Robinhood Retail Investor Behavior on Macro News Event Days

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For my research I wanted to look at retail investor (non-professional investors) behavior on Robinhood around macro news release event days (like unemployment and inflation announcements as well as Federal Open Market Commission meeting report releases). Robinhood is a new trading platform that has become popular recently with its focus on increasing access to investing with zero commission trading and I wanted to get a better understanding of what induces their retail investor's reactions. The literature found that these investors pay attention to and are heavily influenced by earnings announcements and not so much by Environmental, Social, and Corporate Government press releases (Friedman and Zeng 2022; Moss, Naughton, and Wang 2020). Additionally, around events of corporate misconduct, retail investors get baited and trapped by the volatility of the stocks around the time of the event but don't respond specifically to the event itself (Kuvvet 2022).

To accomplish this I took data from Robintack.net which is a database that has hourly data on the number of Robinhood users who own each stock from mid 2018 to late 2020. I merged all of the data and then trimmed down the data so it only included the first data point for every date (the midnight data point). Then I obtained macro news event dates from the US Bureau of Labor Statistics and the Federal Reserve's Meeting Schedule and used F.R.E.D to get the historic CPI and unemployment data to determine if the dates were good news releases or bad by seeing how the CPI and unemployment compared to federal targets. After that, I took each date and calculated the deciles (10,20,30 …, 90%) for the day before, day during, and day after each event (essentially finding out how many users hold the 10% most popularly held stock, 20% most popularly held stock etc.). Finally, I calculated the percent change in users holding for each decile from before to after each event and calculated the average and 95% confidence intervals across all the events.

On good event days the popular stocks saw an increase but the lower popular stocks saw a larger increase in ownership indicating that users were diversifying their portfolios (Figure 1). I found that on bad event days only the medium to highest popular stocks saw significant increases in ownership indicating users herding or consolidating their portfolios around a few stocks (Figure 2). These results suggest that retail investors diversify their portfolios when they feel the economy is improving and consolidate their investing in popular stocks when they fear the economy isn't doing as well. It also suggests that retail investors are at least a little in tune with the strength of the economy.

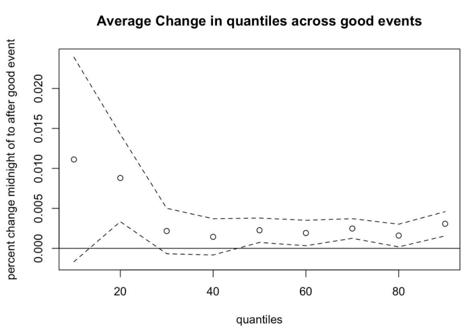

Figure1

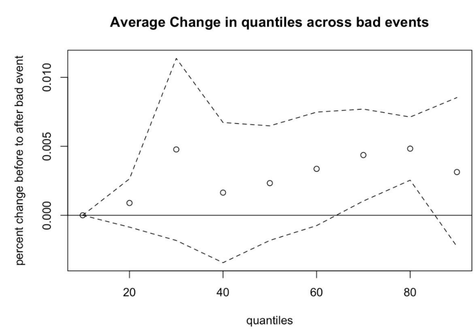

Figure 2

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