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Robinhood Markets, Inc.

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Ken Worthington: Hi. Good morning, everybody. Thank you for joining us this year at J.P. Morgan's TMC conference, and this morning's chat with Steve Quirk, the Chief Brokerage Officer at Robinhood. Now Robinhood is a $51 billion firm that offers retail investors access to stock, derivative, and crypto trading, as well as services including...It's getting to be a longer list.

Steve Quirk: Yeah.

Ken Worthington: Retirement, lending, credit cards, portfolio management, and soon, personal banking. Steve has served as the Chief Brokerage Officer for Robinhood since early 2022. Previously oversaw strategy and development of initiatives for trading at TD Ameritrade and Thinkorswim. Steve has a ton of industry experience. We really appreciate you coming back to TMC here with us today.

I'll kick off framing Robinhood's participation here. We're at a tech conference. Robinhood has ambitions to build the number one global financial ecosystem, and I wanted to frame Robinhood's corporate identity to potentially new investors here in the audience today.

Maybe start by talking about Robinhood as a tech versus a financial or fintech firm. How do you think about the positioning of the company for investors here?

Steve: Before I get started, I wanted to give you and the team credit because last year when I was here -- we were talking about this before we came on -- we like to think this was a catalyst for us.

We announced a couple of things. We announced lower margin rates, industry-leading margin rates, and we've doubled our margin book. We had a retirement product, and we've more than doubled that. We'd probably 10Xed it, and we've doubled our market cap. I was giving him credit in saying this was the catalyst for a lot of the positive changes, jokingly, this morning.

Ken Worthington: And a J.P. Morgan upgrade out of it, too.

Steve: And a J.P. Morgan upgrade, yes, and we're hoping for another one of those today.

[laughter]

Steve: You can all participate as well. To answer your question, my background is mainly on the financial services side. I started my career on the other side, so I was basically downstream. I was a market maker, and I worked for market makers. I had a decent understanding of the technologies behind trading, and then I worked my way up.

One of the first retail brokerage firms I worked for, Thinkorswim, I would call us more of a fintech. We were small, but we grew very quickly. We were on the cutting edge of technology. I learned a lot there, and then we were acquired multiple times, finally by TD Ameritrade, then by Schwab, so I worked for all those firms.

It provides a great vantage point because I got to see the customer bases of all these different brokerage firms and understand what their needs were from a customer standpoint.

When I got to Robinhood, again, it was like Benjamin Button. I reset back to people that were closer to my kids' age, and had an opportunity to lay out what we needed to do to grow with these customers the same way the Fidelitys, the E-Trades, the Schwabs, the TD Ameritrades grew with their customer bases when they first got those customers. Because they were quite similar in age if you think about it. That's the quest we've been on is to deliver on that.

With respect to coming to, what I'll call, a real strong fintech, there were some adjustments that had to be made. Vlad and team are very technically oriented. They're very bright. Really great group of people that work there, but they're anchored on first principles thinking, so they question everything.

When I walk in the door and Vlad's like, "What's the first thing we need to do?" "We need to fix our charting. It sucks." He's like, "Every brokerage firm has charting." I'm like, "Every car has four wheels. There's a reason. That's what customers want."

We can question a lot of things in the brokerage space, but there's some we don't question. You just do it because you know that's what customers want. It's a healthy -- I don't want to call it tension -- it's a healthy back-and-forth that makes us deliver for customers in a way that's pretty cool, so I really love it.

Ken Worthington: I'm going to press on that. I spent some time with the CFO in the last couple of weeks. I got some insights into your CEO and his management style.

From your perspective, again, you've worked at a number of different places. Maybe talk about the culture of Robinhood. How it's different than some of the other places that you've worked at? Talk about the drive to innovate, how you're getting new ideas to market, and how that is driven by Vlad and his style?

Steve: By the way, I competed with Robinhood before I worked for Robinhood. I never imagined when I was working for Schwab that I would compete with Robinhood. I actually had this conversation with the executives at Schwab. I'm like, "Hey, are you worried about this firm right down here that just got 20 million customers in four years? It took us six decades."

I was very concerned at TD Ameritrade. I'm like, "Man, they captured lightning in a bottle here, and they're getting the next generation of investors. We're trying to hold on to yesterday's generation of investors."

The thought was always we needed to build a muscle -- I'm talking as a competitor -- to be able to attract that next generation of investors quicker than they were going to build out the rest of their offering so that they didn't lose those investors. Because we didn't have enough of what they needed from a retirement account, joint accounts, tax lots.

When we think about those things, Vlad is very aggressive, and he wants to make sure that we get everything built out so that we can accommodate those customers.

He also does it in such a way that is “I'm not just going to do it the way that every other brokerage firm has done it." We have a fresh canvas. We have a clean slate. We haven't done these things before, so we can build it in a way that's more accommodating to customers and maybe delivers more value to them.

Vlad's really anchored on that. He is very anchored on making sure that we're delivering things for customers in a way that it's going to delight them, and they'll reward us with more business.

Ken Worthington: Let's wrap up on the higher-level questions before we dig in a little deeper. The highlight reel over the last 12 months. Market cap more than doubled. Give us a little bit more about what the last 12 months have brought for Robinhood, how you've developed, how things have improved, how you've grown, and that'll set the stage for the next round of questions.

Steve: If you listen to our earnings call or any of our investor day, we talk about three things. Basically, three pillars. One is focusing on the more active traders. We set ambitious goals to be number one. We are very close to our largest competitor in both the equity and options space, and you can see that.

I know Chris and team have been sharing our progress, but you can see it on a monthly basis. They see it. They can see it in 606 reports, and we'll get there. We'll get there pretty quickly.

The focal point isn't saying I want to be number one. The focal point is delivering for customers in such a way that they're going to reward you to be number one. When I started here, we were losing ACATs to every broker on the street.

Ken Worthington: You have to tell them what an ACAT is.

Steve: Sorry. That means if I either transfer my account from Fidelity to Robinhood or from Robinhood to Fidelity. When I started here, we were losing ACATs to everybody. Now, we're net positive to everybody, including IBKR. Much to the dismay of Thomas, who I like a lot, but he likes to talk about it. He used to say, "Robinhood's a great feeder for us. We take accounts from every month."

He doesn't say that anymore because we're taking accounts from them. That's valuable because it's not just growing our own nearly 26 million customers as they continue to evolve, but it's bringing in large customers from other brokerage firms, and I think that's been a real step change for us.

Part of doing that is delivering on all the things that we know we needed to do from an active trading standpoint. That's new asset classes -- index options, futures -- building a web-based application. That part of the journey has been going very well.

It feeds into the second part of the journey. If you think about Robinhood's success, it's almost been exclusively on the self-directed side. Self-directed pie is this big. The wealth management side of the pie is multiples of that. We really haven't done much in there, but we're starting to.

We started with Strategies, which is an advisory product, bought a company called TradePMR, and we're extending into banking. Not direct banking, but what I'll call private banking. All those things are delivering an ecosystem which permits customers to do anything they want from financial service standpoint with Robinhood. They feed on each other. They're a flywheel.

We've started to have some strong success there. We have a long way to go in that area, but we're seeing great results. Our retirement product, as we've shared, it's at $17 billion [in assets]. We're starting to see some very strong progress.

Finally, the last component of that is you're building all these capabilities for an audience of just domestic users. A lot of these are desired by people all over the globe. When we go around, I've had experience running businesses outside of the US. There's this very strong desire by people all over the globe to invest in the US markets.

There's also a very strong desire by the elected officials and the regulators and everybody in those countries to have better than a 20 percent participation rate in their countries. We are close to 60 percent here, so we're the envy of the world. Robinhood gets credited for a lot of that because we brought a lot of young people into the marketplace.

The doors are open when we go to talk to them and talk about expanding into their region. We're in the UK. We're in the process of getting licensed in Singapore. Just bought a firm in Canada, and you should expect us to be pretty aggressive with our expansion across the globe.

There's a great opportunity there because 85 percent of what you build in the US, you can use elsewhere. There's configurations that need to be done for retirement accounts or things, but the core of the business is completely reusable.

Ken Worthington: One of the takeaways I've considered in the last six months is you've come so far, you're so big, but your capabilities are still relatively small, relative to what we see elsewhere, but yet you've accomplished so much. It's like as you continue to build out these capabilities, it's only going to accrue to more growth.

I wanted to start to dig in more active traders. Active traders is a big initiative. I would consider it one of the better parts or best parts of the brokerage business. Maybe first start by what is an active trader and why focus here?

Steve: Everybody has a different definition of an active trader. Every brokerage firm I’ve been in has a different definition of an active trader. Trading 30 times a month, whatever, they're all different. Basically, it's an engaged individual from an investing standpoint.

Every single brokerage firm I've been in since I started in this business has said, "Oh, this is a flash in the pan. They're active, but they're not going to remain active."

It's funny when you talk to the people who are active, and I am one, so I understand this. I don't really care what you think of me. I don't care if you think that I trade too much and that I'm not going to make money because I trade too much. I can see my own results. It doesn't really phase me what you think of me. That's the mantra that you hear from people who trade more actively.

By the way, it's not something that they necessarily do all the time. It can be episodic. What I mean by that is, say I'm a young person who has fewer responsibilities. I don't have kids yet. I'm at a point in my investing journey where I have more time to dedicate to it. You'll see them be more active. Then I get to a point where maybe my pool of assets is such that I don't feel comfortable with all this.

We hear this loud and clear from our customers. One of the reasons we built Strategies and bought an RIA firm is because they say, "Well, I'm comfortable managing a quarter of these assets. I want somebody else to help me with this component of it." Building for them is very valuable because they're really engaged, and they're passionate about what they do.

To your point, it is an extremely lucrative component of every brokerage firm. Catering to those people is really strong. The value that you get when you cater to those people is everything you build for them cascades to everybody. I like to use this analogy. Again, when I first got to Robinhood, our worst NPS scores were for our most active traders, and I'm like, "This is idiotic."

Ken Worthington: What are NPS scores?

Steve: Sorry. Our net promoter scores. In other words, the way we measure their status...I’ve got to quit using these terms. My apologies. The way we measure the satisfaction with Robinhood indicated that the people who use Robinhood the most were least satisfied with it. I'm like, "This is completely upside down. We're going to fix this."

I'm going to let you in on a little secret. We are a super mission-driven company. There are a lot of young people who say, "We don't build better things for people who are more active. Everybody gets a fair shake." Totally agree. You can accomplish both of these things at the same time.

Effectively, the analogy I use with them is think of a walker, a jogger, a runner, or a marathoner going down a sidewalk. They're all hitting the cracks in the sidewalk. The people who are sprinting are hitting them more frequently. You aren't necessarily building a better experience for the more active. You are actually building a better experience for everybody.They're just experiencing the better experience more frequently.

So, we reversed that. Now our highest NPS is the most active. That's how you should be. Those are the ones that are going to recommend their friends who are also more active, and that's where we are right now.

Ken Worthington: Maybe some examples of what you're building for the active trader and that's playing out for the rest of the user base as well.

Maybe start with Legend. What is Legend? You have been a mobile-based company up until this point and you've 25 million accounts. You're a big firm for just being mobile. Legend is the desktop. What is it, why build it, and what does this bring in terms of opportunity for more usability and more growth?

Steve: I want to say 95 percent of all the trading, up until recently, was done on a mobile device at Robinhood, which is pretty cool. By the way, since I've been in the business, the percentage of trading that's happened on this [mobile] has only gone up, and it's only going to go up. There's a reason for that.

Asset classes trade around the clock today. We built ones that trade around the clock, both futures, crypto, and now a thousand symbols that trade around the clock. Sunday was one of our busiest days, Sunday night, because of all the tariff news. People don't carry around a laptop. They carry around this [their phone].

This gives them access to review that portfolio, see what's happening in the marketplace, and take action if they decide to. However, as I talked about earlier, there's a large contingent of our current customers that are getting to a point where their needs are such that they can't use this [their phone] solely. They need a complement or a primary, which is a web-based app.

Same thing we heard loud and clear from a lot of the customers we're pulling from other brokerage firms who are larger, probably a little older, and have established a habit where they're using a web-based app and mobile as a compliment.

There's another thing that happened in the last couple of years. There were two firms, very large firms, that were gobbled up, E-Trade and TD Ameritrade. I have a lot of familiarity with them. And they were forced migrated on the technologies that they didn't want to be forced migrated to.

When you have that number of customers -- the largest number customers that I'll ever see in my lifetime -- and these are active customers being pushed to, what I'll call, legacy technologies, there's a lot of disruption. Disruption means they look around.

One of the things that we heard loud and clear was, “We love Robinhood. It could be a suitable alternative for us, but we're going to need a web-based compliment.” That was another catalyst for doing so, and we saw strong traction as a result of that. We've seen good traction so far with Legend.

Listen, in my entire career, every time I introduce a new technology, product, asset class, everything, all I hear from my CFO and everybody else, "Oh, my God. Is this going to cannibalize? Trading on this, is this going to cannibalize?" We're very diligently looking at that. It's additive.

Same thing with futures, same thing with index options. We're very careful to make sure that everything that we add to the offering is additive to the customer, but of course, additive to us as well.

One of the things that if you anchor on your most valuable customers -- in my history -- they're the ones that utilize all your technology and all your asset classes. By adding more, they're going to do more business with you because they have more opportunities to take advantage of investment or trading opportunities.

Ken Worthington: We've got about 15 minutes left. I've got a couple of topics I want to hit. I wanted to ask the audience, do you guys have questions that you want me to allocate reasonable time for. Give me a nod or some sign that lets me know that you want to ask questions. Otherwise, I'm going to try to fill most of the time. OK. The next topic I want to get...

Steve: I think he raised...

Ken Worthington: I'll get to your question toward the end. I want to make sure I allot enough time. One of the areas that I'm excited about, maybe most excited about, prediction markets. Robinhood's rolled out [event] contracts and prediction markets.

You've traded a billion contracts-plus at this point around elections and other events. Maybe describe what are prediction markets? How is this different than online gambling and sports betting? What is it that you're building here today?

Steve: Prediction markets are run under the CFTC. They're part of, basically, our FCM, our futures entity. Our first foray into the prediction markets was the election, and we rolled those out a week before the election. As you said, we had 600 [500] million contracts traded and about 800,000 accounts open in a week. There's clearly interest.

The interest was really around -- and we saw it because we sat in an office in New York and watched everything unfold -- essentially, before the networks were declaring the swing states, we saw the prediction market go like this [move].

As a result, we saw the stocks and the cryptocurrencies that were going to benefit from a Trump victory take off probably two hours before there was an announcement. Really what we were seeing was the way that market-moving information is being delivered.

Our customers have a strong desire to either participate in that directly or to use that information to say, "OK, let me have an advantage here in understanding what's going to move when and take advantage of that."

We followed that up with contracts on the Fed's moves, on some sports contracts. There's some uncertainty on exactly where this is going to go.

The differentiation between, as you said, online sports is we have no incentive for our customers to lose, which is the opposite of what everybody else in the sports world or most other entities in the sports world would do. In other words, if you wager on something and you lose, I win.

All we are is facilitating it. We're an exchange, basically. We're facilitating people going back and forth on these things.

As far as where it's going to go, we have a whole strategy around it. Sports is a component of it, but I think there's huge components of it that are going to be interesting.

The derivatives of this are not new. I started my career in the Chicago trading pits, and the commodities markets realized -- it was very silly -- when there's a drought and the commodities were going up, as soon as it rained in Chicago, all the commodities went down even though nothing is growing in Chicago, so they created weather derivatives.

Where I'm going with this is, we hear this frustration constantly from our customers, "I did my homework on Apple. I knew exactly how many devices were going to be sold. I did this, this, this. They came out with their earnings. I nailed it." And then their guidance went and they went like this.

They're like, "Why can't I have a contract or something that says I did my homework and did all these things right, and I should be rewarded for that?"

That's where this is going to get super interesting because you're going to see these derivatives on investing that will be more precise than what you're seeing today in terms of some of the things that are happening in the investing world.

Another example of it, and it's one that gets a lot of attention as well, short-dated options. Short-dated options, everybody, "Oh, my God. These things, people are trading them too much."

If you hold an Apple position and you have 40 percent gains, and I tell you exactly what day that's going to be subject to a down move, would you like to buy insurance for a month or a day? I think you want to buy it for a day, right? A little cheaper. That's what's happening. It's allowing more precision in your investing, which is exactly what customers want.

Ken Worthington: Where is that market today in terms of contracts listed?

Steve: What, the prediction markets?

Ken Worthington: The prediction markets. Let's get out the crystal ball. What could that look like in 12 months from now? Then let's dream the dream and go out three years. What does it look like today? What does it look like in a year? What could it look like in, I said three years, sometime in the future because it seems like there's a lot of potential from where we are today?

Steve: A couple of things are happening. Number one, like some other areas, I think there'll be some more regulatory clarity on what exactly is going to be permissible and what's not. We welcome that. We'll abide by whatever that clarity is. We've done the same thing on the crypto side.

Where it's going to go? It becomes an information market.

By the way, you should assume that this has caught the attention of every exchange, every brokerage firm, every entity that lies in between those two. They can see the interest. They can see the numbers. A billion contracts is a lot of contracts. Talk to an exchange.

My anticipation is this will continue to grow and evolve. You'll get more participants in here. But I think there'll be some cool tangents that'll happen in the investing world where you'll be able to, again, draw another derivative off of what already exists.

Another cool thing about these is, like many other asset classes and it's my belief that every asset class will be this way in a couple of years, they'll trade around the clock. Everything's going to trade around the clock.

Ken Worthington: Let's open it up to Q&A. We've got about seven minutes left. We'll start front row. Wait for the mic.

Audience Member: I have a question about what does Robinhood stand for. You called prediction markets an asset class. What does the company stand for? You're talking about people having their retirement savings, and yet, I have the app, and it wants me to bet on who's going to win the PGA.

As an example, let's say that betting on the lottery was legitimized on an app. That it was legal. People do it. You'd have a financial incentive to enable that because people are doing it. Is that an asset class? What do you stand for?

Steve: We have so many conversations and are continuing to have conversations on this because it's a good point. Here's the point I would make. Sports is an asset class. It is absolutely an asset class. The entities around sports are an asset class. Now, what derivative of that, how far do we go? How far does the industry go? That's going to be the debate.

Some of the same arguments that have come up here have existed around other classes as well, and some of those asset classes are now mainstream. I'm not saying that's what's going to happen here, and to your point, we have a lot of conversations about this.

Look, if people don't want to see it, they can configure their app not to see it. We give them that capability. We haven't had a lot of people that have done that yet. But it is something that we debate pretty hotly.

Audience Member: Thanks. To pick up where you left off on 24/7 trading of multiple different assets, I was hoping could you comment on whether there's an intersection between crypto, what you're buying at Bitstamp, international, and 24/7?

Because when I'm thinking about the regulatory burden of entering all these little countries, is there a way that maybe you tokenize the top 200 or 1,000 stocks, partner with Tether, stick it on Bitstamp, and that becomes Robinhood international for trading as a way to accelerate international adoption?

Steve: I'll start with the highest level of it, which is why we built 24/5 trading to begin with. It's not only US, it's international interest. We're the largest player in the overnight sessions. As I said, Sunday was our highest volume ever, but the week of the tariffs, April 7th to 11th, that was the most [overnight] volume we've ever done.

Obviously, it's caught the attention of every exchange because they're all coming out. We push them at the beginning of this to come out because we prefer to have optionality, not tethered to one exchange.

Second part of your question is, basically, you're talking about tokenization of not only stocks, but whatever, and essentially removing borders, which is you can imagine a world where you tokenize things and the borders are removed.

That is something if you've read Vlad's op-ed in the Washington Post, we are actively pursuing and looking at because there are opportunities to be able to deliver for the rest of the world in a way that haven't been presented before, largely because of technology and some of the capabilities that we have and the entities that we've acquired or that we are partnering with. It's exciting.

Audience Member: Is that something we could see this year? I'm trying to understand how...?

Steve: Quickly?

Audience Member: How much is this theoretical and how much is it something could really happen?

Steve: Oh, it's not theoretical. It is theoretical because we don't know all the contours of it. If there's one thing everybody has a good understanding of Robinhood is, we're going to be on the cutting edge of it. We'll be first. You can assume that we're already actively pursuing these things, which is interesting.

Audience Member: Awesome. Thank you.

Steve: Of course.

Ken Worthington: We have time for one-ish more question. Any other questions in the audience?

Steve: If not, I have something I wouldn't mind talking about.

Ken Worthington: Oh, OK. What would you like to talk about?

Steve: I'll tell you what I'm giddy about. We bought a company called TradePMR, an advisory firm, RIA [custody]. There's this very cool thing that's happening. There's $124 trillion wealth transfer that's happening. It's already started. Essentially, this money is being passed down. We're doing so much research on this.

What we've discovered is it's not even being passed down, in some instances, to people's kids. People are living longer, so that's being passed down to their kids' kids because if I'm that age and my kids are 65, they probably don't need the money, but their kids do.

As a result of that, you probably all know this statistic, but 70 percent of people, when they inherit wealth, fire their advisor. That's the first thing they do. Advisors are absolutely yearning to have connectivity to the people who are getting that money. Do you know where those people are? They're at Robinhood. There's 26 million of them that are going to be recipients of that.

There is such an amazing opportunity here, and this is what we've been working on is a way to create basically a referral program that allows these advisors to have access to the customers here and the customers coming here that want help in their investing.

If you understand that advisory space, it's been a little stagnant. The last interesting thing that happened on the advisory side was robo in 2010. We've done a good job of bringing some new innovation and fresh thinking on the self-directed side. There's a massive opportunity on this side of the business, and we're focused on it.

[off-mic question]

Steve: It'd be the advisory model. They'll use the same model that they currently use today. They are $43 [$41] billion in assets. Not a massive firm like the Schwab, Fidelity, but that space has gotten a little tight with two major custodians.

Somebody coming into the space with an opportunity to bring new ideas and innovation there is going to be -- we've already heard from a lot of advisors -- they're welcoming it.

Ken Worthington: Steve, thank you very much. It's been a true pleasure to have you here again today. Thank you everybody for participating and coming to J.P. Morgan.

Steve: Thank you.

[applause]