

# ROBINHOOD AND THE GAMESTOP DEBACLE

A Sentiment Analysis by Myron, Ronald, and Adryan

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# BACKGROUND

The Chronology of Robinhood's Gamestop Controversy!

# CONTEXT (GAMESTOP STOCK)



## R/WALLSTREETBETS

- Group of investors on Reddit [virtual chatting platform] became aware of money-making potential in Gamestop stock, purchasing together in late January of 2021



## SHORT SQUEEZE

- Gamestop stock value exceeded over \$500/share in late January as a result of the Redditor “squeeze”, far exceeding the \$17.50/share that it maintained at the month’s beginning

# CONTEXT (ROBINHOOD CONTROVERSY)

## ROBINHOOD

Robinhood is a stock trading platform established in 2013 by Vladimir Tenev and Baiju Bhatt, designed to be accessible to non-investors.

Robinhood still remains a popular stock trading platform for its accessible mobile app and low trading fees!

## CONTROVERSY

Robinhood willfully restricted the purchasing of Gamestop stock on January 28th, 2021 [the peak of the Gamestop Trading Spree], sparking outrage amongst users looking to capitalize on the market opportunity.

Reason for restriction:  
Robinhood could not provide enough collateral to a “clearing house”, meaning that Robinhood could not process all user transactions

## FALLOUT

Robinhood's restrictions cascaded onto other trading platforms, resulting in widespread Gamestop trading bans across various major stock platforms.

Gamestop stock plummeted soon after, losing 80% of its peak January value on February 1st-2nd

**RESEARCH QUESTION:** How did user sentiments towards Robinhood shift following the imposition of Gamestop trading restrictions, and what actions should Robinhood employ?

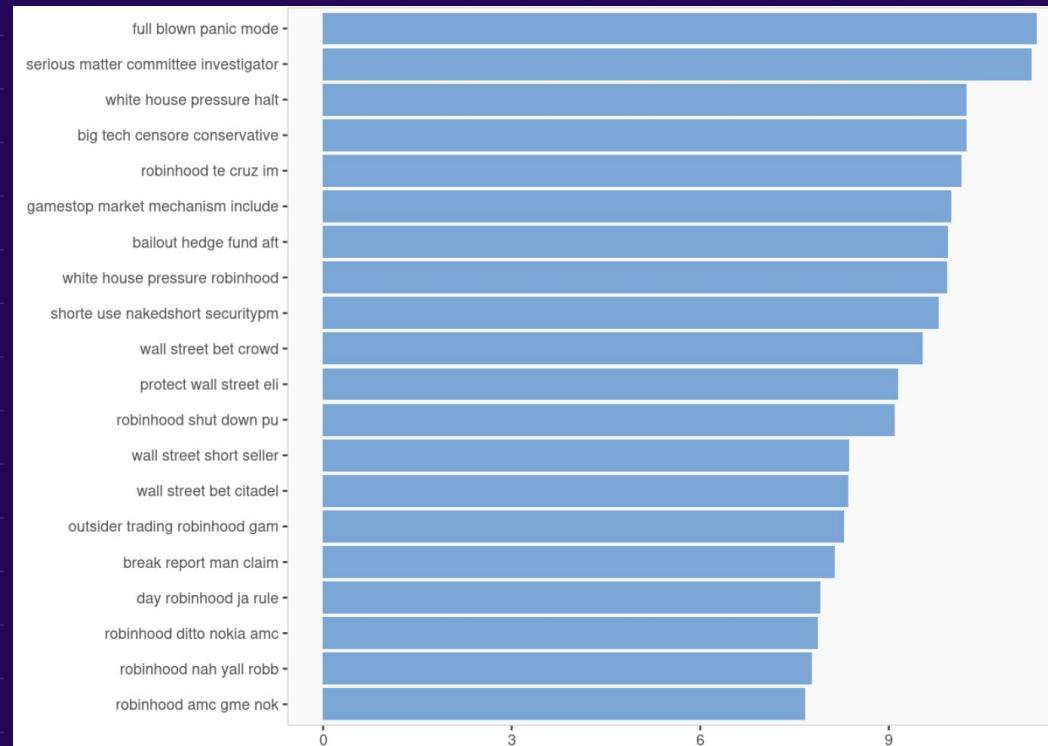
# 01 ANALYSIS

An X [f.k.a. Twitter] Robinhood Sentiment Analysis!

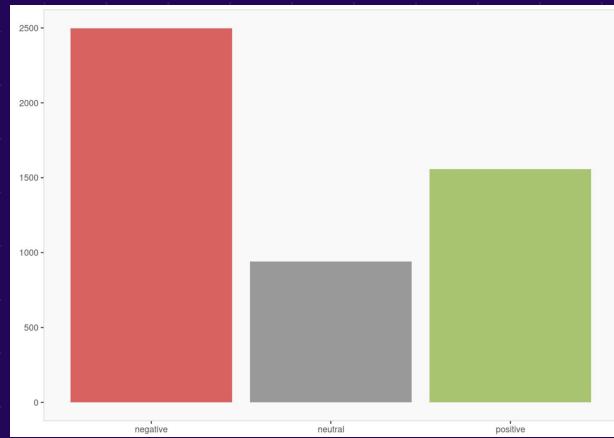
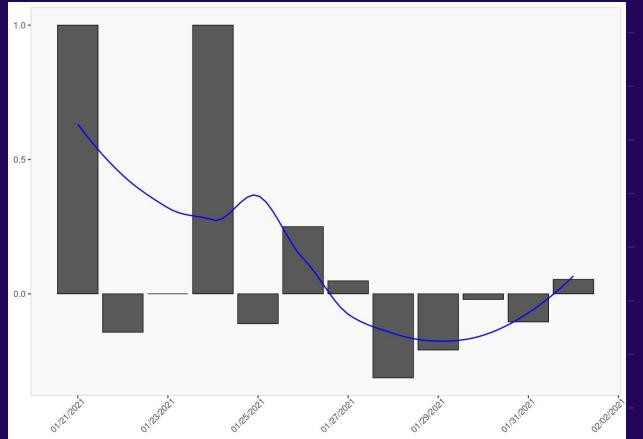
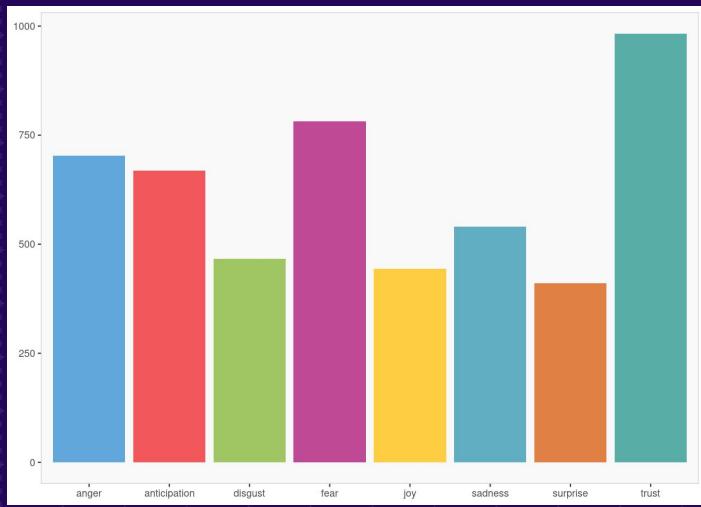
# METRICS OBTAINED (DURING)

	Topic 1	Topic 2	Topic 3	Topic 4	Topic 5
1	free	app	stock	trade	big
2	user	hood	buy	gamestop	wall
3	investig	ceo	amc	market	street
4	dogecoin	robin	gme	citadel	fund
5	limit	call	peopl	today	sell
6	allow	rich	money	restrict	short
7	webul	poor	morn	block	hedg
8	join	fuck	make	halt	investor
9	link	happen	suspend	manipul	action
10	hold	start	decid	yellen	day
11	doge	compani	regular	robinhood	tech
12	transfer	shit	nok	janet	reddit
13	invest	review	longer	fee	class
14	guy	dont	nokia	capit	gamestop
15	don	cuomo	nakd	hear	custom

Topic Model



RAKE Analysis



*Sentiment Analysis Metrics*

# IMPLICATIONS (DURING)



## SENTIMENT DOWNTURN

Online sentiments, which were generally positive prior to January 28th, saw sharp downturns following the Gamestop debacle, indicative of widespread dissatisfaction.



## TRUST VIOLATED

The prominence of *trust* in Emotion Analysis conveys the full effect of the restricted trading; Robinhood users place great trust in the platform, and the events of late January violated such trust.



## RAKE ANALYSIS

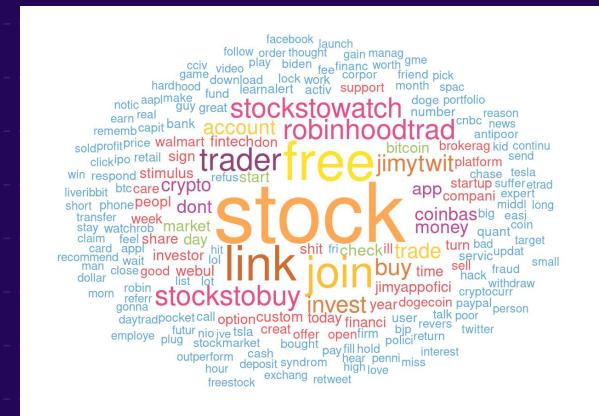
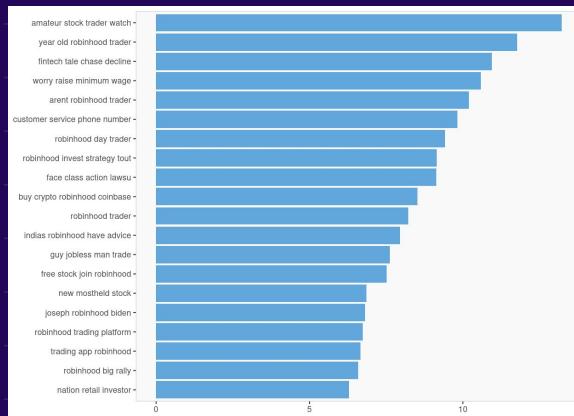
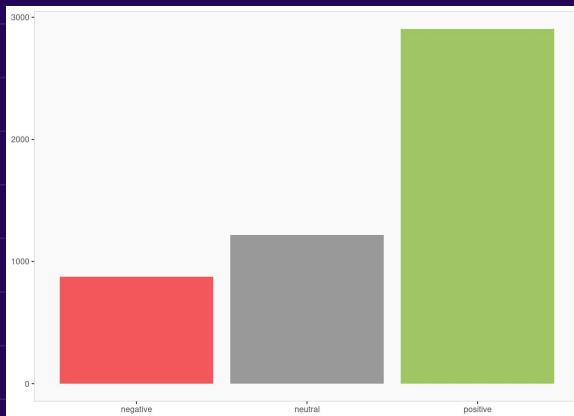
Top phrases display the urgency of the situation, especially with many wishing for direct congressional involvement in investigating Robinhood for negligence.



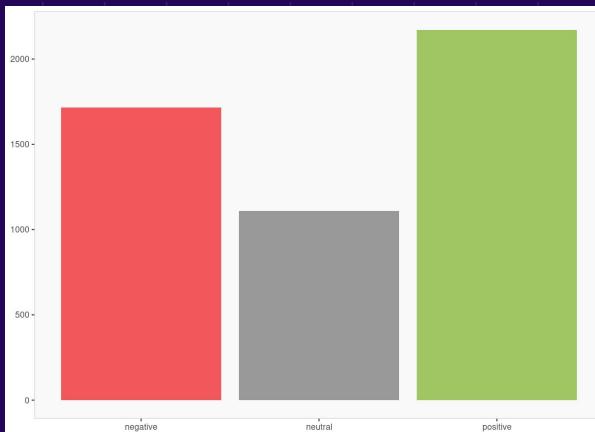
## TOPIC MODEL

The most common topic group relates to Robinhood's user referral system [free stock per user referral], but other groups display a mix of users hearing of and reacting to (in a largely negative sense, as denoted by the curse words) Robinhood's actions.

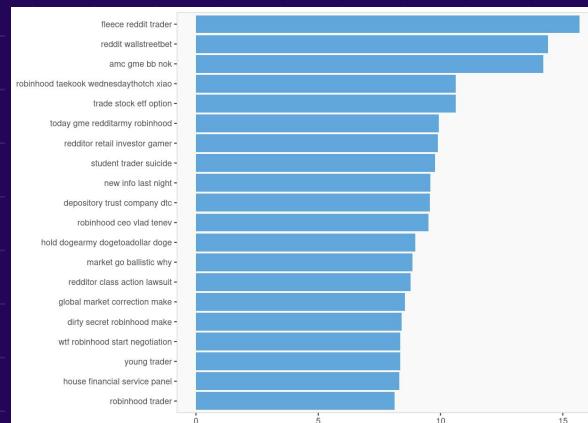
# METRICS OBTAINED (BEFORE)



# METRICS OBTAINED (AFTER)



## User Sentiment



## *RAKE Analysis*



## *Word Cloud [Lots of Red Indicates Negativity!]*

# IMPLICATIONS (BEFORE AND AFTER)

## BEFORE

- Sentiment was widely positive, with the bulk of traffic being app referrals
- Other discussion revolved around daily financial news, such as Crypto and politics
- Negative sentiments were directed more towards state of economy than Robinhood

## AFTER

- Sentiment was split between positive and negative, with many unable to forgive Robinhood's actions
- Discourse surrounds Robinhood entirely, focusing on the fallout of trading restrictions
- Negative sentiments are now explicitly targeted at Robinhood, reflecting overall investor panic following widespread market instability

Overall, the *During* phase displays the real-time widespread outrage against Robinhood, whereas the Before/After time periods reflect more measured sentiments [opinions of Robinhood before/after the Gamestop Incident instead of mere knee-jerk reactions]

# RECOMMENDATIONS

## APOLOGIZE

Regardless of rationale or perceived fault, preceding any formal action with an apology will make investors more inclined to critically consider Robinhood's words/actions.

## RATIONALIZE

Framing the broader problem is critical to recovering Robinhood's reputation; Robinhood should rationalize their actions by orienting their brief Gamestop restrictions as a result of clearing house restrictions rather than their own.

## REFORM

Customer service demands will undoubtedly increase following the Gamestop debacle; upgrade infrastructure and increase labor to account for heightened consumer demands.

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# CONGRESSIONAL RESPONSE

How should Robinhood respond if the “Before”, “During”, and “After” topics show up in Congressional Hearing?



# ROBINHOOD ON TWITTER: THEMES OF EACH PHASE

## Before - Accessibility

Keywords that Support Accessibility:

- App
- Crypto
- Free
- Join
- Easy

## During - Violation

Keywords that Support Violation:

- Sell
- Buy
- Money
- Restrict
- Gamestop

## After - Accountability

Keywords that Support Accountability:

- Investing
- Fund
- Limit
- CEO

# **CONGRESSIONAL HEARING RESPONSE (SIMILAR TO RECOMMENDATIONS):**

If these topics are to come up in the Congressional Hearing February 18, Robinhood needs to be able to get away from the point of view looking at the problem as a Platform Failure and make it seem as a System Failure.

## **Accessibility**

They need to grow the customer service as a result of the increasing rate of growth within the app

## **Violation**

The Keywords for this theme were, “restrict” and “limit”

They need to show that the events were a result of systematic flaw (clearing house restrictions) rather than greedy decision to protect larger sums

## **After - Accountability**

They need to point out that part of the free trade offer means, legally, they can regulate business practice through PFOF (Payment for Order Flow), which benefits the retail investors

03

## STRATEGY RECOMMENDATION

Based on our Sentiment Analysis, What Strategy Should Robinhood Employ?



# ADOPTING NEW CHANGES TO APP

Because of the extensive damage to Robinhood's reputation, they should not adopt a "wait and watch" approach or solely rely on advertising/PR/education campaigns. We recommend Robinhood to make meaningful and structural changes to their app, while also prioritizing communication and education initiatives.

## Application Remodeling

- Heavily reduce gamification of platform (instant rewards, celebratory animations
  - Important for first time users
- Implementation of cool off screens when conducting high risk trades
  - Gives users time to reconsider and to proceed with caution

## Stronger Precautions for Novice Investors

- Implementation of mandatory lessons and testing modules for novice investors
  - Users will take these modules before being able to access high risk trading features
- Making access to advances trading futures exclusive
  - Access will depend on users trading history, age, and overall comprehensions of products

# WHY NOT OTHER STRATEGIES?

## Why not “Wait & Watch” approach

- Sentiment analysis has shown that even in the “after” phase, trust has not been retained again
- “Wait & Watch” will delay immediate actions that Robinhood has to take
  - Consumers will assume that Robinhood is normalizing disappointment, rather than resolving issues
- Congressional hearing already set to take place
  - Choosing to not take any actions will possibly lead to Robinhood forcibly having to adopt changes and restrictions from regulators

## Why not to solely RELY on PR campaigns

- Solely relying on PR/advertising/education campaigns will give consumers the perception that this is a misperception problem
  - Sentiment analysis shows that consumers reactions to these issues are not from a simple misunderstanding
  - Consumers are feeling angry, betrayed, and distrust
- Education campaigns are important and can be helpful to Robinhood but they do not address the main issues users of Robinhood have
- Solely relying on PR to repair reputation but not making valuable resolutions for consumers will be seen as damage control

# 04

# CONSPIRACY RESPONSE

Should the company respond to specific allegations via Twitter and proactively defend PFOF, or promote the need for a reduced settlement time for trades, [instead of the two days it currently takes for DTTC]?

# ROBINHOOD'S RESPONSE

## PFOF

### Pros :

- Directly shows Robinhood engaging with customers trying to resolve the issue
- Can help explain the strategy of PFOF and provide some clarity for customers.

### Cons:

- The report shows us ½ of the sentiment is already fuming and a response from Robinhood might just add fuel to the fire

## DTCC

### Pros:

- Shows they are trying to “fix” the future rather than the past
- Provides viable reason and can shift the narrative saying the system itself is outdated.

### Cons:

- This could be seen as a scapegoat techniques trying to shift blame.
- Much more difficult strategy as opposed to PFOF and a twitter post

# ROBINHOOD'S RESPONSE

**Considering the Pros and Cons of both the PFOF and DTCC, Robinhood's best approach would be advocate for reduce DTCC settlement times!**

## Explanation:

- DTCC shows that Robinhood is looking to change after the events rather than provide reasons for their mistake
- The reports shows already 50% of post are negative this would put the company at a disadvantage should they choose the PFOF route.
- Change this concept in consumers minds. Rather than customers use words like “manipulated” or “fraud”, this can show words like “system”, “outdated”, “failure”.
- This is the most effective way to try and rebuild the “trust”; shows the company acting as a advocate for new methods rather than an excuse for the issue.

# THANKS!

Any Questions?