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Reddit v. Robinhood: Class Action Lawsuit Filed Amidst Market Manipulation Allegations

BY [JACOB MASLAVI](#)/ ON FEBRUARY 17, 2021

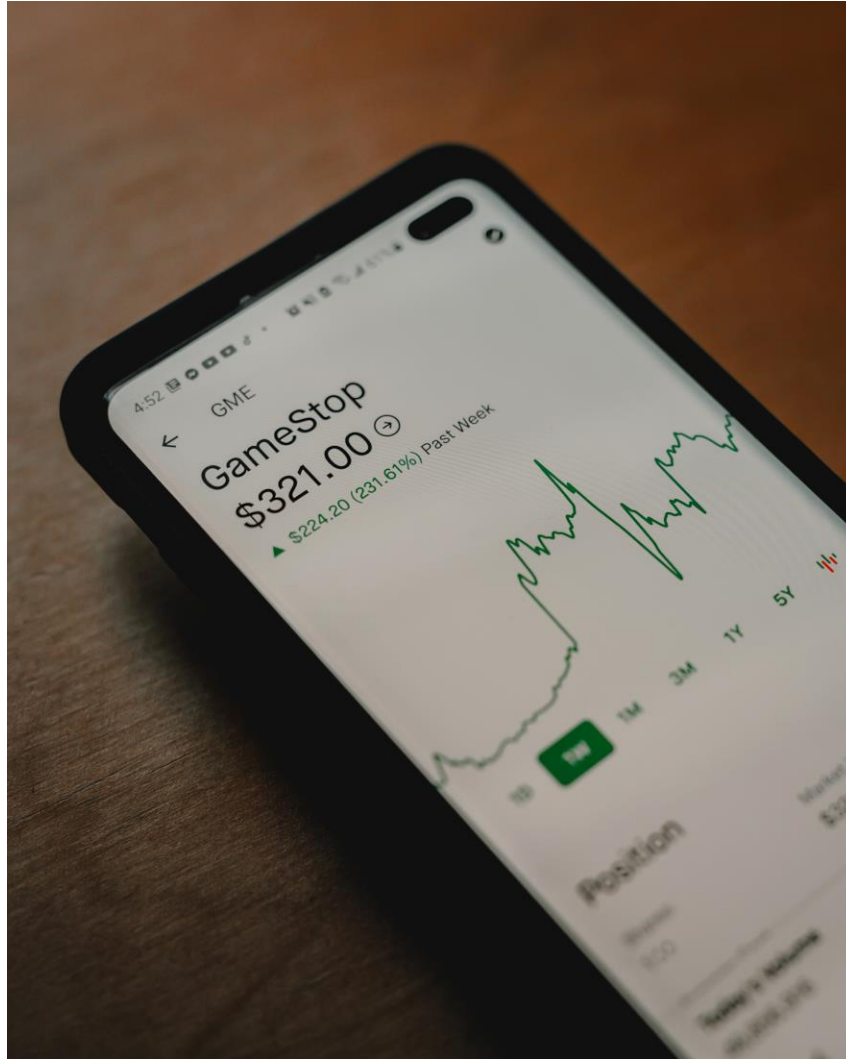


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The last few weeks have been a hectic (or dare-I-say *volatile*) time for traders. During the month of January, GameStop's stock has astronomically soared from \$18, reaching a peak as high as \$483 per share.¹ The "group" responsible for this meteoric rise are the members of the Reddit forum page named "r/wallstreetbets," which is a forum dedicated to trading.² This forum, also called a "subreddit," is well known for its use of horribly vulgar language and their users' willingness to engage in far riskier bets than the average citizen that trades would invest in.³

Wallstreetbets' infatuation with GameStop occurred primarily due to a user named u/DeepFuckingValue (herein DFV).⁴ DFV invested his entire portfolio of \$162,389.07 into

GameStop, with his earliest purchase starting with 1,000 January 15th, 2021 calls of GameStop, dating back to the summer of 2019.⁵ For those of you who are not familiar with trading, a call option is a "financial contract[] that give[s] the option buyer the right, but not the obligation, to buy a stock, bond, commodity, or other asset or instrument at a specified price within a specific time period."⁶ When you are purchasing a call, you are investing with the inclination that the stock value will go up by the date of purchase so you can buy the stock on that day for cheaper value than the stock is worth on that day. Based on the nature of call options, DFV's decision was a curious one at best, because the general consensus at the time is that GameStop is an obsolete company, due to the fact that video game developers are selling their video games on the video game consoles directly rather than selling physical CDs through third parties like GameStop.⁷ That being said, DFV posted monthly updates on his seemingly failing purchase and was ridiculed heavily for it.⁸ This went on until August 2020, until the stock was no longer failing and the stock had made it to "the green."⁹ As silly as this sounds, and certainly not the best investing strategy, when other users saw DFV's great success, it started a movement of people who wanted to get in on the action due to FOMO (Fear Of Missing Out), and that is what started the heavy movement funneling all that money into GameStop, despite the company's declining actual sales.

GameStop's value continued to peak all the way up to \$483 in the first week of February as the stock was beginning to reach the height of its volatility.¹⁰ Luckily for these investors, GameStop hired new board members and the subreddit really began to "hype up" the stock.¹¹ As the movement gained traction, a new narrative arose, in which the retail investors planned to take down or financially hurt big hedge funds that bet on the fall of GameStop by making the stock price rise by betting on it, in a poor vs. rich mentality.¹² Wallstreetbets carried this trend on from GameStop to other nostalgic companies such as AMC, Bed Bath & Beyond, and Nokia.¹³ On January 28th, one of the biggest trading apps, Robinhood, "inexplicably" retaliated against this massive volatility by blocking traders on their app from purchasing GameStop, AMC, Bed Bath & Beyond, and Nokia stocks.¹⁴ While traders were not allowed to purchase these stocks, they were permitted to close out and sell their stocks.¹⁵ This action by Robinhood, which led to massive highs and lows of the GameStop stock, sparked massive outrage amongst investors, with many claiming that the actions taken constituted market manipulation.¹⁶ Due to the attention that Robinhood's action had gotten, commentators from all over the political spectrum, including far-left Alexandria Ocasio-Cortez and far-right Ted Cruz, came together to ridicule and urge an investigation on Robinhood's actions.¹⁷ The United States Senate Banking Committee and the New York Attorney General's Office have both claimed that they would investigate Robinhood for this action.¹⁸

Redditors' outrage at Robinhood led the community to coordinate potentially legitimate class-action lawsuits against Robinhood.¹⁹ One lawsuit claims that Robinhood users suffered damages through Robinhood's decision because that "decision deprived retail investors of potential gains they could have made by buying when the stock was low and selling when its price rose."²⁰ Another lawsuit claimed that Robinhood "purposefully, willfully, and knowingly

remov[ed] the stock 'GME' from its trading platform in the midst of an unprecedented stock rise thereby deprived retail investors of the ability to invest in the open-market and manipul[at]ed the open-market."²¹

While Robinhood's actions seem questionable, a partner at Moses & Singer, Howard Fischer, stated that he thinks there is a good chance that Robinhood has a clause that would allow them to take this course of action to suspend trading in their terms of service, and if they do, these cases may not survive a motion to dismiss.²² In fact, Robinhood does have a clause in its Customer Agreement that specifies that "Robinhood may, in its discretion, prohibit or restrict the trading of securities, or the substitution of securities, in any of My Accounts."²³ However, even with Robinhood's provision in its Customer Agreement, there are still arguments that the plaintiffs can offer, such as alleging that the terms of that provision are unconscionable (which means that a contract term was so unfair that it "shock[s] the consciousness" of the court to the point where the court will remove the term)²⁴ so the court will not enforce it.

As the lawsuits were filed merely a few days ago (at the time of writing this), it will be interesting to follow along how the courts will view Robinhood's actions and how those actions coincide with the "free-market" and capitalistic approach that the United States prides itself in.

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