

THE COFFEE CAN PORTFOLIO

ROBINHOOD IPO Gamblers bet on the casino

“What we are witnessing is a massive transformation taking place across financial markets, driven by the intersection of technology, democracy and finance, and one that is ushering in an entirely new era of financial participation and market dynamics.”

~ Vlad Tenev, Robinhood Markets CEO

“We're pretty excited about the increased participation of retail investors in the equity market.”

~ Katie Koch, Goldman Sachs Asset Management



On July 19, Robinhood Markets (HOOD) issued 55 million shares at \$38/share, raising \$2.1 billion. Not

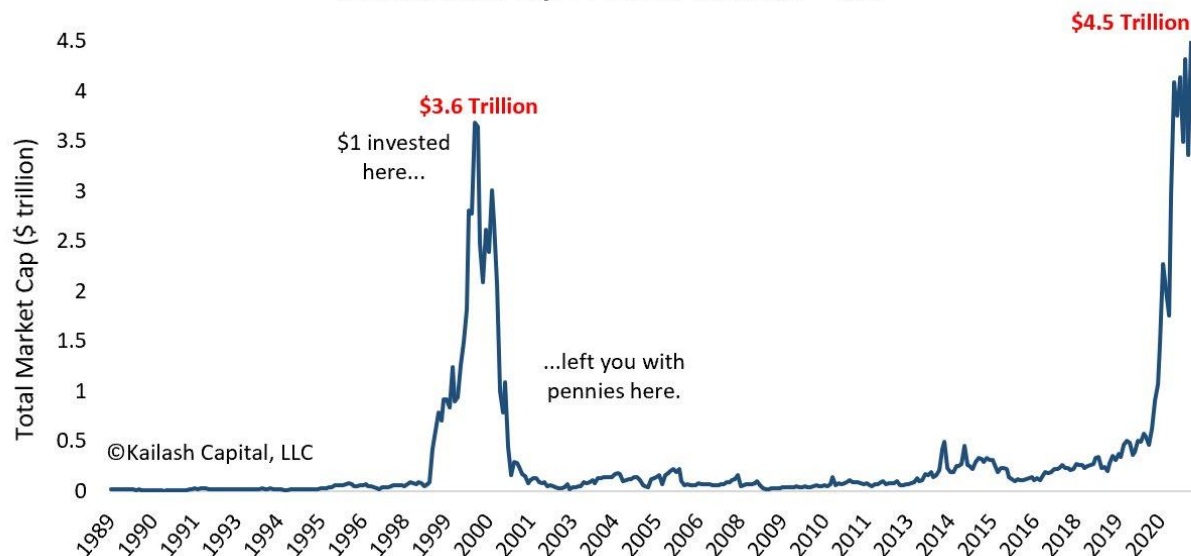
quite 5% of the IPO shares were sold by existing shareholders. After a lackluster start, HOOD spiked to as high as \$85/share, briefly giving Robinhood [meme stock](#) status and a market capitalization of \$67 billion, or 37 times sales. At the top of the 2000 tech bubble, the leading discount broker, Charles Schwab, fetched nearly 13 times sales.

2000 tech bubble, Charles Schwab:
2-year revenue growth = +45%/year
Peak price-to-sales = 12.8

2021 everything bubble, Robinhood Markets:
2-year revenue growth = +175%/year
Price-to-sales = 23.2
Peak price-to-sales = 36.9

While the 2000 version of Schwab couldn't match 2021 Robinhood for revenue growth, that growth was nonetheless impressive... and as it turns out, unsustainable. Annual revenue at Schwab peaked at \$5.8 billion in 2000, then dropped one-third over the next three years. The high-water mark wouldn't be passed until 2014.

Total Market Cap of Stocks with P/S > 20x



Source: Kailash Capital; Data from 4/30/1989-6/30/2021

Discount brokers have an uncanny knack for issuing shares to the public. Charles Schwab made its debut in 1987, seven months before the October crash. E*Trade and Ameritrade took advantage of the retail driven New Economy boom of the late '90s. Interactive Brokers almost perfectly top-ticked the 2007 credit bubble.

Discount Broker IPOs

Company	IPO Date	Years Since Founding
Charles Schwab	Mar-87	16
E*Trade	Aug-96	14
Ameritrade	Mar-97	22
Interactive Brokers	May-07	29
Robinhood Markets	Jul-21	8

The Robinhood IPO gives us a unique look at the market's youngest and most aggressive retail investors. Their actions, as any seasoned observer of investor behavior would expect, tend to be emotional and self-defeating. Robinhood's customers have gone from extreme caution at the March, 2020 stock market low

to uber-aggressive, a period in which the S&P 500 doubled:

Assets under custody, Mar-20:

Equities = 70.5%
Cryptos = 2.5%
Net cash = 24.0%

Mar-21:

Equities = 80.4%
Cryptos = 14.3%
Net cash = 2.7%

Jun-21:

Equities = 71.1%
Cryptos = 22.2%
Net cash = 4.3%

After the close on August 18, HOOD reported quarterly results for the first time as a public company. Trading in options and cryptocurrencies accounted for 58% of revenue, up from 48% a year earlier. Over 60% of crypto trading revenue came from [Dogecoin](#), which started as a joke. After the earnings release, Dan Nathan, regular guest on CNBC's Fast Money, remarked, "This looks like a gaming stock."

Market maker Virtu Financial may be signaling the end of the retail investor boom. Virtu reported a

“remarkable quarter” with record revenue of just over \$1 billion in Q1, but saw a 46% plunge in Q2.



One key to the investment business is securing permanent capital, i.e., customers with a long-term horizon (low time preference). As my good friend

[Tony Deden](#) likes to say, “The trouble with the investment business is when it becomes a business.”

To the optimists, Robinhood is building a lasting franchise, attracting lucrative customers at an early age. But what happens if this latest bout of speculative insanity ends in tears? Will the meme stock mob chalk it up to experience and move on? Or will they swear off stocks forever and blame the enablers for ruining them?

RULE #12:
THE RETAIL INVESTOR IS ALWAYS
LATE TO THE PARTY.

RULES OF THE INVESTING GAME

1. FIND THE PARADE AND GET OUT IN FRONT.
2. PAY ATTENTION TO ADDICTIVE CONSUMER BRANDS.
3. GROWTH CAN HAVE A LONG RUNWAY WHEN BRANDS EXPAND NATIONALLY AND INTERNATIONALLY.
4. WHEN ANALYZING FAST GROWING COMPANIES, IGNORE EARNINGS AND FOCUS ON INVESTMENT.
5. BUY RIGHT AND SIT TIGHT.
6. ALIGN YOURSELF WITH PEOPLE WHO HAVE SKIN IN THE GAME.
7. AVOID THE CROWD AT ALL COSTS.
8. IT’S A MARKET OF STOCKS, NOT A STOCK MARKET.
9. IN A PANIC ALL CORRELATIONS GO TO 1. PANICS ALWAYS CREATE BUYING OPPORTUNITIES.
10. ADVERSITY REMOVES THE FRAGILE AND SPARES THE ROBUST.
11. CUI BONO? IN POLITICS, CONSIDER WHO BENEFITS.
12. THE RETAIL INVESTOR IS ALWAYS LATE TO THE PARTY.
13. BUBBLES ARE THE MOST DESTRUCTIVE FORCE KNOWN TO MANKIND.
14. SELL THE SHORTAGE, BUY THE GLUT.

The Coffee Can Portfolio

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The Coffee Can Portfolio is part diary, part wisdom gained from over 40 years in the investment game meant to be shared with others. Trust me, I've made every mistake in the book. That doesn't mean you need to repeat every one of them. Failure is unavoidable, an essential part of the learning process. Embrace it!

I plan to publish every two months. The cost of an annual subscription is \$109 which includes six issues as well as email alerts. If you wish to subscribe, go to www.thecoffeecanportfolio.com.

One goal in writing this letter is to build a network of smart people following a similar process. If you have feedback, a topic you'd like discussed, or an investment insight you'd like to share, drop me a note!

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