

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/individual-investor-boom-reshapes-u-s-stock-market-11598866200>

## MARKETS

# Individual-Investor Boom Reshapes U.S. Stock Market

Free trading apps, a bull market and Covid-19 lockdowns fuel a surge in mom-and-pop trading



Data suggest that users of Robinhood's popular trading app might be affecting the share price of some smaller stocks.

PHOTO: ALYSSA SCHUKAR FOR THE WALL STREET JOURNAL

By [Alexander Osipovich](#)

Aug. 31, 2020 5:30 am ET



Listen to this article

7 Minutes

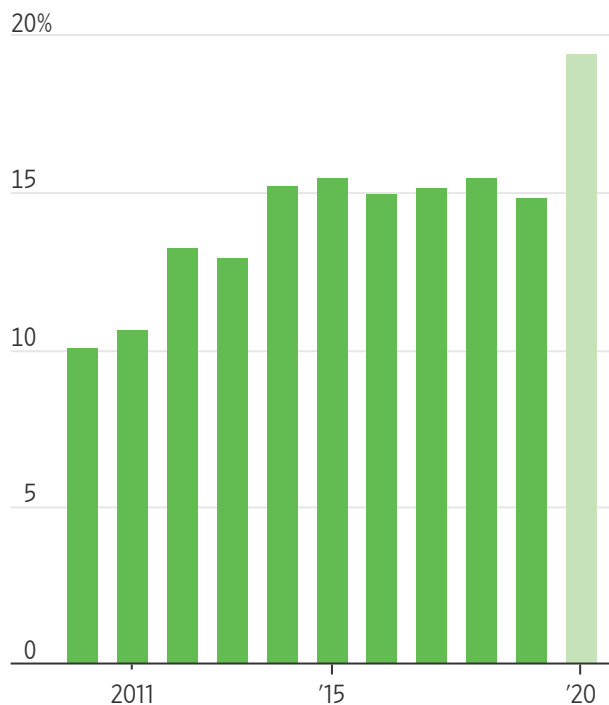
It's one of the year's biggest market stories: Mom-and-pop investors have fallen back in love with stocks, lured by free trading apps, a resurgent bull market led by technology companies and a pandemic that has left millions of Americans at home with little to do.

New data show a number of ways in which the individual-trading boom has reshaped the U.S. stock market. Here are five takeaways:

## Individual stock trading is at a decade high

Trading by individuals accounts for a greater chunk of market activity than at any time during the past 10 years, according to Larry Tabb, head of market-structure research at Bloomberg Intelligence.

### Individual investors' estimated share of U.S. equities trading volume



Note: 2020 data are for January through June.

Source: Bloomberg Intelligence

During the first six months of this year, individual investors accounted for 19.5% of the shares traded in the U.S stock market, up from 14.9% last year and nearly double the level from 2010, Mr. Tabb estimates. His data don't go back further.

On some days this year, about 25% of market volume has been individual-investor activity, said Joe Mecane, head of execution services at Citadel Securities, an electronic-trading firm that executes orders for such brokerages as Robinhood Markets Inc. and [Charles Schwab Corp.](#) [SCHW -2.01%](#) ▼

Trading activity among individuals started climbing late last year, when Schwab and other major brokerages [cut stock-trading commissions to zero](#). Mr. Mecane drew a parallel with the dot-com boom in the 1990s, when web-based brokers made it easier to trade stocks, just as a bull market was under way.

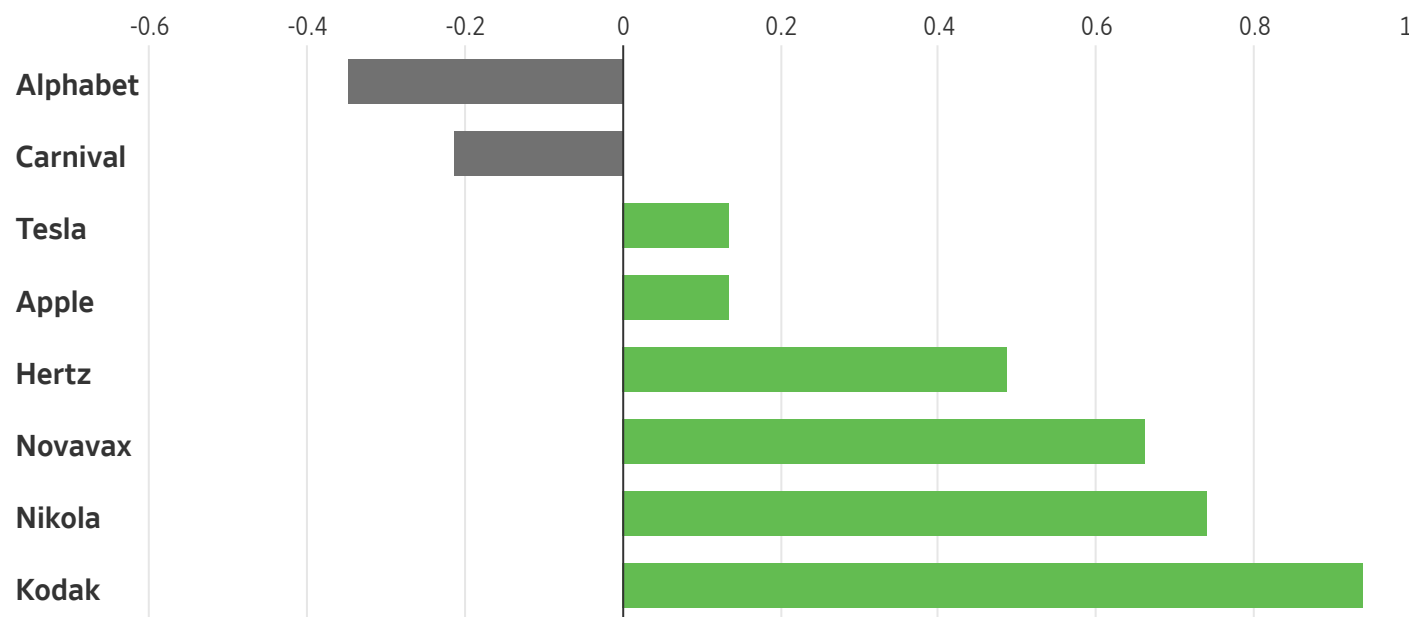
“It was really the start of a similar trend,” he said. “Back then, technological and business innovation provided the first foray into instant execution and self-directed retail investing.”

## Small investors are powering big moves in some stocks

It has been called the Robinhood effect, the idea that stampedes of investors using the popular app are driving irrational stock moves.

In fact, such activity doesn't matter much for most stocks, according to Nick Maggiulli, chief operating officer of Ritholtz Wealth Management. But there is evidence of a Robinhood effect in some smaller stocks, he said.

### Correlation between changes in a stock's popularity on Robinhood and its price



Note: Figures are one-day correlations between changes in the number of Robinhood users holding a stock and price moves. Based on data from Feb. 19 to Aug. 11.

Source: Ritholtz Wealth Management

Mr. Maggiulli has studied the relationship between how many Robinhood users own a particular stock and its share price. If Robinhood investors were pushing prices up and down, one would expect a high correlation between those two things.

For some of the hottest stocks on the app, including [Apple Inc.](#) and [Tesla Inc.](#), [TSLA 5.25% ▲](#) such correlations are weak. With others, such as Google parent [Alphabet Inc.](#), [GOOG -0.33% ▼](#) they are negative, meaning that as more Robinhood users buy a stock, its price tends to drop.

Mr. Maggiulli found there are some stocks, though, with a high correlation between Robinhood popularity and price—indicating that the app’s users may indeed be driving their share prices. In recent months, such stocks have included [Eastman Kodak Co.](#), [KODK 3.99% ▲](#) electric-truck startup [Nikola](#) [NKLA 2.99% ▲](#) Corp. and biotech firm [Novavax Inc.](#) [NVAX 0.38% ▲](#)

## Asia is where individual investors truly dominate

Many Asian stock markets have traditionally been dominated by individual investors, unlike the institution-heavy U.S. market. In places such as mainland China, frenzied trading by individuals can create a casino-like feel, with exuberant bull runs followed by spectacular crashes.

---

### SHARE YOUR THOUGHTS

---

*Is it a good thing that so many small investors are getting into the stock market? Why or why not? Join the conversation below.*

---

Individuals often account for more than 80% of volume on the Shanghai Stock Exchange, while on the Korea Exchange’s main KOSPI market, nearly 84% of shares traded so far this year were on behalf of individual investors, according to data compiled by Hee-Joon Ahn, a finance professor at Sungkyunkwan University in Seoul.

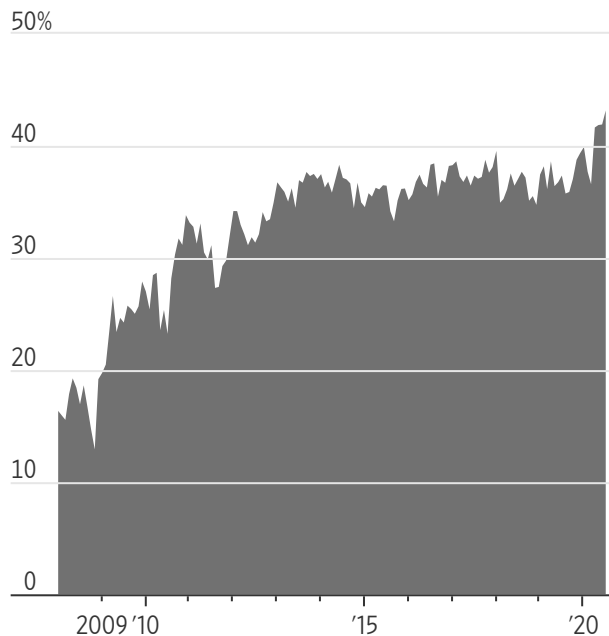
There are several reasons why there is so much individual-stock trading in South Korea. These include an underdeveloped mutual-fund industry, a tech-savvy population accustomed to trading on smartphones and price wars by brokers that have led to zero or near-zero commissions, according to Mr. Ahn.

All that leads to heavy speculation, he added. “Individuals in Asia tend not only to crowd in trading of small stocks but also to be very short-term oriented,” Mr. Ahn said.

## More of the U.S. stock market is going dark

The individual-investing boom has led to historically high levels of “dark” trading, in which stocks are bought and sold on opaque private venues, rather than public exchanges. That is because online brokers typically funnel small investors’ trades to electronic-trading firms that execute the incoming orders.

## Share of U.S. equities trading volume executed outside of stock exchanges



Source: Rosenblatt Securities

In July, 43.2% of U.S. stock-trading volume took place off-exchange, according to Rosenblatt Securities, a brokerage firm. That is the highest level that the firm has recorded since it started tracking such data in 2008.

Stocks that are popular with small investors, such as United Airlines Holdings Inc., UAL -2.01% ▼ are even more likely to trade in the dark. In July, 62.6% of trading of United shares took place off-exchange, Rosenblatt data show.

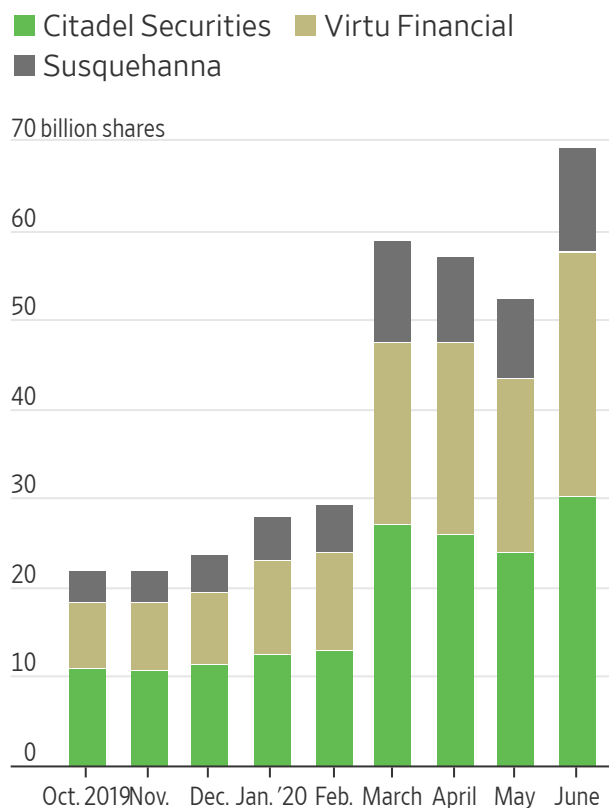
Exchanges such the New York Stock Exchange and Nasdaq Inc. NDAQ 0.83% ▲ have long complained that too much dark trading harms market transparency.

“It’s always a concern when a large part of trading goes on outside the price-discovery process,” said Justin Schack, a managing director at Rosenblatt.

### Big winners may be electronic traders

The firms that execute individual investors’ orders have enjoyed surging volumes. The three biggest players in that business—Citadel Securities, Virtu Financial Inc. VIRT 2.53% ▲ and Susquehanna International Group LLP—traded a combined 69.4 billion shares over the counter in June, more than triple the level from November, according to Bloomberg Intelligence. The vast majority of the firms’ over-the-counter trades come from individual investors. OTC trading is a type of off-exchange trading.

## Monthly volumes for electronic trading firms that execute individual investors' orders



Note: Figures are for over-the-counter trades only.

Source: Finra via Bloomberg Intelligence

Electronic-trading firms profit from individuals' trades by collecting a small difference between the buying and selling prices of a stock. It's hard to know how much money they are making, though, because most are private and don't report financials.

At Virtu, which is public, net trading income more than tripled to \$744 million in the second quarter. Virtu's stock is up 56% since the start of 2020. Although the firm doesn't say how much of its trading income comes from individuals, Chief Executive Douglas Cifu said on an Aug. 7 earnings call that the retail boom had been a big boost to Virtu.

"It certainly is great for our business," he said.

Write to Alexander Osipovich at [alexander.osipovich@dowjones.com](mailto:alexander.osipovich@dowjones.com)