The retail trading boom and why it matters

Member exclusive by Chika Dunga
The stock market surge

In a word, retail trade in 2020 was astronomical. A pandemic-depressed economy and surging stock market combined to create a retail trade boom. New traders—many of them young, women, and people of color—opened new brokerage accounts by the millions. These new traders learned anyone can try to make a buck on the stock market, with one caveat: Beware of putting real money on the line.

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A glossary of the trading ecosystem

The trading ecosystem can get pretty confusing. Here’s a breakdown of the lingo you need to sound like an expert.

**How to start investing in stocks: a beginners’ guide.**

### Definitions

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<thead>
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<th><strong>Definition</strong></th>
<th><strong>Description</strong></th>
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<tr>
<td><strong>Security</strong></td>
<td>Tradeable financial instruments used to raise capital in public and private markets.</td>
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<td><strong>Stock market</strong></td>
<td>A collection of markets and exchanges where regular activities of buying, selling, and issuance of shares of publicly-held companies take place.</td>
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<td><strong>Institutional investor</strong></td>
<td>Large entities that trade securities on a large scale, usually on behalf of individual investors.</td>
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<td><strong>Securities exchange</strong></td>
<td>A marketplace where securities, commodities, derivatives, and other financial instruments are traded.</td>
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<td><strong>Short selling</strong></td>
<td>An investment or trading strategy that speculates on the decline in a stock or other security’s price.</td>
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<td><strong>Equities</strong></td>
<td>Ownership in an entity (company, partnership, or trust).</td>
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<td><strong>Stock</strong></td>
<td>A security that represents the ownership of a fraction of a corporation.</td>
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<td><strong>Day trader</strong></td>
<td>An individual investor who executes four or more trades within five business days. A $25,000 minimum deposit must be maintained at all times.</td>
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<td><strong>Options</strong></td>
<td>Financial instruments that are derivatives based on the value of underlying securities such as stock.</td>
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Data: Investopedia, Modified.

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Who are the new traders?

The stock market has historically been dominated by people with money, whether it’s from their retirement accounts or personal funds. Trading accounts used to have commission fees and minimum deposits that kept less wealthy people from investing. However, since 2019, most popular online brokerages have eliminated many of those fees and financial barriers. That means trading is now truly open to all, and new traders are younger, less male, and less white.

Investor by race/ethnicity in the US, 2020

*Note: Holdover accounts holders opened taxable investment accounts before 2020 but did not open a new account during 2020.

Data: NORC
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What’s driving the new traders?

Multiple factors contributed to the surge in new accounts opened.

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<th>People increasingly have:</th>
<th>The market offers:</th>
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<td>Access to smartphones</td>
<td>Great return on investment</td>
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<td>Stimulus checks to spend</td>
<td>Volatility</td>
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<td>Time to spare during pandemic lockdowns</td>
<td>$0 commission trading on certain financial securities</td>
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<tr>
<td>More savings</td>
<td>Fractional trading—you can buy a slice of share</td>
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Data: [Inside the hormones, politics, and technology fueling a global stock market bubble](https://qz.com/2736257/inside-the-hormones-politics-and-technology-fueling-a-global-stock-market-bubble/) and [How the retail boom is shaking up the US stock market](https://qz.com/2736250/how-the-retail-boom-is-shaking-up-the-us-stock-market/)

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It’s not just the US

Retail trade is accelerating in other parts of the world. In Asia, stock exchanges are also experiencing record activity. Individual traders dominate South Korea’s largest stock exchange. Hong Kong’s markets grew so much that it attracted an unexpected tax increase. Other parts of the world are now starting to see an uptick in trading, too. Freetrade, a UK-based brokerage, saw daily signups grow from 3,000 to 30,000 during the GameStop frenzy.

![Monthly downloads of top brokerage apps by country](chart)

Data: Apptopia | February 2021. Analysis by John Detrixhe
Quartz | qz.com.
The internet is helping retail traders make decisions about where and when to invest. On social media platforms like Twitter, Reddit, and Discord, hobbyists trade information about stocks and options trading. Sometimes they’re acting on solid financial information; other times, it’s their own momentum, using their sheer numbers to assert power over the value of particular stocks. Starting in late 2019, a band of determined Redditors sent GameStop stock soaring over 1,700% from Dec. 2020 to late Jan. 2021.

Open the gates: traditionalists vs hobbyists

Historically, the stock market was a physical space where merchants gathered to exchange goods. This grew into companies issuing stocks as financial professionals and brokers facilitating these exchanges.

A Brief history of the stock market

- **1611**: First modern stock trading is created in Amsterdam. The Dutch East India company becomes the first publicly traded company.
- **1700s**: A small group of merchants creates the Buttonwood Tree Agreement. They meet daily to trade stocks and bonds. This practice eventually becomes the New York Stock Exchange.
- **1896**: The Dow Jones Industrial average is created.
- **1923**: The precursor of the S&P 500 is created by Henry Barnum Poor’s company, Poor’s Publishing merges with Standard Statistics.
- **1941**: Standard and Poor’s is founded when Poor’s Publishing merges with Standard Statistics.
- **1971**: Trading begins on the National Association of Securities Dealers (Nasdaq).
- **2008**: The stock market crashes after the housing bubble bursts.

Data: Sofi, Modified Quartz | qz.com.
I think the big takeaway is fundamentals do not apply to retail traders. It’s all about sentiment. The only reason why Tesla is worth what it is is because people believe in the company.”

Noah Williams, 36-year old trader in Atlanta, Georgia. Wall Street Journal interview in “GameStop Mania Reveals Power Shift on Wall Street–and the Pros are Reeling”
Gamifying trading, risky business

Robinhood, a zero-commissions trading platform with 13 million users in 2020, has been criticized for gamifying trading. The app incentivizes users’ frequent trading with tactics such as splashing confetti onto their screens after they complete their first trade, promising free stocks, and frequent push notifications. The temptation can be difficult to resist, even when there’s real money involved: One user, for example, made 12,700 trades in a little over six months. Robinhood has since agreed to remove its confetti feature.

### Correlation between changes in a stock’s popularity on Robinhood and its price


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More money, more problems

Unfortunately for retail traders, swimming in trading’s newly-open waters can be dangerous. There has already been a casualty. In July 2020, 20-year-old Robinhood user Alex Kearn mistakenly believed he had lost over $700,000 and died by suicide. In response, Robinhood promised to revamp eligibility criteria, offer educational resources about options trading, and improve its user interface.
THE RETAIL TRADING BOOM AND WHY IT MATTERS

A need for guardrails

After the craze around GameStop, AMC, and Blackberry, government financial regulators are watching the stock market for more volatility. They’re keeping their eyes on social media sites as well as the brokerages themselves (such as Robinhood or TD Ameritrade) to assess whether they’ve broken any rules.

“I’d like to see our capital markets be a place for investing because you think a company is doing well, and where companies can raise the capital they need to create jobs. Instead you have high frequency trading, whose social utility is hard to identify, consuming enormous intellectual resources, and I don’t know with what purposes.”

Rep. Brad Sherman (D-Calif.) chair of the House Financial Services subcommittee on investor protection

Wall Street Journal interview in “GameStop frenzy leaves behind a mess for Wall Street regulators.”

Data: Gamestop frenzy leaves behind a mess for Wall Street regulators. Quartz | qz.com
Bubbling over

Keen observers of the market, including retail and day traders, would be smart to ask: does all this volatility mean there’s a stock market bubble? It’s hard to say—predicting a bubble before it bursts is hard to do. There are some signs that the answer is yes, namely company valuation tied to “disruption” narratives, speculation, and the Nasdaq 100 doubling in two years. But there are also signs to the contrary—the Federal Reserve isn’t raising interest rates, and companies’ high valuations may not be inflated because they do, in fact, make a lot of money.

Data: Federal Reserve Bank of St. Louis. Analysis by Roya Wolverson.
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Want to know more? Read Quartz coverage of the stock market.

- How the retail boom is shaking up the stock market. Everyday people are trading at an unprecedented scale.
- How Robinhood became a target of the retail-trading hype it helped to create. Robinhood users aren’t fans of being blocked out of their own game.
- How no fee stock trading is changing the stock market. $0 commissions trading on certain securities is changing the retail trade landscape. But who’s winning: traders or the investment funds?
- The GameStop trade needed short sellers to work—and so do markets. Short sellers get a bad rap. But they play an important role in regulating the market.
- Citadel Securities gets almost as much trading volume as Nasdaq. Trading companies’ volume says a lot about the impact of retail trade.

You’ll also enjoy our member-exclusive field guide on The next bubble.

Have questions about this presentation, or suggestions for us? Send us a note at members@qz.com.