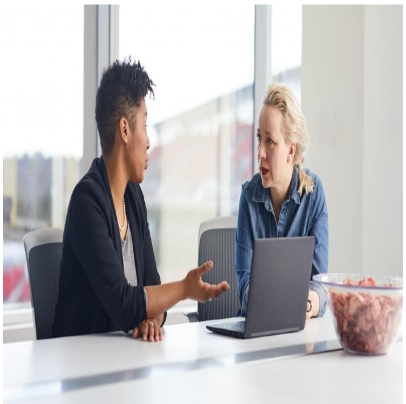

Goldman Sachs: Millennial Traders on Robinhood Beat Hedge Funds by 16%!

Description

The COVID-19 market crash may end up being the retail investor's moment in the sun. That's thanks to a growing body of evidence showing that favourite retail plays outperformed hedge fund picks in the second quarter. A number of reports from major banks have emerged, showing that retail investors timed the COVID-19 market bottom better than hedge funds did. Not only that, but their individual picks outperformed as well.

One of the most publicized of these reports was written by **Goldman Sachs** analysts. Using data from Robinhood and two other data sources, they showed that a basket of stocks favoured by retail investors rose 61% compared to the hedge funds' 45%. That's a 16% advantage for the retail picks. Also noteworthy is the age demographics of the investors in question. Robinhood's user-base skews to millennials, which would indicate that that generation was heavily invested in the outperforming stocks Goldman mentioned.

It's been a great quarter for retail investors and millennials; there's no doubt about that. But the question is, will it last? Q2 saw some truly inexplicable rallies, including an +800% jump in the bankrupt **Hertz**. It's possible that some traders just got lucky on momentum that won't last. Before writing these traders off, though, we should look at why their "favourites" have been soaring.

Why Robinhood stocks are soaring

It appears the main reason top Robinhood stocks are soaring is simply due to buying on Robinhood itself, along with other low-fee platforms. According to *CNBC,* Robinhood saw three million new users sign up in the first quarter — an all-time high. Other brokers like **Charles Schwab** and **TD Ameritrade** saw similar gains. If millions of retail investors jumped into the market for the first time in Q1, that could easily move the markets. It appears that's what happened.

Was it all a bubble?

When looking at the superior performance of top Robinhood picks earlier this month, it's tempting to say that this was all a bubble. Several of the stocks that rose in the rally were bankrupt or near bankrupt, and others had various financial problems.

One Canadian stock that's popular on low-fee trading platforms is **Aurora Cannabis** (TSX:ACB)(NYSE:ACB). Between May 13 and May 21, it rose a blistering 190%, similar to the results posted by other top Robinhood stocks. At one point, ACB was *the* most popular Robinhood stock; as of this writing, it was the ninth.

Like many stocks that inexplicably rose in the post-COVID-19 rally, Aurora has some serious problems. It's losing money, with a $137 million net loss in the most recent quarter. It has questionable goodwill, having taken $760 million in impairment charges last year, with billions more likely to come. Finally, its once-hot revenue growth is now decelerating, signalling the end of the post-legalization boost. On the surface, this looks like a stock that's in for some pain. But in May, investors disagreed, sending it soaring.

Since then, Aurora has been sliding again, in keeping with long-term trends. It looks like at least for now the rally is over. But there's no telling when it could resume again. If bankrupt stocks can rise 800%, then there's no reason why Aurora can't outperform. However, if *risk* is a bad word to you, then you should avoid Aurora and similar stocks. These volatile plays aren't for the faint of heart.

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