



Young Traders and the Dangers of the Stock Market

By Katherine Konczak

As a result of stimulus checks, stay-at-home orders, no sports to bet on, and zero commissions, the COVID-19 pandemic caused both retail and individual investors to claim a larger share of stock market activity. According to Citadel Securities' Head of Execution Services Joe Mecane, retail investors comprise about 20% of stock market activity and account for up to 25% of trades on some days; individual investors now account for 15% of the market's trades. The surge in popularity of Robinhood, who debuted zero trade commissions, led to the major brokerage firms to match this strategy in order to compete with the app-based trading platform. As a result, millions of investors, especially millennial investors, gained increased access to the stock market. However, the increased popularity of Robinhood blinds young, eager, and inexperienced traders to the dangers of the stock market. I believe there are two major factors contributing to the financially devastating results some young traders may experience: Robinhood's user interface and the influence of social media, especially TikTok.

Many users praise Robinhood for its user-friendly interface. The app's design however, which includes confetti across the user's screen once they make a trade and features such as emojis makes the app seem like more of a game than a serious trading platform. This may encourage users to make more frequent and risky trades. Risky trades like this can lead to users losing vast sums of money on the platform. For example, Richard Dobotse revealed in an [interview with the New York Times](#) that he lost tens of thousands of dollars while trading on Robinhood. However, these risky trades can be even more costly. In June 2020, [NBC Chicago reported the death of Alex Kearns](#), a 20-year-old college student who took his own life after he saw that he had a negative \$730,000 balance on Robinhood. The actual balance in his account, however, was actually \$16,000 because some of his options trades were incomplete. In September, following Kearns's death, Robinhood made a series of updates to the app. These including increasing the amount of educational information available to users on the app and increasing the eligibility of level 3 options trading. However, in a [CNBC interview](#) with Robinhood users, one user with a similar age and stock market experience as Kearns reported

that he was not permitted to trade options on Charles Schwab. The bottom line: Robinhood's one-click trading gives highly inexperienced users too much access to options trading.

Since users have more time to spend on the Internet due to stay-at-home orders and remote working and learning, many young investors may turn to social media to get their stock market advice. Since anyone can post on the Internet, these recommendations do not always come from a licensed professional. The rise of investing among young traders has led to an increased amount of finance videos posted on social media, especially on TikTok, where it is referred to as "FinTok" or "StockTok." On TikTok, users can find videos from self-proclaimed risk management professionals advising users to invest in certain stocks with little to no research to support their claims. They also suggest investing in the market, options, or real estate instead of their 401(k). Many of these users offering such advice do not have any financial credentials listed in their TikTok bios. The misinformation rampant in these videos may cause some users to lose consequential sums of money.

Although the barrier to entry into investing (namely, the abolition of commissions fees) have been eliminated by the leading brokerage firms, new investors need to keep themselves grounded and avoid being swept up by the stock-market craze. One of the best ways to avoid getting caught up in the market is to use a different trading platform than Robinhood. Robinhood's one-click trading may be more user-friendly than the rest, but it can also encourage users to trade more stocks, as well as options, and find themselves in a precarious financial position. Online brokerage firms such as E-Trade usually require going through numerous steps to execute a trade, this could prevent users from making rash financial decisions. Furthermore, I would also fact-check blog posts or videos about the stock market to see if the recommendations can be supported with research. I am well aware that these suggestions will take more time, but my hope is that if young investors use some of their free time to educate themselves about the risks of the stock market, they will be less prone to making risky decisions that could jeopardize their assets.

Some solutions I propose to help protect young traders from losing a significant amount of money in the stock market would be for Robinhood to redesign its user interface so users will



have to go through more steps to execute a trade and more clearly display users' power in a way that unexperienced investors can understand. The changes they implemented after Kearns's passing is not enough. However, Robinhood will not do this on their own – it will take the SEC to make this change happen. Though Robinhood already has multiple ongoing [investigations by the SEC and FINRA](#) regarding its business practices, Robinhood's user interface should also be included. In addition, regulatory authorities should also consider including day trading – which is popular among young investors due to the belief that they can earn extra income – in their definition of gambling. If the [IRS considers fantasy sports entrance fees as gambling](#), why isn't day trading? Perhaps a disclaimer that a new user has to acknowledge on all trading platforms may make them more aware of the risks when trading. In regard to social media, while I do not believe it is TikTok's responsibility to pre-screen every single video prior to being posted on the platform, all videos under FinTok/StockTok should include a link to resources about investing. The banner beneath the video's caption can be similar to the one already on the app for COVID-19.