Last February, as the world came to the collective realization that we were confronting a global pandemic, the U.S. stock market suffered its fastest drop in history, plummeting 34 percent in 33 days.

That was followed by the fastest stock market rebound in history, recovering all of those losses by mid-August.

It was clear what most working people had suspected for a long time: that the stock market is detached from the economy and the reality of most Americans’ lives.

The coronavirus was spreading, widespread testing wasn’t available, and we didn’t know if the hope of a vaccine was months or years away.

Unemployment soared, reaching 23 million jobs lost by April. Almost one year later, only about half of those jobs have been recovered. Families and small businesses had no certainty about what their lives would look like in a few weeks, let alone next year.

But the stock market continued to go up and up, and those lucky enough to own investments reaped the profit.

To some, this looked like a new development. But to millions of workers who have watched the stock market reach new heights while their own paychecks never kept up, it looked pretty familiar.

Families haven’t been too surprised by this state of affairs – a whole lot of them never recovered from a foreclosure or losing their savings during the last crisis, but watched Wall Street pocket its bailout and go on to record highs a few short years later.

That’s because when you look at who truly benefits, it’s clear that the stock market’s gains funnel wealth to a tiny sliver of people, often at the direct expense of American workers. We discussed this last week in our hearing Wall Street vs. Workers.

According to Federal Reserve data, the wealthiest one percent hold 53 percent of stock and mutual fund investments, and the bottom 90 percent own less than 12 percent.

Between workplace retirement accounts and personal investments, about half of American households have at least one financial account tied to the market, but only one in six directly own stocks.

And none of this reflects the actual makeup of the country. Only 31 percent of Black families and 28 percent of Hispanic families own any stock investment.

The wealthy are far more likely to have these accounts than middle-class families, who in turn are far more likely to be in the market than working-class or poor families.

So when the stock market soars, most people barely notice. They’re just trying to keep up with the cost of living within their paychecks.

In recent years, the growth of fintech in financial services has given rise to trading platforms that offer free stock trades. Firms like Robinhood and others claimed to “democratize” stock trading with flashy marketing and easy-to-use features.
And in one sense, it worked – they attracted millions of customers, many of them young and new to investing.

The frenzied stock trading this January, when shares of GameStop Corporation went from $18 to over $400 in a matter of weeks, showed how millions of retail investors could engage with each other and create a sensation.

But it also lays bare serious risks.

There are real people who got caught up in the frenzy who suffered real consequences. If the people who are busy working, watching their kids, or living their lives can’t make sense of the stock market’s booms and busts, they’ll continue to lose faith in the market. And hedge funds and insiders will continue to reap the vast majority of the profit.

That’s bad for everyone in the long run.

Robinhood tried to blame its decision to cut off its customers from being able to purchase GameStop and other stocks on industry-wide standards for processing stock purchases. Of course, the SEC and others should examine and consider how to reduce risk in the financial system by cutting the time it takes to complete stock purchases. Everyone would benefit.

But it’s become clear that firms like Robinhood were founded on a model that exploits small investors by encouraging fast and loose trading, and then sells their trades to big market players.

In a few short years, Robinhood violated the law, failed to respond to customers when they needed help, and when it got in trouble, cut off customers to save itself. Robinhood attracted new customers to investing, encouraged them to trade, profited off of them, and then broke their trust – precisely when they needed the company to have their backs.

It is also obvious that the David versus Goliath story we first heard in January was not the whole picture. Well-funded, sophisticated hedge funds made big profits alongside the people trading at home, and we know they always had better access and information than any of us ever will. No one thinks that’s fair.

Some have tried to blame the small-time investors. They scold people just trying to make some extra money in the worst job market we’ve seen in most of our lifetimes.

Because of the Robinhood business model, we’ve all learned the new term “gamification”.

But let’s be clear: We’ve seen Wall Street treat the markets as a game for decades – a game they always win, at the expense of pretty much everyone else.

Wall Street has never been friendly to the little guy. Surely this time is no different.

Yes, some regular people have had success. But fundamentally, the system is set up to funnel more wealth to the already-wealthy. Just like in Las Vegas, the House always wins.

The economy and the markets should work for everyone, not just the well-connected. And they should reflect the economy we all want – with broadly shared prosperity, and a growing middle class that all workers can join.

When that happens, people will have confidence the markets will actually work for them, not just Wall Street. And we’ll see more Americans save and invest for the future.
This hearing will examine not only the volatile activity in a dozen stocks early this year, but also the practices that encouraged that activity. We will see how it affects our economy in the long term, and who benefits and who loses from this “tech induced” stock market volatility.

I look forward to our witnesses’ testimony.

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