Money Stuff

Robinhood Ends Its Popularity Contest

Also Kodak, the Business Roundtable, tax-loss carrybacks, antitrust and psychics.

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In this article

RIP, Robintrack

A reader once said to me that Robinhood, the retail brokerage for young people trading on their phones, "is one giant momentum algo." If you are bored during a coronavirus lockdown and you can't go to a casino or bet on sports, you might decide to start gambling on stocks instead. If you decide to start gambling on stocks you might download Robinhood, which is, stereotypically, the app for gambling on stocks.

If you download Robinhood … then what? You have heard that it might be fun to gamble on stocks, but you do not necessarily know which stocks are fun to gamble on. There are a lot of stocks and they all, from inside an app, look kind of the same. What is the stock discovery mechanism? If you walk into a casino, the layout of the casino will tell you what to gamble on: There are slot machines right in front of you with blinking lights, there are people shouting around the craps tables, etc.

KODK
EASTMAN KODAK CO
8.43 USD
▼ -0.77 -8.37%

0321246Z
BUSINESS ROUNDTABLE
Private Company

GOOGL
ALPHABET INC-A
1,504.63 USD
▼ -12.02 -0.79%

HTZ
HERTZ GLOBAL HOL
1.55 USD
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If you walk into Robinhood, the layout of the app will guide your decisions. One thing that the app tells you is how popular different stocks are on Robinhood. Presumably the stocks that are popular on Robinhood are the stocks you should buy? They're the craps tables where everyone is shouting happily, the slot machines with the blinkiest lights. So you buy them. The stocks that are popular on Robinhood become the stocks that people see when they open up Robinhood, so they buy them, which makes them more popular on Robinhood, etc., in a self-reinforcing cycle that ends up with, you know, Hertz Global Holdings Inc. going up after filing for bankruptcy, or Eastman Kodak Co. going up 1,480% in three days after announcing a weird pivot to drug manufacturing, or Nikola Corp. being a $13 billion company on $36,000 of revenue, or all the other greatest hits of the Robinhood market.

I am not sure that this story is entirely fair to Robinhood; maybe most people who download Robinhood do so with the intention of buying and holding a sensible diversified portfolio of stocks and don't just want to gamble on whatever is popular that day. But if that's the case, why does Robinhood display the popularity stats?

Well, it's going to stop. CNBC's Kate Rooney reports that "Robinhood says it will stop showing how many customers hold a certain stock on its website," and will stop giving

third parties (notably Robintrack) access to that data. Robintrack, an independent website that tracks which stocks are popular on Robinhood and how many holders they have, will not be able to do that anymore. Bloomberg News quotes Robintrack founder Casey Primozic:

> "They said the reason they're doing this is because 'other people' are using it in ways they can't monitor/control and potentially at the expense of their users," he wrote in a message to Bloomberg News. "They feel it paints Robinhood as being full of day traders when they say most of their users are 'buy and hold."'
>
> In an emailed statement from a spokesperson, Menlo Park, California-based Robinhood confirmed it will stop displaying the number of customers who hold a particular stock, and limit the data feed in the near future. "The trend data that is available on our web platform can be reported by third parties in a way that could be misconstrued or misunderstood," the email said. "Importantly it is not representative of how our customer base uses Robinhood."

It is the end of a brief but entertaining era. Now if you run a hedge fund that uses Robinhood ownership as a signal (to bet against retail day traders? To bet with them?), you will have to find some other signal. (Honestly if you run a retail brokerage that *isn't* Robinhood, now is probably a good time to sell API access to hedge funds?)

And if you are a journalist who wants to use Robinhood ownership data as an easy way to make fun of an otherwise inexplicable rally in some weird stock, you are out of luck. ("You," here, means me.) The next time a company goes

bankrupt and its stock goes up, there will be no way of knowing if it's because confused retail traders thought it sounded fun, or because professional distressed investors spotted deep value. I mean there will be some ways of knowing. Bond prices? Looking at the Reddit day-trading forums? It's fine, we'll get through this.

If you are an investor who uses Robinhood I suppose now you will have to, like, research stocks and read 10-Ks or whatever? Buy index exchange-traded funds? Buy Bitcoin? I don't know. What if the momentum algorithm was Robinhood's most powerful weapon? There have been a lot of stories about how retail traders have actually done really well during the pandemic; this might be because the newbie retail traders are all geniuses, but it might also be in part because they all buy the same stocks so those stocks go up. If they don't know what stocks they're all buying, how will those stocks go up?

Oh, Kodak

What if the Kodak thing just goes away? A couple of weeks ago the Trump administration announced that it was thinking about lending Eastman Kodak Co. $765 million to build out capacity to manufacture generic pharmaceutical ingredients. Kodak's stock shot up after the announcement, or actually shortly *before* the announcement, because Kodak somehow managed to leak it a day early. There was a lot of other low-grade bungling around the announcement; Kodak insiders bought stock while it was negotiating the loan, and Kodak granted a big slug of options to its chief executive officer the day before the loan was announced. Plus of course Kodak is mostly a historic camera company, not a drug company, so that's weird.

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It all might be bad enough that, uh, never mind?

> The federal agency that announced a $765 million loan to Eastman Kodak Co. less than two weeks ago said the offer is on hold pending probes into allegations of wrongdoing.
>
> "Recent allegations of wrongdoing raise serious concerns," the U.S. International Development Finance Corporation said in a tweet Friday night. "We will not proceed any further unless these allegations are cleared." Congress and the Securities and Exchange Commission are investigating the deal, and Kodak's board said Friday it is also opening a review of the loan disclosure.

There is precedent: In 2018 Kodak pivoted to blockchain; that never went anywhere either, but the stock had a big brief rally before drifting back down again.

It will be sort of ironic if the deal does get canceled though. As far as I can tell the "allegations of wrongdoing" all have to do with Kodak executives *buying* stock, or being granted stock options. That is "wrongdoing" to the extent that they were trading on positive material nonpublic information: If the insiders knew, a month or so ago, that (1) Kodak would get this loan and (2) it would be good news, then it would be wrong for them to buy stock. One standard defense, in that scenario, would be: Look, we were having some chats with the government, but everything was very uncertain and preliminary, and I certainly didn't *know* we would get the

loan; I didn't have any real, actionable, material information. The fact that the loan is *still* so preliminary that the government might walk away from it is a good fact, for that defense: If the government walks away now, then (arguably) there really wasn't any material news a month ago, so it was fine for the executives to buy stock. If the wrongdoing kills the deal, then, retroactively, there was no wrongdoing. The options grants and stock purchases were long-shot bets, by the insiders, on Kodak's pivot, and those bets still might not work out.

Stakeholders

A year ago next week, the Business Roundtable, a group of corporate chief executive officers, put out a statement saying that the "purpose of a corporation" had changed, and that from then on they would no longer work to maximize shareholder value but would instead take into account "all stakeholders," including workers, customers, communities, society, etc. I was skeptical from day one, and the past year has provided ample opportunities to point out that they probably didn't mean it, which I kept doing.

My view was that these CEOs didn't really mean that they would *give up power*, that they would add further constraints on their decisions, that they would refrain from doing things that they wanted to do because those things would be bad for workers or communities or whatever. Instead, I figured that the CEOs just meant that they would *increase their power*, that they would eliminate constraints on their decisions, that they would do more things that they wanted to do, even if those things were not what shareholders wanted, by saying "oh well they're good for some other stakeholders." You could imagine a CEO who answered to shareholders and workers and communities,

and therefore was more restricted in what she could do; you could also imagine a CEO who *said* that she answered to all those different constituencies, but decided herself which one to prioritize at any time, and did whatever she wanted. I figured the latter was more likely. I wrote: “The managers and the board, in this version of the corporation, are the only ones representing all of the constituencies, so they are the only ones qualified to evaluate their own performance.”

I was too generous to the CEOs! I shouldn’t have said “and the board.” Lucian Bebchuk and Roberto Tallarita did a study of the Business Roundtable statement and got this hilarious result:

> To probe what corporate leaders have in mind, we sought to examine whether they treated joining the Business Roundtable statement as an important corporate decision. Major decisions are typically made by boards of directors. If the commitment expressed in the statement was supposed to produce major changes in how companies treat stakeholders, the boards of the companies should have been expected to approve or at least ratify it.
>
> We contacted the companies whose CEOs signed the Business Roundtable statement and asked who was the highest-level decision maker to approve the decision. Of the 48 companies that responded, only one said the decision was approved by the board of directors. The other 47 indicated that the decision to sign the statement, supposedly adopting a major change in corporate purpose, was not approved by the board of directors. …
>
> What can explain a CEO’s decision to join the Business

> Roundtable statement without board approval? Even "imperial" CEOs tend to push major decisions through the board rather than disregard it. … The most plausible explanation for the lack of board approval is that CEOs didn't regard the statement as a commitment to make a major change in how their companies treat stakeholders.

They're probably right, but my own preference is to assume that a CEO who signed the Business Roundtable statement is particularly likely to be an imperial CEO, that she is particularly likely to be a CEO who does not want to have to listen to or consult with shareholders, because *that is actually what the Business Roundtable statement is about*. If you assume the signing CEOs are the ones who don't want to listen to shareholders, it's not so surprising that they don't bother consulting their directors either.

Taxes

The basic rule is that if the corporate tax rate is 21%, then a company that makes money has to pay 21% of it in taxes, and a company that loses money gets back less than 21% of it in tax refunds. Less than 21% because you don't just get a check from the Treasury for 21% of the money you lost: You get tax-loss carry-forwards that you can credit against *future* income; if you make money next year, you can reduce your taxes by 21% of the money you lost this year, though you have to wait a year for the money. There is an asymmetry here, but of course there has to be; if the Treasury really just wrote checks to anyone who ran an unprofitable business, that would create weird incentives, and people would find lots of good ways to scam the Treasury out of those checks.

But the asymmetry is kind of reversed this year. Now the rule is that a company that makes money has to pay 21% of it in taxes, but a company that loses money gets back 35% of it–immediately–in tax refunds. As long as it made money in previous years:

> There's a simple rule for corporate tax planning in 2020: If you're going to lose money, lose a lot of money.
>
> That's because companies can now use losses incurred before and during the pandemic to offset up to five years of past profits. What makes this moment particularly attractive: Congress is letting companies get refunds of taxes they paid at the 35% corporate rate that existed before 2018 rather than at today's 21% rate.
>
> Companies can generate big losses now by packing deductions into 2020 and pushing income into the future. Nearly two dozen large publicly traded companies are already reporting more than $2 billion in combined tax benefits using this rate arbitrage, according to a review of securities filings. Tax advisers and experts expect more soon.

This is a result of the Coronavirus Aid, Relief, and Economic Security Act, which allows companies to carry back those losses to reduce previous years' income; ordinarily they can only be carried forward to reduce future years' income. For the most part this seems like a straightforward stimulus measure: It encourages companies to do stuff now, rather than waiting.

> Firms are now planning strategies for the next few months, such as buying equipment. The 2017 tax law lets companies deduct those costs from taxable income

> immediately instead of over time. Companies now have an incentive to accelerate such spending to generate losses. The tax break could make a previously unprofitable project worthwhile.
>
> “If I’m going to do something in the next 12 months anyway, I just made it [14 percentage points] better to do it now,” said Bret Wells, a University of Houston law professor. “That’s a pretty high rate of return.”

Still, discontinuities are always weird. If you were going to make $100 million this year, and you can find $50 million of expenses to accelerate, you don’t get any special benefit: You get back 21% (your current tax rate) of those expenses, same as you would next year. If you were going to make $100 million this year, and you can find $200 million of expenses to accelerate, you *do* get the benefit: You get back 35% of every dollar that you can reduce your income below zero, in a one-time deal that won’t be repeated next year. There is not a uniform incentive to spend money this year; there’s a big incentive for already-money-losing companies to spend more this year, but money-making companies get nothing unless they can spend so much that they transform themselves into money-losing companies.

Don’t put it in email

A good general rule is, if you are doing crimes, do not email and text your colleagues saying things like “these are good crimes we are doing” or “I hope we don’t go to jail for doing these crimes” or whatever. A good second-order rule is, if you run a business that does crimes, do not have a written training document that says things like “when you do crimes, be careful not to discuss your crimes in email.” That looks bad too. You have to *both* discuss your crimes

orally, *and* pass down that particular piece of advice orally. (Needless to say this is not legal advice.)

That said, I think there is an exception for antitrust? I mean basically the way business works is that you try to crush your competitors, and crushing your competitors is mostly fine and encouraged, but saying "we will crush our competitors" can get you in trouble with antitrust regulators. It's not exactly the case that antitrust law prohibits certain *words*, but it is a little like that. Every time you make a business decision or do a merger, you are thinking about competition, and you are thinking about other things; if you mostly *talk* about the other things, it's fine, but if you mostly *talk* about competition you can get in trouble.

So it's fine and normal to have a written training presentation that is like "don't talk about competition." Still it can look weird when it becomes public:

> As Google faces at least four major antitrust investigations on two continents, internal documents obtained by The Markup show its parent company, Alphabet, has been preparing for this moment for years, telling employees across the massive enterprise that certain language is off limits in all written communications, no matter how casual. …
>
> In one of the documents, which appear to be written by the legal team, employees are advised to choose their words carefully and use only third-party data when referencing Google's "position in search" in sales pitches. They are further cautioned never to print or hand out their slides. …

> One part of the presentation, subtitled “Communicating Safely,” advises employees on which terms are “Bad” and “Good.”
>
> Instead of “market,” employees may say “industry,” “space,” “area,” or simply cite the region, according to the presentation.
>
> Instead of “network effects,” the presentation suggests “valuable to users.”
>
> And instead of “barriers to entry,” substitute “challenges.”

Yeah that’s fine. “Market” is a magic word in antitrust law: Any company will have a large market share if you define its market very narrowly, or a tiny market share if you define it broadly. We talked the other day about Amazon.com Inc.’s and Facebook Inc.’s claims that they can’t be monopolies because they only have a very small share of the markets for, respectively, commerce and human behavior. Similarly, as Peter Thiel has famously pointed out, Google is dominant in online search, but fairly small in the market for all advertising. Which one is Google’s “market”? If you work on the search engine, answering that question is way above your pay grade, and just to be safe Google doesn’t want you using the word at all. Seems fair:

> “These are completely standard competition law compliance trainings that most large companies provide to their employees,” Google spokesperson Julie Tarallo McAlister said in an email. “We instruct employees to compete fairly and build great products, rather than focus or opine on competitors. We’ve had these trainings in place for well over a decade.”

Hmm

Well, look, if *I* could see the future, I would use that skill to buy stocks that would go up and make a lot of money. What I would not do is give tarot readings for $225 each:

> Psychic Hae Jun "HeyJune" Jeon is being tapped by dozens of big-money players in finance and tech for advice on how to invest.
>
> "I've had many instances where I've told traders, 'Be more open-minded today' because I pulled a Capricorn card, which means big business, or a chariot card, which means getting lucky," Jeon told The Post. "Then they put in a trade that they normally wouldn't have – and made bank."
>
> The phenomena have happened "a lot" since she began sessions with clients at investment banks more than six years ago, Jeon said. (Although The Post was able to verify she has worked with several major financial firms, all asked that names be withheld because of liability reasons.) …
>
> Before she became a full-time intuitive, the Upper West Sider worked on Wall Street as a strategist and data analyst for JP Morgan and, later, at a private hedge fund. She gave readings to friends on the side, but never considered it a career. … In the spring of 2019, Jeon, who is single, finally realized she needed to step away from her six-figure job.

She quit her job as a strategist and data analyst at a hedge fund to use magic to tell hedge-fund traders how to make

more money? Why not … do that … at … the job? I have doubts.

Things happen

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