Forget Robinhood! Canada's Version Is Much Better

Description

Trading platform Robinhood gave potential investors a glimpse under the hood yesterday. The Menlo Park-based company filed an S-1 with the Securities Exchange Commission (SEC) in preparation for an initial public offering.

The filing had plenty of interesting details that paint a picture of the modern investment landscape. But they also show the pitfalls of this business model and perhaps highlight why Robinhood's Canadian rival Wealthsimple is a much better bet. Here's a closer look.

Robinhood's success

At first glance, Robinhood seems like the perfect investment opportunity. The company was one of the first stock trading platforms to cut its fees to zero, which helped it gain a foothold with millennial and Gen Z traders. Now, with crypto trading, gamification, and influencer marketing, the company has cemented its position as the prime financial services provider to increasingly wealthy young traders.

The past year was one of its best. Funded accounts on the platform jumped from 7.2 million to over 18 million. Assets under custody have surged from US$19.2 billion to over $80 billion today. By all accounts, Robinhood is immensely successful.

However, there's a dark side to this success.

Robinhood's pitfalls

The company is undoubtedly one of the most controversial firms in FinTech today. The team recently settled a wrongful death lawsuit filed by the family of a 20-year-old trader who died by suicide after seeing a negative account balance of $730,000. The Financial Industrial Regulatory Authority (FINRA) accused Robinhood of "systemic supervisory failures" and giving customers "false or misleading information."

Meanwhile, critics argue that Robinhood's gamification and access to excessive leverage has made young investors less risk averse and more addicted to gambling with stocks. Indeed, the S-1 confirms that Dogecoin, the volatile meme-inspired cryptocurrency, accounts for over 34% of its revenues.

However, the biggest concern is probably Robinhood's business model. Since traders don't pay fees, their trading information is sold to institutional investors and hedge funds who can front-run these retail trades. In other words, the users are the product, and their personal financial decisions are sold to the highest bidder.

A better alternative

Wealthsimple, Robinhood's Canadian rival, resolves these issues by adopting a different business model. In Canada, payment for order flow is not permitted, which is why Wealthsimple offers a premium subscription at $3 a month alongside its free trading accounts.

The company also earns a 1.5% conversion fee on Canadian to U.S. dollar conversions.

In my view, Wealthsimple's business model is more user friendly and less prone to lawsuits. I eagerly await its public listing, but if you want to get in early, you could bet on its majority shareholder, **Power Corporation of Canada**.

Power Corp shares trade at a price-to-earnings ratio of 11 and offer a steady 4.5% dividend yield. It owns roughly 89% of Wealthsimple's outstanding shares, which means an eventual IPO will unlock tremendous value for Power Corp shareholders. Keep an eye on this overlooked opportunity. Bet on Canada!

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