**Robinhood**

**Overview: [zero-fee mobile stock trading platform poised to be \_\_\_\_\_\_(something about central hub of personal finance etc.)]**

**Deep Dive into Core Risks:**

**Risks:**

* Revenue tied to federal interest rates levels and thus be negatively impacted during times of low interest rate
* User growth and enthusiasm of recurring users tied to cyclicality in the markets (favorable stock market conditions encourages target customers, new millennial investors, to join, whereas economic downturn or bear conditions may negatively impact new adoption of the platform)
* A large incumbent can also just bring their commissions to $0 with minimal repurcussions
* Target user base is a very specific type of investor (the fundamental question here is whether this user base has enough room for growth and sustained, enduring activity)
  + Growth:
  + Sustained:
* Lastly reputation and relationship matter immensely in a business that holds someone’s net worth for the long term.
* Target customers leaving the platform once they become more experienced and want to invest larger sums of money with more sophisticated tools and products
  + Branded implicitly as a “beginner’s platform”, where do they go afterwards?
* Unclear process to profitability?

**Prior Failures:**

* Zecco
* Loyal3

**How Robinhood is Different** (from prior failures and how it combats the concerns to business model)**:**

* Zero Commission Trade is indeed sustainable:
  + Though most people question, how Robinhood makes money, in reality, commissions in trading, though a source of revenue for sure, do not matter too much to the company or the consumer in the long-term
  + Most average customers don’t trade that much (with exception of day traders)—usually only a few times a year
    - A company with a business model depending primarily on commissions would require a raging bull market where there is a profusion of trades
  + Brokerages expect commissions to reach $0 (as evidenced by Schwab’s ever lowering commission fees) and rely more on cash balances and mutual funds for revenue streams
* Robinhood can sustain a lasting business in a specific market:
  + The core concern is that its target customer base of young novice millennial investors is not sustainable:
    - After the target markets uses it for a while they either:

1. Realize investing in the markets is not for them and leave
2. Realize they want to get serious and hence leave to use a more sophisticated platform with more tools, research capabilities and reputable team to store more significant sums of money
3. Realize that they can have a sustainable capital growth in the platform and store small amounts of capital

* Albeit specific and different target market from conventional brokerage customers, this market is actually compelling because it is an extremely large market
* Even if these customer were to leave to join more sophisticated brokers like Schwab for instance the growth, recurring customers, net of churn in the foreseeable future still make this a very compelling business
* Before the “beginners” transition off the platform, Robinhood has the potential to unleash an ecosystem of new products and tools that can promote stickiness of platform
* Zero commission trades offset by Robinhood Gold platform:
  + Robinhood Gold is a clever revenue stream that more than compensates free commission trading (at $10/month or $120/yr, that is essentially on par with paid platforms—e.g., Schwab charges $5/ trade while your average investors may make only a few trades a year)
  + In a long run when people get more experienced investors, they don’t trade that much anyways
* Robinhood is extremely good at marketing and branding
  + Gold $10 a month for $2,000 in investible capital just a rebranding of 6% annual interest
* Zecco was built at a time when cell phones and mobile technology were not as pervasive

**Value Prop / Protective Moat:**

Strong loyal customers with user base rapidly growing (even though some users may “graduate” from beginner Robinhood usage, they can upgrade to Gold / use a host of new tools that Robinhood can roll out. (Optimism in this investment will come from a belief in these new ecosystem of tools

Super simple no frills UI that accomplishes all the essentials. Taking a look at all the low- or no- fee competitors the UI, overall culture and UX of the app is completely different.

One of the most aesthetically pleasing and elegant apps and setting up takes less than a few minutes. In touch with modern product expectations. People in our modern internet age want an entire UX be available through mobile and some of the older stock trading platforms feel out of touch

Schwab has 10.4 MM brokerage accounts, E-Trade 3.5 MM, Robinhood : 3MM

Bring in the users (rapid user growth) now monetize (Robhinhood Gold, new prodcts: margin trading, options trading, web app, research tools, etc)

Lack of brick and mortar locations allows it to live off zero commission

(super fast growth 2MM users in just three years)

On first glance, Robinhood definitely seems like a promising investment opportunity worth exploring further. Proceeding with further due diligence, our next action items would be to investigate [these key risks]

**Metrics: (latest disclosed)**

* Over 3 million users (as of nov 2017, 2MM users april 2017—from 2 to 3 MM in 6 months) / E-trade has 3.6MM users
* $100 Bn worth of executed transactions
* “Saved” users $1Bn in trading fees
* Over 50% of trading volume comes from Robinhood Gold
* 17% Month-over-month sign-up growth
* **What is the stickiness of the app?! (Cohort analysis?)**

**Market Opportunity:**

* Young to middle aged millennials with moderate savings

**Competitors:**

* Charles Schwab, E-Trade, TD Ameritrade, Scottrade, Interactive Brokers
* Acorns, Stockpile, Stash

**Upside Case:**

**Downside:**

**Decision:**

**Founders:**

(Have prior track record in starting fintech businesses)

**Improvements needed:** Educating users on investing, graphs are too simple and not amenable to technical analysis. Users may not learn investing the right way. (Maybe robinhood purposely does not care about this). Interface not most amenable to learning investing the right way.

No research tools. in depth research on company or industry would require to get out of your phone.

Slippage (difference between the price of a trade as its ordered and true cost of trade as its executed in pricing.) Depending on trading volume and portfolio size users could save just as much executing a trade with a different broker with more efficient trade execution.

Robinhood does not integrate with other financial management tools like mint or quicken or exporting as excel so not convenient to track holdings.

All these features though could be easily added

**Business Model:**

* Collecting interest on dormant cash
* Margin Loan fees
* Robinhood Gold Subscription costs
* Payment for order flow (financial firm pay retail brokerages to let them execute the orders from brokerage’s customers)

[**https://www.nytimes.com/2017/02/18/business/robinhood-stock-trading-app.html**](https://www.nytimes.com/2017/02/18/business/robinhood-stock-trading-app.html)

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