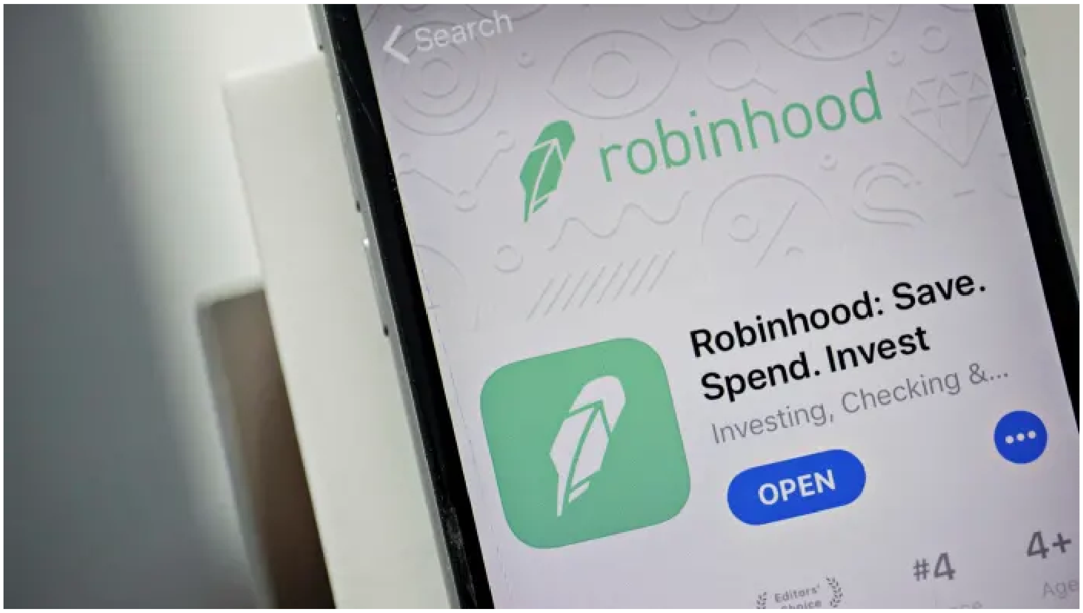
Opinion **Lex**

Robinhood/online brokers: all of a quiver

Stock-buying app raises $280m, but the battle for retail investors will get tougher



Robinhood has added more than 3m funded accounts since the start of the year © Bloomberg

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Robinhood is proving it still has some arrows left in its quiver. The zero-commission stock-buying app successfully raised $280m from investors led by Sequoia Capital earlier this month. The new post-money valuation of $8.3bn is a slight gain on the $7.6bn the business was valued at less than a year ago. Still, it is bucking the trend of many Silicon Valley start-ups that have begun to sell themselves at a discount amid the coronavirus-triggered market upheaval.

For this, Robinhood may have America's legion of frustrated sports punters to thank.

Just a few months ago, Robinhood's business model appeared in serious jeopardy. It pioneered and popularised free stock trading, particularly among millennials. But its main selling point evaporated almost overnight after big, established online brokerages such as Charles Schwab, TD Ameritrade and ETrade all announced plans to scrap trading fees. Then in March, Robinhood's systems suffered three outages over eight days of wild trading, including during the huge rally on March 2. Customers threatened to sue the company and take their businesses to rival platforms.

Then came the lockdown orders. With professional sports shut by the coronavirus pandemic, punters turned to playing the US stock market en masse. Charles Schwab, ETrade and Interactive Brokers all reported record new users during the first quarter. Between them, they have added 780,000 new customers between March and April.

Robinhood said it has added more than 3m funded accounts since the start of the year, with 1m of these opened in April.

But stuck-at-home newbie traders will not be stuck at home forever. Moreover, higher usage alone does not pay the bills. Zero commission means there is little money to be made from helping clients trade stocks these days. Instead, the real returns come from monetising idle cash in client accounts and selling investment services. Schwab, for example, made 90 per cent of its revenue last year from net interest and asset management.

To justify its new nine-figure fundraising round, Robinhood will have to show it can make money. TD Ameritrade, which Schwab is acquiring for $26bn, made a profit of $2.2bn on $6bn of revenue in its last fiscal year. ETrade, which Morgan Stanley is buying for $13bn, posted a net income of $955m on $2.9bn of revenue last year. The battle for the hearts and wallets of retail investors can only get fiercer from here.

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