Manole Capital Management
4th Annual Gen-Z Survey: Brokerage
June 2021

MANOLE CAPITAL MANAGEMENT

Introduction:

Manole Capital Management is a boutique asset manager based in Tampa, FL that exclusively concentrates on the emerging FINTECH industry. Manole Capital defines FINTECH as *"anything utilizing technology to improve an established process."*

For the last three years, Manole Capital has asked its interns to conduct research on the Gen-Z demographic, in four key financial services. Research has inquired about Gen-Z's perspective on digital currencies, brokerage, banking, and the payments industry. This prior research can be viewed by clicking here or visiting www.manolecapital.com/research.

In 2021, three interns from the University of Tampa (Go Spartans!) have conducted Manole Capital's 4th Annual Financial Services Survey. Andrew Yang garnered significant name recognition during his presidential bid and now he is running as a New York City mayoral candidate. Last month, Yang said he was "depressed" after a Goldman Sachs executive told him that it was opening a branch office in Tampa. In a Bloomberg News interview, Yang said "it's a depressing story" that NYC is seeing businesses and talented workers move elsewhere and that "we are losing people to Tampa".

We received insights from over **350** participants, with 91.1% under the age of 25. 37% of our responses were female and our surveyed population came from 51 different colleges and universities. This has been the largest financial services survey ever conducted by Manole Capital, as well as the most international, with respondents coming from 13 different countries.

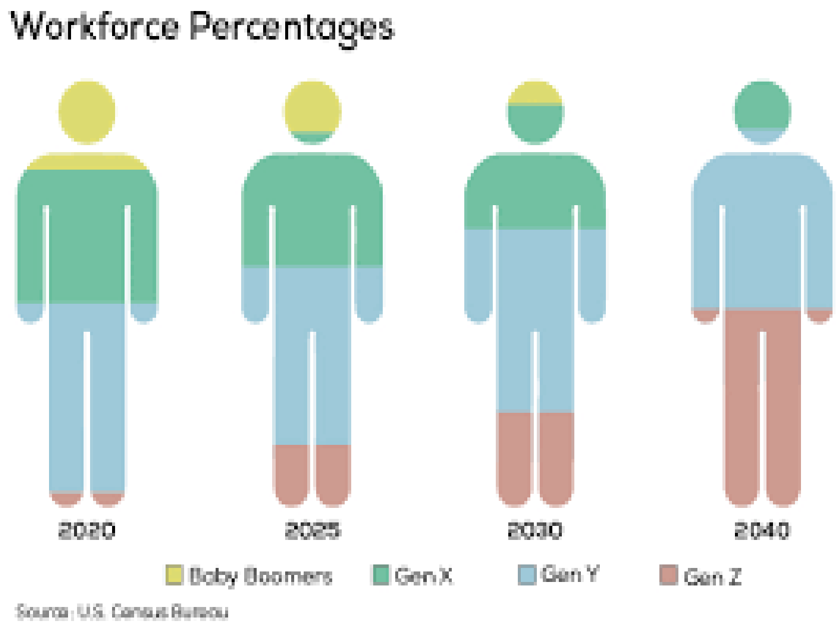
Our goal was to better understand the Gen-Z financial services perspective, as well as provide opinions on current trends. We changed some of our questions to address the global pandemic and how COVID_19 might impact the financial services sector. We seek to identify the latest trends and changes regarding our four financial services topics.

Our research targeted towards Gen-Z to get a glimpse into what the future of FINTECH may hold. Gen-Z represents the future of our workforce and this their views and opinions will have a meaningful impact on our economy for decades to come. After each section of Q&A, we plan on providing our opinion and some specific takeaways.

By the Numbers:

- The Silent Generation was born before 1945 and are between 75 and 92 years old
- Baby Boomers were born from 1946 to 1964 and are between the ages of 56 and 74 years old
- Gen-X'ers were born between 1965 to 1980 and are now between 40 and 55 years old
- Millennials were born between 1981 to 1996 are between 24 and 39 years old
- Last but not least, the Gen-Z cohort was born after 1996 and are all under 24 years old

For the last decade or two, Baby Boomers have dominated our economy. More recently, Millennials have overtaken Baby Boomers in the US work force. According to the US Census Bureau chart shows, Gen-Z will be ½ of the workforce by 2040. Over the next decade, Gen-Z will take over our economy.



Here we briefly describe the characteristics of teach generation to get an understanding of how their underlying traits could have shaped the way financial services have been conducted up until now.

Having childhoods that pre-date modern technology, Baby Boomers value personal relationships and have strong interpersonal skills. With the invention of cell phones and computers, Baby Boomers were forced to adapt and learn new technology quickly. Some have, but some are hesitant to acclimate to the driving force of today's social society. Baby Boomers are often characterized as optimistic, idealistic, self-driven and have shown a tendency to be loyal. For example, studies show that Baby Boomers spend an average of 15 years at their bank or brokerage. After years of climbing the corporate ladder, many are now exiting the workforce and enjoying retirement and sharing time with their family.

Gen X is sometimes referred to as the "lost generation". Some had two workaholic parents and others were raised by single or divorced parents. Because of this, Gen X tends to place more emphasis on a balanced work / life co-existence. Often, Gen X'ers have more individualistic ideals and are often self-sufficient, skeptical, and resourceful.

Having been the first generation to master modern technology, Millennials are successful and driven. However, some have become too dependent on technology and interpersonal skills have suffered. As opposed to being raised by authoritative Baby Boomers, Millennials have been raised by Gen-X'ers that sometimes view parenthood as a partnership. Accordingly, Millennials were given leeway and leniency, paving the way for some to display a degree of selfishness and the desire to have everything, without much in return.

Gen-Z:

Other than having been born with technology in our hands, not much is known about Gen-Z. With a maximum age of only 25 years old, Gen-Z is just now entering the workforce.

Many generations are influenced by the major events of their lifetime. With the oldest Gen-Z at age 25, most are too young to remember the September 11th terrorist attacks or understand the ramifications of the Financial Crisis.

Gen-Z is described as ethnically diverse, socially aware, environmentally responsible, eager to stand out and technologically savvy. Everybody knows we appreciate a good selfie or food pic, right?

We believe the COVID-19 global pandemic is the most influential event Gen-Z has faced and it will have lasting ramifications on our lives. In our research, we try to identify the direction and thinking of the Gen-Z generation and the future of cryptocurrency, banking, brokerages, and payments.

Questions:

Before COVID-19, cash was still the dominant form of payment around the world (estimated at 75% to 80% of retail purchase transactions). Will one of the pandemics lessons be "The Death of Cash"? Click here for Manole Capital's recent presentation on this trending subject. Following the Financial Crisis, some banks were blamed and considered villains for the financial fallout. Most banks are slow learners and are not considered technology savvy. Can financial institutions learn to adapt? Why is there a bank branch located on every street corner when we effortlessly use online banking services?

Online shopping and eCommerce sales have been stealing market share from brick-and-mortar retailers for years. PayPal's CEO Dan Shulman recently stated that the pandemic might have pulled forward eCommerce adoption "by a decade." Has the pandemic created new trends and altered the outlook for the future? Will developing technologies like contactless payments and NFC technology soon become mainstream? Can physical-only retailers survive? In late January, meme stocks like GameStop and AMC dominated Wall Street, as well as the headlines in the Wall Street Journal. Will emerging brokerages like Robinhood steal market share from more established incumbents? Bitcoin soared in 2017, only to collapse in 2018. Last year, Bitcoin rose over 300% and it is continuing to climb in 2021. What does Gen-Z think of digital currencies, and would they like to use them for payments?

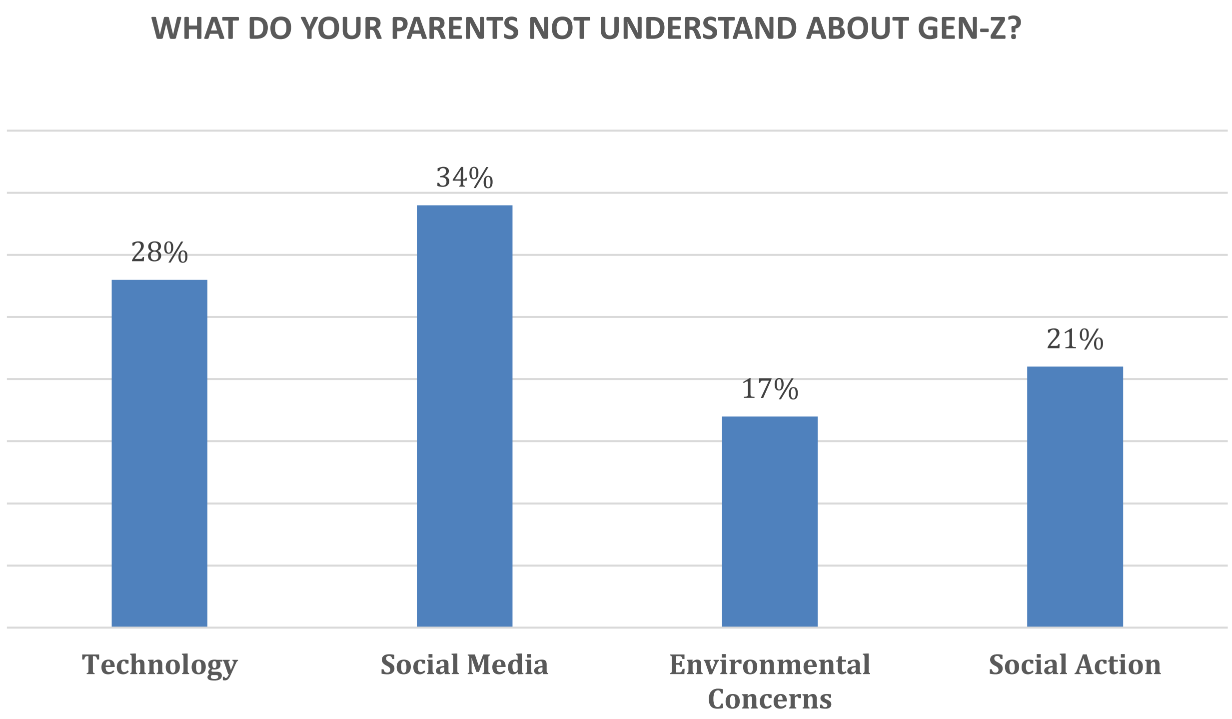
These are just a few questions of what we intend to discuss. Do you have a question or two that you would have liked us to ask? Please let us know how we can improve future surveys and research. In assessing the results of the survey, conclusions will be drawn on the future of the FINTECH industry. As Gen-Z becomes of age, their preferences will dominate the world stage. Manole Capital believes it is beneficial to evaluate Gen-Z's preferences, to better understand future financial services trends. Do you agree or disagree with our opinions? Please let us know your thoughts and we look forward to hearing your feedback.

At the end of the survey, we asked our participants to identify "what older generations just don't understand about Gen-Z." We believe that older generations simply do not understand our focus and use of social media. This was the highest percentage chosen. Gen-Z values social media, love sharing experiences with friends and enjoys keeping up with "influencers". On Instagram, "influencers" can make millions of dollars for their social influence and popularity.

After social media, the Gen-Z surveyed participants thought their parents did not necessarily understand technology and our fascination with it. Social action at 21% and environmental concerns at 17% rounded out the comments we received.

Going forward, Gen-Z will play an increasingly critical role in our society. Older generations may believe these differences are unconventional and progressive, but we believe that understanding different perspectives is critical in adapting to change.

Our research is intended to provide insightful information about the youthful perceptions of Gen-Z. Getting an understanding of Gen-Z's thoughts on banking, brokerage, payments, and digital currencies can help Manole Capital better understand the approaching trends in financial services. We hope you find our Gen-Z research interesting, beneficial, and insightful.



Brokerages:

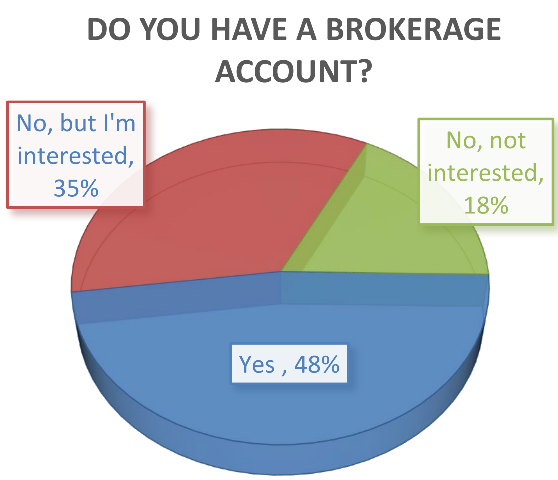
Last year, we made the statement that most investors would not consider the brokerage business as being incredibly "fintechy." This sentiment has certainly changed. With the advent of free trading in 2019, volumes and brokerages have come roaring back. While Robinhood has become a household name, there are other brokerages emerging. A year ago, few would have known about Webull or eToro. Now, the brokerage industry is "hot," and many consider these firms as wonderful examples of Fintech and transaction-based businesses.

These new brokers have leveraged a simple, yet superior user experience. Besides just commission-free trading, many are employing a quick sign-up process, an easy-to-understand mobile platform, access to market information, and a full array of trading capabilities and strategies. Despite being fairly new to equity trading, many retail investors are embracing options and margin accounts. How are more established and traditional brokers responding? Do they understand the needs and wants of Gen-Z? Are they adapting to today's environment or are they losing market share to new entrants?

Over the next several pages, we will be providing the results from our 4th annual Gen-Z Brokerage survey. We asked and received answers to 10 specific questions on this topic. After we provide the raw data from our questions, we will attempt to provide some interpretation and insight into the findings. Our goal is to explore what specifically makes these brokerages so attractive to Gen-Z.

Question #1:

As in prior surveys, our baseline question is whether or not Gen-Z has a brokerage or trading account. With a global pandemic still lingering and people studying/working from home, the opportunity to trade seems more intriguing than ever. This environment and our notion turned out to be true.



Last year, only 30% of our respondents said they had a brokerage account and 25% said they had no interest in creating a trading account. This year, as you can see in the pie chart, the interest in trading has skyrocketed. Nearly half of our survey participants currently have a brokerage account and another 1/3rd is interested in opening an account. Those that remain uninterested in equity trading fell to just 18%. Why was there such a drastic year-over-year change in those interested in trading stocks?

We believe this dramatic increase in trading is a direct function of three items. First, we believe some of this increased interest is a temporary side-effect of the pandemic and spending more and more time in front of our computers and mobile phones. Second, we believe the strong interest in equity trading is from providing Gen-Z with "free money". As stimulus checks were mailed, Gen-Z viewed this as a once-in-a-lifetime opportunity to use "other people's money" to invest and begin building a nest egg. What did you expect us to do with this "found" money? Many of us are young, unemployed, bored and hooked up to the internet. While the Covid-effect cannot be discounted, there have been other potential happenings that have led to the rise in Gen-Z's market participation. In our opinion, a 3rd factor that has resulted in increased trading has been the gamification of stock trading, primarily on social media. Some social media contributors promote and encourage their followers to buy into stocks to pump up the price with little to no fundamental reasoning. This can turn stock trading into no more than betting red or black at the roulette wheel or betting on the best-looking horse at the track. Unfortunately, the treatment of the stock market as a game has garnered more retail-investor interest than ever before.

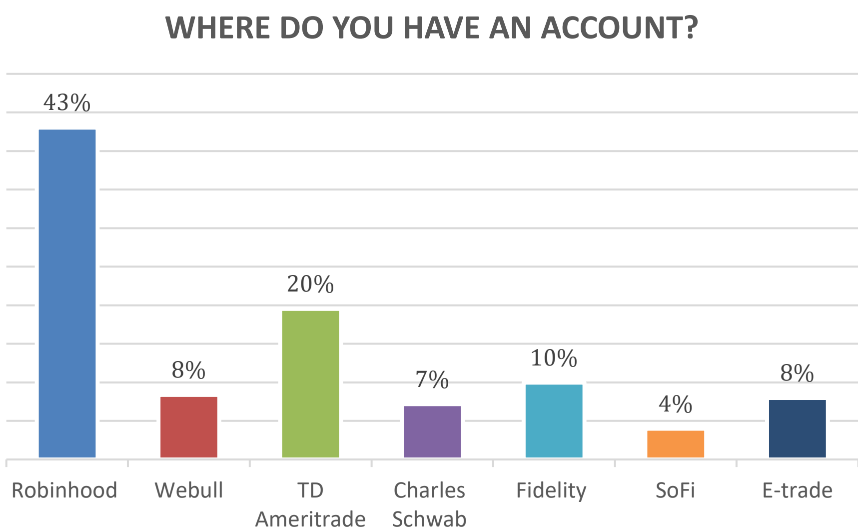
There are some that might find the gamification of trading to be entertaining but dropping fake confetti onto our mobile phones when we trade, is just as silly to us, as it probably seems to you. A real driver of Gen-Z interest has been social media. Reddit Wallstreetbets (WSB) is a subreddit page that was created to be a platform where users can discuss speculative trading ideas. It was not until January of this year, until this page made front-page headlines.

As millions of users banded together, the power of retail traders became evident. The initial target stock was heavily shorted GameStop (ticker GME) and WSB drove GME's stock price "through the roof." Hedge funds were forced to cover their positions and a massive, short squeeze ensued. This was perceived as a victory for retail investors, but the real factor is understanding the social media component of this trade. There have been other stocks and cryptocurrencies to garner increased attention, but the real issue to understand is how social media can drive prices "to the moon."

The increase of talk about stocks and cryptocurrencies on social media platforms has led to a large increase in Gen-Z investors. According to the Global Web Index, Gen-Z spends over three hours a day on social media. As they begin to see more chatter about stocks, it intrigues us. As they hear about peers becoming rich overnight on certain trades, there is a clear FOMO or "fear of missing out." This domino effect is clearing occurring.

Question #2:

After years of market dominance by brokerages with names recognized by the general population, a group of new, modern firms have emerged. By offering instant access to the markets, in a user-friendly format (i.e., our mobile phones), these brokerages have grown in importance. Observing which brokerage platforms our respondents use can potentially offer great insight into the Gen-Z investor mindset.



Of the 48% of our survey with brokerage accounts, we asked which firm they have an account with. It is important to note that respondents were allowed to make multiple brokerage firm selections, as some of our participants have 4 or even 5 accounts.

For the first time in our 4 years of financial services surveys, we have a newbie as Gen-Z's favorite brokerage firm.

Last year, 29% of the surveyors used Robinhood. This year, 43% use Robinhood's mobile trading app. This is a massive year-over-year leap, that has solidified Robinhood's dominance in the Gen-Z marketplace.

Why is Robinhood so popular with Gen-Z? Why is continuing to gain market share versus more established peers? Most institutional investors continue to write-off Robinhood. These market "experts" say Robinhood is only for novice, retail investors. Also, they claim Robinhood does not provide best execution and pricing. In our opinion, this is shortsighted.

On December 4th, 2019, Robinhood's co-founder Baiju Prafulkumar Bhatt was interviewed by Jim Cramer on CNBC's "Mad Money. He said, "the thing that makes Robinhood really unique is that it's incredibly efficient in the way that it operates because we're built from the ground up; we're a technology company, which allows us to build really modern systems…we're much more automated, much more stable by just having code execute."

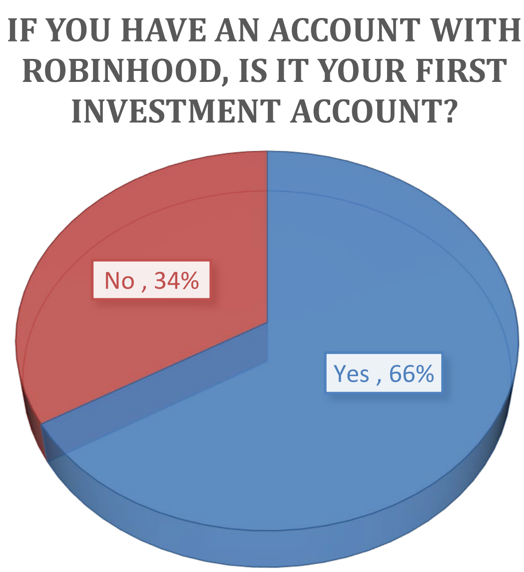
In our opinion, Robinhood understands the needs and wants of Gen-Z. It has an excellent UI (user interface), and its mobile phone app is best-in-breed. Just like Apple's iPhone and Mac are the preferred devices for our generation, Robinhood succeeds with its ease of use and a clean, sensible design. Robinhood was not the first brokerage to offer free trading, but it is now considered a trailblazer for the masses. Gen-Z's traders appreciate how Robinhood allows the "average Joe" to access the stock market, how it permits fractional share purchases, no matter how little money we have. Quite simply, with its use of Robinhood, Gen-Z feels like it can finally participate in the equity market.

Some of the more established online brokerages, came in behind Robinhood. TD Ameritrade was the 2nd most popular option, with 20%. Considering Schwab's purchase of TD Ameritrade last year, we could add Schwab's 7% market share to TD Ameritrade's and arrive at a very respectable more than ¼ market share position. Fidelity remains an industry stalwart, with its 10% market share. Morgan Stanley's purchase of E*Trade last year looks more and more wise, as they have a Gen-

Z account market share of 7%. Some of the newer entrants, like Webull and SoFi have solid weights in our survey at 8% and 4% respectively. Webull's strength could be attributable to its focus and excellent platform for technical analysis. Most Gen-Z investors cannot differentiate between fundamental or technical analysis; most have no idea about candlesticks, resistance levels, uptrends, relative strength, Bollinger bands, stochastic indicators, or double tops. However, if this was of interest, Webull offers charting fans a great option for recognizing and identifying profitable patterns.

In Manole Capital's inaugural financial services survey, Robinhood was behind E*Trade and had less than 1/5th of the Gen-Z market. In a few short years, Robinhood has been able to more than double its market share position. Despite some bad publicity this year (we'll discuss that shortly), Robinhood is now the dominant Gen-Z brokerage.

Question #3:



To better understand Robinhood's position in the market, we wanted to understand if this brokerage account was truly their first trading account.

Years ago, we believe a bank account was a young person's first main account. Then, after a debit card was utilized, a line of credit (i.e., a credit card) was opened. Then, once somebody was gainfully employed, they might choose to open a brokerage account, most likely with a firm their parent's recommended or through their traditional banking relationship. For Gen-Z, this is not how we operate.

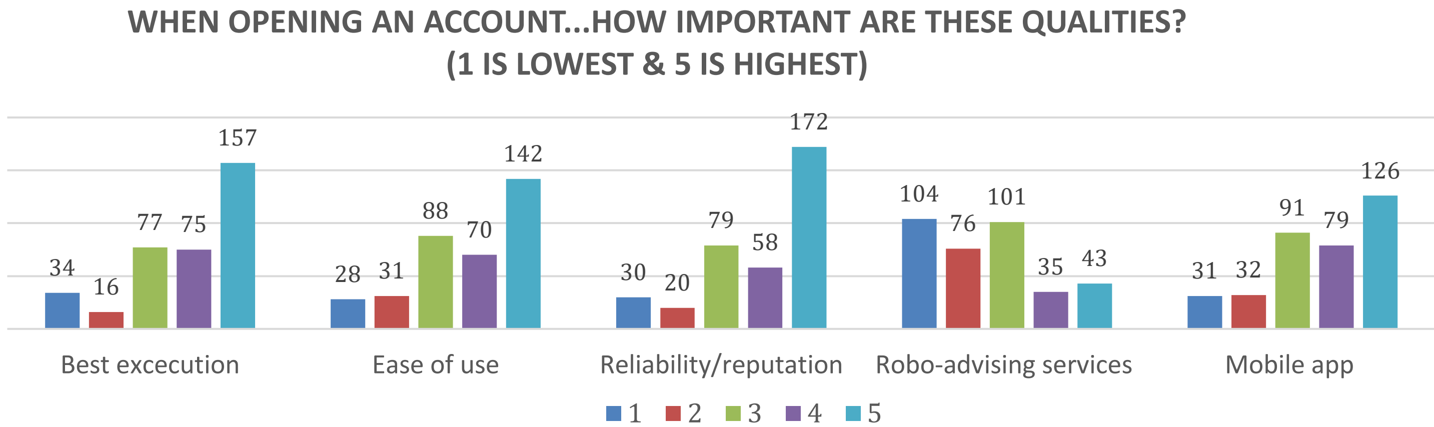
Of the 171 participants with a Robinhood account, 91 said it was their first brokerage account. That's an impressive 53%, that are getting their first exposure to the equity markets through Robinhood.

Why are so many first-time investors coming to Robinhood? Some credit is clearly how Robinhood was one of the first brokerages to offer zero-commission trading. However, as we all know, this has become an industry standard, for well over a year. Was free trading Robinhood's "bait" to lure first time Gen-Z investors? We don't think so. We believe Robinhood's secret sauce is having an easy to navigate UI and its simple mobile app. From our perspective, this is Robinhood's "hook."

While it has built a strong lead with Gen-Z, being able to keep their lead and advantage will be challenging. Gen-Z absolutely understands how easy it is to switch and migrate to another brokerage. Given the bad press surrounding Robinhood in late January 2021, we would caution it to not "sleep on" the competition.

Question #4:

Our next question asked what qualities Gen-Z is looking for in a brokerage account. We asked our participants to rank from 1 to 5 how important five important issues were to them. We asked about "Best Execution," "Ease of Use," "Reliability & Reputation," "Robo-advisory Capabilities," and the "Mobile App."



The responses we have received are <u>not</u> exactly what we were expecting. In terms of importance to Gen-Z, ***reliability & reputation*** was #1. Regarding the issue of *reliability*, it has been an industry concern for a couple of decades. Going back 20 years, the incumbent online brokerages were ridiculed for constant outages, whenever volatility spiked. During the "dot com" era, Schwab, Ameritrade, and E*Trade were poked fun of for not being able to handle the influx of trading. More recently, Robinhood has experienced operational troubles when volumes skyrocket. Their app can easily become overburdened and then it unfortunately shuts down. This leaves their traders frustrated, as they are unable to buy and sell as markets gyrate. When volumes spiked last year and then again in the 1st quarter of 2021, some of the newer entrants struggled to keep their platforms operational.

In terms of *reputation*, Robinhood's has taken a beating recently. During the GME saga, Robinhood was forced to post significant additional collateral by the DTCC (Depository Trust & Clearing Corporation). When it prohibited its consumers from selling their GME shares (as the stock plummeted), the rumor was that Robinhood was being "paid off" by certain hedge funds. This conspiracy theory was <u>not</u> true, but it ultimately damaged Robinhood's "one for all" reputation.

Building the necessary scale to handle 10x or 20x one's daily average volumes can be quite expensive. We have no doubt that all these firms will continue to invest in their infrastructure and trading platforms, but we were very surprised that reliability and reputation was the most important quality Gen-Z looks for in selecting a brokerage account.
Also, we were surprised that ***best execution*** was an important quality for Gen-Z. The SEC, under Gary Gensler, recently commented on PFOF or payment for order flow. This controversial brokerage dynamic has existed for decades and comes up for debate every few years. Do brokerages act as a fiduciary for their clients and get best execution? Or do they route order flow to the venue that pays them the most? The brokerages all claim to get price improvement for their clients, but this can be a very subjective calculation (in dark pools versus lit markets).

We already discussed the importance of the UI, mobile app, and ease of use. However, at the bottom of this ranking was robo-advisory services. Certain firms believe that offering their clients robo-advisory services is critically important. These firms believe that providing AI (artificial intelligence) to clients is exactly what their user base is clamoring for. Instead of speaking with an actual human advisor, certain companies are emphasizing advanced computer technologies, datasets, and algorithms to answer client questions. Our Gen-Z research shows this may be misguided. Older individuals seem to think that since Gen-Z is so accustomed to technology, that we enjoy an impersonal, automated, or cookie-cutter response to our questions. This isn't true. Last year, only 21% of those we asked even knew what robo-advising services were. This year, it is the least important item in terms of importance for Gen-Z's account opening decision. Ouch!

Questions #5:

A meme stock, which will likely be one of Webster's newest additions to the 2021 dictionary, is a stock that sees an increase in volume, to drive up the stock price – all because of social media hype. The movements in meme stocks often have nothing to do with valuations or underlying fundamentals, which runs counter to traditional efficient market theory, taught in schools across the nation.

However, we did want to understand if our Gen-Z participants (and only those with brokerage accounts) were involved with meme stocks earlier this year.

We found that 48% of our respondents, those with brokerage accounts, acknowledged to trading meme stocks. When our digital currency survey is released shortly, readers will see that this percentage is close to those that stated they purchased Dogecoin. The term "meme" clearly applies to both stocks and cryptocurrencies.

One cannot discuss meme stocks and not bring up the Robinhood trading issue earlier this year, right? On January 27th, 2021, Robinhood prohibited its clients from purchasing shares of GameStop, as the stock was dramatically climbing higher.

Because of delays in settlement times, Robinhood was forced to raise roughly $3 billion of capital in late January, just to enable its clients to trade in certain meme stocks. This significantly damaged Robinhood's brand, where its mission was to "democratize finance for all." Following this Robinhood's public relations nightmare, the topic of trade settlement came back into the spotlight.

Robinhood stated "we believe the financial system should be built to work for everyone," but preventing its customers from buying stocks absolutely tarnished their image (certainly among the Gen-Z demographic). Robinhood claims that the DTCC forced its hand by requiring it to post more collateral to allow its clients to transact. Its clients were less than thrilled with this explanation, akin to "the dog ate my homework."

We wanted to dive into the details of trade settlement, and this is what we were able to decipher. When a stock gets traded, it typically takes 1 to 2 days for the settlement of a trade to occur. In a world where hundreds of thousands of shares trade each second, the need for speed has never been more important. Robinhood argued (in its Congressional testimony) that it advocates for real-time settlement, rather than waiting for a couple of days for the system to account for who owns what stock. Other lawmakers have advocated for faster settlement times too. If trades were settled in real-time, brokers would not be negatively impacted by clearinghouses capital requirements, associated with their underlying client trades. This, in theory, would be a win-win scenario for all involved.

The technology for real-time settlement has existed for over a decade. Why hasn't it occurred? As of today, larger firms have an advantage versus their smaller peers. If all trades were netted intra-day, smaller firms would be able to compete more actively against bigger firms, since they would not need to keep their limited collateral tied up at the clearinghouses. Big firms should advocate for real-time settlement too, as it could be a material cost savings, free up liquidity and avoid the risk of settlement failure through instant processing. However, how many large brokerage firms have shown tremendous long-term thinking and planning?

Traditional and legacy firms handle billions of dollars' worth of trading. To process trades intra-day, it would require a significant investment in their back-office systems. Technology upgrades, operational improvements and regulatory compliance systems are very expensive to implement. Following a global pandemic, many large corporations have stretched budgets. Many of these costs will not generate additional revenue, are an expensive technology upgrade, and do not have a precise path for a ROI. Do you really expect a management team to welcome the opportunity to spend millions on this issue? We expect most management teams will be lukewarm to spend aggressively on this real-time settlement issue, unless pushed by regulators or DC.

Question #6:

Following on this line of questioning, we then wanted to understand if Robinhood upset their customers with their "meme stock" restrictions. On WSB, the community was calling for a boycott of Robinhood and even went on to advocate opening accounts at Webull.

So, what did Robinhood clients think of their handling of this situation?

29% were blissfully unaware of the entire situation, but we don't necessarily believe that answer.

23% were furious with Robinhood's handling of the situation and closed their account. Another 20% were mad, but kept their Robinhood accounts open.

18% were not angry with Robinhood and 10% stated that Robinhood was justified in its actions. This surprised us!

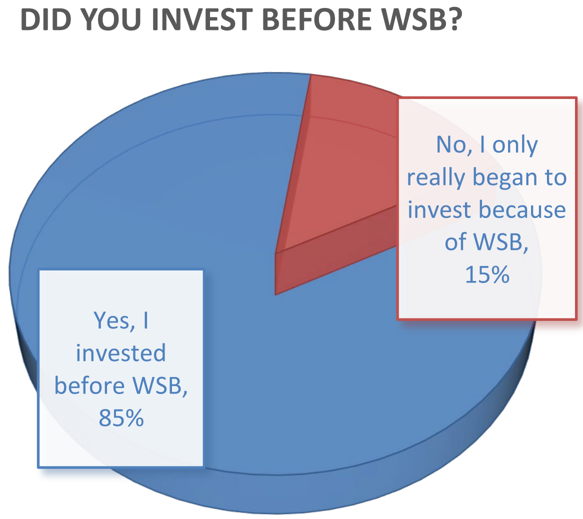
Question #7:

We are always attempting to ask new questions in our surveys and wanted to better understand how platforms like Reddit's Wallstreetbets is influencing our peers.

The Reddit page has experienced a large influx of new users this year and some have been able to capitalize and profit from this advice. We were curious if our Gen-Z survey began trading stocks because of Reddit (WSB) or if they were investors beforehand.

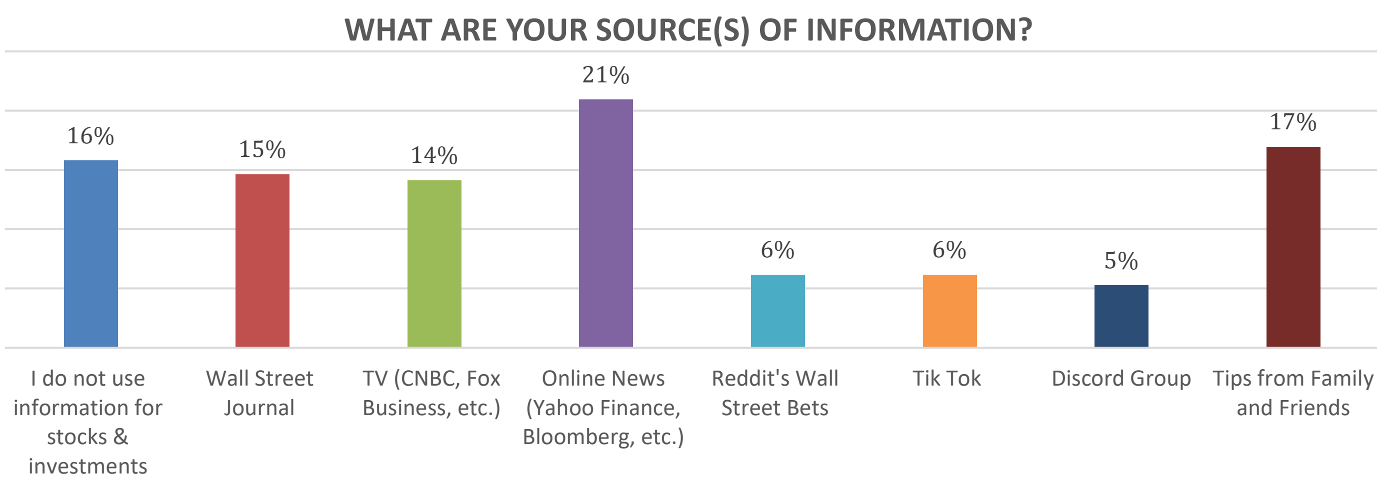
Again, this question only factored in those respondents that have a brokerage account (48% of our survey). Out of the relevant surveyed group, only 15% admitted and claimed to have been directly influenced by Reddit / WSB.

85% of our surveyed investment account holders indicated they had purchased stocks and/or crypto before Reddit's WSB.



Question #8:

The educational resources available on the internet and on most brokerage websites is endless. Unfortunately, not all young investors are interested in reading fundamental research or understanding too any details of the companies they are invest in. Some are short-term traders, just interested in a "hot tip" that they hope to cash in quickly. We wanted to better understand where Gen-Z gets its investing information from. We asked what sources Gen-Z uses for information on individual stocks or the overall equities market.



Online news websites like Yahoo! Finance and Bloomberg received the highest percentage, at 21%. Just behind that, 14% of Gen-Z are finding ideas on TV, from CNBC, Fox Business, etc. In terms of more traditional informational sources, another 15% were utilizing the Wall Street Journal. We were pleasantly surprised that our Gen-Z survey respondents were such big fans of the WSJ (like us). Quality business news and reporting will always be helpful, whether it is delivered digitally or through "old school" paper.

As our prior question showed, the impact of social media is very important for Gen-Z. 6% of our survey gets their information from Reddit's WSB and another 6% get their information from Tik Tok. While Reddit's WSB does sometimes have some detailed analysis, many Tik Tok videos are simply influencers pitching their own holdings.

17% are getting their investment decisions from friends and families. A shocking 16% of Gen-Z investors base their investment decisions on "no information". The amount of information available online and in educational resources on brokerage websites is impressive. We would encourage our peers to take advantage of this information, but unfortunately, it appears that most still are looking for the quickest way to trade and profit.

Question #9:

While equity trading is "free", option trading still comes with sizeable fees. Stock options give the buyer of a contract the right to either buy (call) or sell (put) 100 shares of a stock, at a pre-determined price (strike price), at a pre-determined date (expiration date). Trading these contracts can be a risky strategy, often reserved for more savvy and experienced investors,

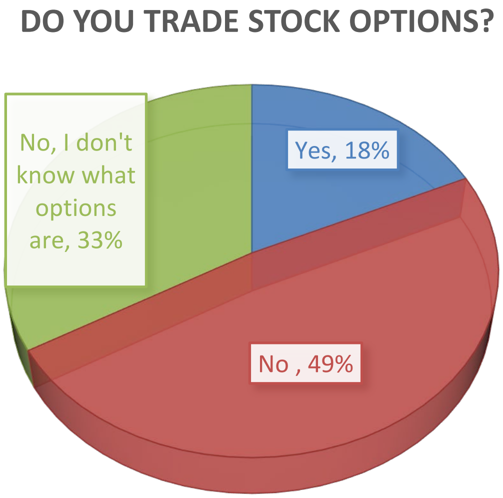
We wanted to understand how many Gen-Z traders are currently using options. Before we get to the results of this question, we want to discuss a sad story regarding the dangers of reckless trading. Most have heard the tragic story of 22-year-old Alex Kearns, but we believe it is worth repeating. Kearns initially funded his Robinhood account with $5,000 from his grandparents and a lifeguarding job. Kearns quickly asked for and received margin and option capabilities and his account ballooned in size.

On June 11th, 2020, Kearns account reflected a negative balance of ($730,000). At 3:26am, an automated email from Robinhood demanded "immediate action" and stated that Kearns needed to provide an additional $170,000 of capital. Kearns reached out to Robinhood customer support and said "I was incorrectly assigned more money than I should have, my bought puts should have covered the puts I sold. Could someone please look into this?" He received an automated message response that said "Thanks for reaching out to our support team! We're working on this, and we will get back to you as soon as possible". There was no better customer service mechanism in place, no telephone call…nothing.

Kearns left a note to his parents asking, "How was a 20-year-old with no income able to get assigned almost $1 million worth of leverage?" The tragedy of this story is that Kearns committed suicide, when he thought his losses were insurmountable. Making matters worse, the losses were incorrectly shown on his phone and Keane was not down $730,000.

The entire customer experience was botched, and it represents a sad story of how rules should be in place to protect younger investors from making mistakes. Did Robinhood properly ask Kearns if he had the necessary experience to trade options? Was Robinhood steering customers into options since those still generated excellent fees? We hope not, but there are lawsuits and regulations coming on this subject. Not all customers understand the risks associated with margin and options, so this capability needs to be closely watched. We have heard additional stories of certain young and inexperienced investors not fully understanding option trading and quickly getting "in over their head".

In years past, it would not have been necessary to ask our participants if they trade options. The answer to this question would have been a resounding "no". However, we now believe that more and more Gen-Z investors are utilizing complex options trading strategies now that they have become easy to access.



Our survey found that 1/3rd of participants have no idea what options are and nearly half do not trade options. However, 18% of our survey is currently trading options. Brokers are still offering options contracts to their customers without necessarily taking some conservative precautions. This seems somewhat alarming, and we would anticipate regulators to get involved. William Galvin, Massachusetts chief financial regulator says, “I think it demands some sort of national standard” and brokerages must not be able to “entice younger, inexperienced investors.”

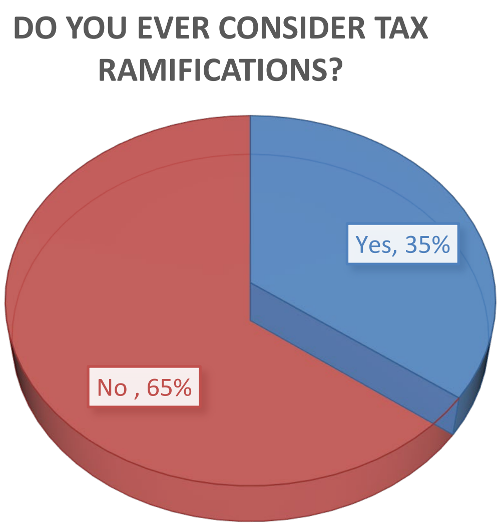
Robinhood embraces the mindset of the fabled Robin Hood, that “stole from the rich and gave to the poor”. In its Super Bowl ad this year, Robinhood said “You don’t need to become an investor, you were born one”. We are worried that some of our more inexperience peers might be embarking on dangerous levels of risk taking, using margin and options.

Question #10:

For our last brokerage question, we wanted to understand if Gen-Z considered tax ramifications before or after they trade.

Since many in the Gen-Z demographic are new market participants, we anticipated that taxes would not be a terribly important consideration. We were right, as nearly 2/3rds of our survey did not bother to consider taxes, before or after a trade.

As more of us open brokerage accounts, with margin and options capabilities, taxes will begin to become more of a factor. In 2020, well over 8 million new brokerage accounts were opened. With experience, these traders will begin to understand that all transactions are not taxed equally.



This reminds us of a story we read about in Forbes recently, regarding a very active Robinhood trader. This young and inexperienced trader opened an account at Robinhood and funded it with $30,000. Over the course of 2020, he made a very respectable $45,000 in net trading profits, especially when one considers his day job paid him $60,000.

However, this newbie trader took advantage of “free trading” and made transactions totaling an astounding $45 million. When this trader received his end-of-the-year 1099-B, he had $1.4 million in capital gain income and a tax bill of over $800,000. Unfortunately, because he lacked an understanding of the “wash rule”, where an individual must wait 30-days between repurchasing the same security (booking profits versus losses). We unfortunately do not believe this individual is the only trader to be surprised with the tax consequences of his active trading. Ultimately, “free trading” can have a real (and taxable) cost.

Conclusion:

Investing has never been as popular as it is right now. The retail community represents roughly 25% of all trades and more and more investors are opening accounts and jumping into the equity markets. Opening an account has never been easier and the ease-of-use and mobile access is unprecedented. Are certain investors trading too frequently, now that trading is “free”? Are other investors using leverage, margin and options above their knowledge or experience level? Is Gen-Z “guilty” of some of these statements?

We believe the answer to these questions is “yes”, but we are hesitant for regulators to install governors or roadblocks preventing fair and equal access to the markets. We do not believe everyone understands our perspective and think they could over-reach to protect us from ourselves. Gen-Z should be given the same opportunity to gain valuable experience.

Steve Jobs said, “You’ve got to start with the customer experience and work back towards the technology.” Our research shows that Robinhood has made significant strides in the brokerage industry and has earned its leading Gen-Z market share, because of two key items. Robinhood built a great mobile app and UI (user interface), that provided its customers with a great initial experience. However, its reliability and reputation have taken a hit recently. Will it be able to retain its early lead with the growing Gen-Z demographic? Will it go public this year and spend heavily on building its brand? Will more established and well-funded peers respond?

As Warren Buffett says, building a great customer experience is critical in maintaining and expanding the “moat around a franchise”. Well, the moat around the online brokerages is not terribly wide and the industry has essentially no switching costs. Word of mouth is very powerful, so Robinhood should keep a close eye on its competitors and remember that its lead with Gen-Z can easily disappear, if it fails to provide a great customer experience.

Speaking of experience, we have seen a number of quotes (about experience) that we believe are apropos to end our first 2021 Gen-Z note. When it comes to wrapping up our brokerage note, we felt this quote from Pete Seeger was appropriate.

> ***Do you know the difference between education and experience? Education is when you read the fine print; Experience is what you get when you don’t.***

Thank you for your interest in our 2021 Gen-Z financial services survey on the brokerage industry. We will shortly release our next 3 Gen-Z surveys, discussing topics in the payment space, the banking industry and cryptocurrency.

We would also like to acknowledge and “THANK” Jordan Knepper, Kennedy Runde and Brian Spencer for their hard work and analysis.

Great job team!

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