

WHITE KNIGHT CONSULTING LLC



AMC & GAMESTOP IN SHERWOOD FOREST

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Over the past few weeks, Robinhood, AMC and GameStop have taken centre stage on the news and social media as a new social dilemma has begun. Robinhood was the face of a movement to democratise capital markets, but what has unfolded has put all of this in question.

The saga began with WallStreetBets (or WSB) an online forum on Reddit. WSB was created by Jaime Rogozinski (a Mexican IT consultant) and became a place where retail investors could exchange stock ideas. For the most part, the investors were executing their trades on Robinhood. Robinhood is a trading platform that touted itself as a place for retail investors to be able to access capital markets, enabling retail investors to trade for free and even allow them to purchase fractional shares. But Robinhood didn't place the trades, they used Citadel, a Hedge Fund to execute and settle their clients purchases and sales.

Now that we understand the background, we need to look at what took place over the past few weeks. AMC and GameStop are two companies that are close to bankruptcy. Due to discussions on WSB, a feeding frenzy ensued pushing the stocks up; AMC was around \$2.3 and rallied to a high of almost \$20 and GameStop went from \$17 to a high of almost \$400.

Robinhood started to have difficulties in settling its trades, as it needed to post capital which was lacking. It also pushed them into a corner forcing them to stop clients from purchasing additional shares in those two companies. What was happening reminded me of the movies *Wolf of Wall Street* and *The Boiler Room*; it felt similar to the old pump and dump. Someone was going to get hurt. Robinhood's actions were actually in the interest of clients who were joining the frenzy of paying crazy valuations on stocks, where the investor was assured of losing money.

There is much blame being bounded around and I think it is dangerous for people to unilaterally stop an investor for being able to execute trades. But if cyber forums can be allowed to create these market frenzies, how can we protect the less savvy investors?

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