend continues in 2021, forcing people to discover new ways to survive. Adding new experience, finding what to keep one busy indoors, and increasing “do it yourself” has made Robinhood so popular for retail investors (Osipovich, 2020). It has greatly changed the stock market as people tend to add joy to their lives and promote mental welfare through stock trading.

People have created enough traffic online to impact the entire segments of the U.S. security exchange market. Large investors are quickly learning that their old trading techniques are getting volatile and can no longer work. This phenomenon has led to change in the status quo, thus driving significant changes in the strategies applied by experienced investors (Jain et al., 2020). For instance, stock exchange investing was only limited to individuals who could maintain certain balance requirements. It was mainly limited to those who could afford commissions and fees for the transactions. However, this has changed with a new rot of traders in the market because of taking trading online. According to Jain and colleagues (2020), Robinhood increased during the quarantine because people could easily access stocks through their smartphones. It has also increased because the firm has automated its services, and there is little or no interaction required with professional advisors. As a result, this has increased the need for many people to trade online because it is easy and convenient. Figure 2 represents Robinhood transactions since 2016;

**Robinhood Transaction**

Figure 2: Ribonhood transactions since 2016.

**Profit Margins**

Profit margin is considered one of the most vital indicators of the efficiency of a business. According to Coelho (2016), Robinhood became more popular because profit margins were substantial for retail investors due to the rapidly rebounding market. Again, its profits increased, causing the stock price to rise, which made investors feel confident about the future of the firm. This phenomenon increased the demand for stock in the market.

**Minimum Balance Requirements**

Previously, stock investors were required to deposit a certain amount of money before trading. Robinhood has eliminated the minimum balance requirement, such as commissions and trading fees. The platform had also made drastic changes to incorporate investors with tiny portfolios. This strategy has helped create a pool of investors with the same interest in the market (Smith, 2002). Robinhood has also democratized investing by simplifying the concepts and offering extensive tools for analysis online. Importantly, the setup sites and apps have entertaining interfaces making complex stock transactions more of a game. Robinhood became so popular during quarantine because the app is automated and self-directed to do various transactions.

Research shows that there was a massive influx of young and amateur traders using this platform (Louail et al., 2017). Currently, there was a lot of inexperienced investors exerting power in the marketplace. Stock exchange professional amateur traders and institutional investors are working through the underlying market conditions. They are going through unintended consequences of opening the market to any individual with a mobile device and little money to transact. Robinhood added 3 million accounts in the first quarter of 2020 because of unprecedented lockdown, quarantine, and other orders to curb the spread of the virus.

The quarantine also made Robinhood more popular because everyone, from college students to unemployed individuals, had a lot of time to explore the available opportunities to make a living. Again, people had government stimulus, which gave them little capital to play with. Robinhood holds a small but growing share of retail accounts in the brokerage market (Osipovich, 2020). The number of shares has been growing because Robinhood took a different approach, while traditional retailers involved professionals and institutional investors in selling shares during quarantine.

**No Commission Trading**

Robinhood began offering no-fee stock trading to its retail traders in 2019. This strategy has changed the stock market completely. Since then, Robinhood has become so popular for retail investors, making it boast more than 4.3 million daily average trades. According to Eaton and colleagues (2021), purchasing stock has been for wealthy individuals, but the industry has increased capital access for the little traders. Robinhood has used a no-fee strategy to market and acquire customers because it is cheaper to trade stock online. The hunt for information advantage by key players in the stock market has been fundamental in the success of commission-free stock trading. Most big firms in the stock market rely on data-driven algorithms and electronic connections to trade their stocks.

**Robinhood Trading Strategy**

Punt and colleagues (2011), defines trading strategy as a method of buying and selling based on certain rules used to make trading decisions in various transactions. It is important to include a well-considered investing and trading plan geared towards the success of the firm. Robinhood used “buy the dip,” which is a rare strategy of the wisdom of crowds at play in the security market. This idea needs a lot of academic support to become successful.

This should not imply that that the securities exchange consistently goes up–a long way from it, and actually, when those declines do come, they are definitely more severe than the advances. Regardless, the "buy the dip" mindset is a less difficult phrasing for mean reversion, which is one of the two forces-mean reversion or momentum, in which traders extract profits from the market (Walters, 2020). See it like this, each exchanging methodology plans to either purchase something because it is currently going up in the expectation that it will keep going up, or purchase something that is going down in the expectation that it will turn around because it will reverse because it has gone down too much. Under the “buy the dip” strategy, new Robinhood investors buy a lot of securities in a distressed market. They expect that prices will rebound because of government bailout programs. This strategy has worked for a good number of Robinhood traders.

**Investing Strategy**

The stock market seems more interconnected every day. Well, you will observe that events in one country or sector of the economy have an ever-increasing effect on other countries across the globe. Robinhood traders invest in riskier, uncertain stocks that grant possible short-term gains, favorable for day trading (Stein, 2020). They move their money out of equities when a hard time comes, which causes the stock market to depreciate. This strategy has helped traders to survive in the market despite facing various challenges.

**Obtaining Information from the Social Media.**

According to Seal (2009), factors only account for 10% of investor’s reactions in the security market, and everything else is psychology. He argues that most fortune investors during Europe's reconstruction made it through observations. The stock market has evolved because people can use social media to monitor and analyze data, especially with regard to communication about stocks. Robinhood traders use social media to connect sentiments and market movement to decide where, when, and how to invest. This is because what we consume is influence by other people's opinions in the market.

Importantly, they observe key events through social media that affect price movements to a large extent. People communicate by sharing information and data through social media platforms such as Reddit, Twitter, and Tiktok, which help investors in their investment decisions (Osipovich, 2020). Sharing information about various events triggers a lot of emotions, and the market reacts almost instantly.

**How Robinhood Effect Affect Professionals.**

There has been a significant effect on professionals such as online brokers since Robinhood entered the market. It is a do-or-die time for online brokers of all walks of life. For me, it is either they adapt to the new evolution or leave the market. They have no choice but to incorporate the volatile movements in stock prices due to retail investors, which make up over 37% of the market (Brown, 2020). The Robinhood effect has changed the professionals at an unprecedented rate such that tomorrow’s dominant custodians are being subjected to ultra-competition in the modern market. It has also eliminated many professionals in the market because investors can trade online.

**Criticism**

Several significant risks are associated with amateur trading. First, there is a small investment compared to huge funds controlled by professionals. Amateurs, on the other hand, are only investing their life-saving in the area they do not understand how they operate. Most of them act on the “hot-tips” they find on social media or trending stocks listed on the Robinhood website (Pagano et al., 2021). As a result, they are subject to make poor decisions because they do not carry out in-depth research necessary for smart investment.

Again, Robinhood investors are not just trading stock, but instead, they are experimenting using sophisticated strategies that are considered high-risk regardless of their experience in the market. Although Robinhood offers investors education, amateurs lack fundamental knowledge and skills to trade (Brown, 2020). Many of the traders do not understand their position and lack basic technical information that professionals rely on to be successful. Alexander Kearns is an excellent example of the results of lack of experience in trading. In June 2020, he took up his life by committing suicide because he had lost a shocking $730,000.

Importantly, it is hard to predict the impact of Robinhood effects among investors in the long-run. It is unreasonable to argue that amateur traders will lose interest and move on to other platforms where life seems normal. On the other hand, they may be here to stay, and therefore professional investors will be required to incorporate the Robinhood effect into their strategies to thrive in the market. Currently, professionals are in a dilemma to predict how the market will move in the future. According to Stein (2020), there is a portion of Robinhood amateur investors who have benefited from the market’s fast rebound, while many professional traders missed the rally. This situation has sparked a lot of debates among analysts and investors in the market. Some of them are furious because they think that amateur traders have disrupted the market patterns, while others admire their success and want to be associated with them in the future.

In any case, the emphasis on zero commission disregards the other critical differentiators that made Robinhood successful. The smooth five-minute sign-up, with no account requirements, the smooth application, social nature, crypto exchanging, nightfall exchanging, the new high return money accounts has also been vital for its success. Robinhood was working out these client-driven highlights while industry mainstays attempted to keep up their oligopolistic, charge weighty constructions (Louail et al., 2017). Of course, purchasing and selling stocks free of charge is not, at this point, the fastest method to clarify Robinhood's extraordinary growth. Be that as it may, cutting costs is just the most straightforward approach to copy Robinhood's well-known financial investor-focused offerings.

**Conclusion**

It is evident that new apps such as Robinhood have tremendously changed the game in the stock market over the last few years. The app has lured many youths into stock trading because they can easily transact using their mobile devices. Again, the amount of capital needed to start trading is lea compared to other trading platforms. This strategy has made it easier to penetrate the market and make profits despite competition from firms embracing traditional trading techniques. Well, despite these positive effects, Robinhood had also eliminated many stock trading professionals in the market because people can easily trade online.

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**Appendix**

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| Year | Revenue in Million |
| 2015 | $2.9 |
| 2016 | $9.3 |
| 2017 | $21 |
| 2018 | $69 |
| 2019 | $111 |
| 2020 | $682 |

Table 1A: Robinhood revenue growth since 2015

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| Year | Total Transactions in Billion |
| 2016 | $0.5 |
| 2017 | $50 |
| 2018 | $100 |
| 2019 | $150 |
| 2020 | $350 |

Table 2A: Robinhood transaction volume ,2016-2020.