



Basis Points – February 2, 2021

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Above the Fold

What's the Real Deal With Reddit and Robinhood?

Day trading captivated the media over last week as stocks like GameStop, AMC Entertainment Holdings, and even commodities like Silver, have been targets of a sort of digital pump-and-dump scheme by members of Reddit community r/WallStreetBets and others who follow them. The users targeted securities with a large amount of short interest. In layman's terms, this means that investors have borrowed shares from their brokers to sell in the open market, as they believe the stock price will decline, and they will be able to purchase those shares back at a lower price in the future.

After attendance at their theaters plummeted due to the COVID-19 pandemic, AMC started the year with 53% short interest. In other words, 53% of the total outstanding shares were borrowed and sold short (that's a huge percentage). And since stocks can theoretically rise to infinity, short selling can be extremely risky. Now, if someone were to coordinate the efforts of tens, if not hundreds of thousands of investors to simultaneously buy shares in a stock like AMC, not only do short sellers begin to lose money, but they may be forced to cover (buy back) their shares as well, amounting to an exponentially volatile event just like those we've witnessed with GME and AMC.

The problem is that these stocks can often fall as fast or even faster than they rose, leaving many who "bought in" with major losses and yet, these traders are likely simply acting, albeit irrationally, on public information. Robinhood, an all-digital broker catering to small investors, has been accused of "gamifying" stock trading and even (alleged) outright manipulation. Several class action lawsuits have been filed, but there's still a lot we need to learn about the situation to determine who may have broken the law.

Three Things

1. *Police Can Now “Ring” You in 48 States* – Amazon-owned Ring network has expanded exponentially to more than 2,000 police and fire departments across 48 states (Montana and Wyoming are the only exceptions). The agreements allow local authorities to *request* video from your cameras directly through the Ring app. Privacy advocates are raising concern as law enforcement is also able to obtain private Ring videos through subpoena, search warrant or court order.
2. *Facebook to Explain Information Exploitation Nicely* – As Apple rolls out a new privacy consent requirement for apps that gather your most personal data, Facebook is responding with an in-app prompt that will explain in detail how certain data is being used to enhance your experience in its ecosystem. Facebook believes the context will help users see things in a less intrusive way and thus allow the social media giant to continue to collect your unique and even private information from third-parties.
3. *Coming Soon: Digital Vaccine Passports* – United Airlines and JetBlue, along with airports in Singapore and Paris, are beginning to test apps that verify your COVID-19 vaccination status before boarding. Apps like AOKpass keep a digital record of all your inoculations and are more current, reliable and accessible compared to the paper records of the past; they can also be linked directly to last-minute airport testing clinics. The recent pandemic could accelerate a gravitation to app-based travel health services, which goes beyond just air travel.

Did You Know?

Happy Groundhog Day!

The official holiday started back in 1887 at Gobbler’s Knob in Punxsutawney, Pennsylvania, but has roots in the ancient Christian tradition of Candlemas, where clergy would estimate the remaining winter duration by giving out a specific amount of candles. Germans modified the practice, using a hedgehog as their winter barometer. As German settlers made their way to Pennsylvania, they switched to groundhogs as they were native and abundant in the area. Male groundhogs naturally emerge from hibernation in February to find a mate, but have less than 40% accuracy predicting the weather.

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