Written Testimony of

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Who Wins on Wall Street?
GameStop, Robinhood, and the State of Retail Investing

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Mr. Chairman Brown, Ranking Member Toomey, and Members of the Committee:

Good morning and thank you for inviting me to testify before this Committee. It is my great honor. My name is Rachel Robasciotti and I hold leadership positions at two SEC Registered Investment Advisory firms. I am the Founder and CEO of Adasina Social Capital, where we manage an exchange-traded fund with the ticker symbol JSTC. It holds over 800 stocks, but is accessible to everyday investors at a price of about $16 per share. I am also the Director of Advocacy & Engagement for Abacus Wealth Partners, a firm with $3.8 billion in assets and no minimum account size for its clients.

In both roles, I serve hardworking, everyday Americans. Your constituents and my clients are the same people.

I have also worked in financial services for almost 22 years, so I take the long view of market events. I have seen everything from the ill-fated dot-com boom of 2000 through the Great Recession and the most recent GameStop-Robinhood episode in January. I understand the players in the market and, in this most recent situation, there are three groups to consider.

1. Hedge Funds: Institutions that primarily manage money for wealthy, accredited investors[1] and are known for their risky strategies and high returns.

2. Redditors: Tech-enabled young people, using commission-free trading, who banded together to outwit the hedge funds they felt had an unfair advantage.

3. Everyday Americans: Hard-working people with long-term retirement savings invested in the stock market. These people do not have time to be sophisticated investors and were mostly anxious, confused, and frustrated.

But, as an investment professional, what happened here was familiar to me.

When the GameStop-Robinhood episode occurred in January, I was immediately reminded of the MIT Blackjack Team of the 1990s, when a group of students banded together to break the bank at several large casinos.[2] They realized that if they worked together, they could win substantially more money than the average gambler. So, using math skills and technology, they coordinated to quickly and strategically place large bets against the house.

It is easy to see the obvious similarities between the two situations. Like the MIT students, the Redditors in January were young, knowledgeable people with high appetites for risk who chose to collectively speculate by making quick bets against a larger player with a perceived advantage.

On the other hand, like the casinos, the hedge funds are large institutions with specialized knowledge about the game who some say routinely use their size to tip the odds in their favor.

What is *not* obvious, whether in the casino or the stock market, is what the wealthy institutions and upstarts have in common. They are all fast-moving, high-risk speculators with more skills and tools than the average person.

But there is a problem here for the stock market. When fast-moving, high-risk speculators dominate, we have a classic recipe for market disruptions. What we saw in January with GameStop and Robinhood is what we saw during the Great Recession with Wall Street churning out subprime, mortgage-backed securities.

Market disruptions like this are a problem because, as stated by SEC Commissioners on January 29th[3], "...extreme stock price volatility has the potential to expose investors to rapid and severe losses and undermine market confidence."

Unfortunately, this volatility does not impact everyone equally. Let me paint the picture of what the everyday investor experienced. Imagine a two-job household with a couple of kids, adults working hard to make ends meet *and* save enough for the future. They don't have a professionally-managed pension to fall back on for retirement, because so few pensions now exist.[4] They know that Social Security benefits their parents receive aren't enough to cover most retiree's basic needs.[5] And, for several decades now, the economy has only offered these savers historically low-interest rates, which means that putting their money in low-risk savings accounts, CDs, or bonds barely makes them enough to keep up with inflation.[6]

This leaves investing in the stock market as their only option. It is the only way their savings can grow enough to provide for the future. So, they are forced into the "stock market casino" with their life savings. And they are being required to play against armies of sophisticated, high-risk hedge funds and Redditors duking it out for dominance. With smaller amounts, that represent all that they have to invest, sustaining significant losses (or even the perception of losses) is devastating. It makes them lose confidence and want to opt out altogether. But we know they can't leave the casino.

As an investment professional who works for everyday investors, and as senators with these same people as your constituents, we must fix the system for them. We need to maintain fair, orderly, and efficient markets that serve as a reasonable place for the average American to invest their life savings. And we have a duty to protect these investors from the crossfire of fast-moving, high-risk speculators.

Endnotes

1. Securities and Exchange Commission, Office of Investor Education and Advocacy, "Investor Bulletin: Hedge Funds", SEC Pub. No. 139 (February 2013).

2. Noah Goldman, "How MIT Students Broke the Bank in Vegas", ABC News (January 6, 2006).

3. U.S. Securities and Exchange Commission, "Statement of Acting Chair Lee and Commissioners Peirce, Roisman, and Crenshaw Regarding Recent Market Volatility", Public Statements, U.S. Securities and Exchange Commission (January 29, 2021).

4. Barbara A. Butrica, Howard M. Iams, Karen E. Smith, and Eric J. Toder, "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers" Office of Retirement and Disability Policy, Social Security Administration, Social Security Bulletin, Vol. 69, No. 3 (October 2009).

5. Jan Mutchler and Yang Li, "The Gap Remains: Social Security Benefits Continue to Fall Short of Covering Basic Cost of Living for Older Americans, 2015-2020", Center for Social and Demographic Research on Aging Publications, No. 48, University of Massachusetts Boston (November 2020).

6. The Economist, "The Savers Dilemma: Low interest rates leave savers with few good options", Finance & Economics, The Economist (October 15, 2020).