

July 24th, 2020

Dear Clients and Colleagues:

In recent weeks, there have been many articles written regarding the rising influence of Robinhood and its merry band of retail traders. The emergence of retail day traders throughout the pandemic has been fascinating to see and is the result of an almost perfect storm of events; namely working from home, or being furloughed at home with a stimulus cheque, yet with few options in terms of available entertainment apart from being in front of a computer.

On one hand, it does seem counter-intuitive that retail trading would be at a record high given the uncertain future of the global economy. Previous economic shocks have come with retail investors selling stocks to raise liquidity in case of unemployment. Yet this time was different; the sudden interest in day trading saw the volume of searches for the term “buy stock” increase fourfold back in March. Robinhood added approximately 1.5 million accounts from first-time investors in the first four months of 2020 and 3 million new accounts overall. AppFigures reported a 149% increase for downloads of the Robinhood app in Q2 compared to last year.

The lack of available sports betting has been a driver for certain types of stocks. Sports betting has been resilient in previous downturns, with normal levels wagered throughout previous recessions. It is reasonable to assume that in the absence of sporting events upon which to wager, bettors would turn their attention to the financial markets. Sports books experienced significant amounts of withdrawals with which bettors in turn bought stocks. Retail brokers went to zero commissions last year so with this extra cost out of the way, day trading became more appealing.

New retail investors appear to have a larger appetite for risk than “traditional investors” which was reflected in the types of stocks that were bought – the penny stocks of failing companies such as Hertz and Chesapeake Energy are two examples. The availability of investing in fractional shares has meant that people who previously were unable to purchase certain stocks due to the extremely high share price – think the mega cap technology stocks and Tesla that have been leading the markets higher – now have the ability to do so. Consequently, we had two ends of the spectrum that have been massively supported by retail investors.

It will be interesting to see if the increased influence of retail investors will continue now that the sporting world is returning their respective fields of play. With increased activity from retail investors, it will also be interesting to watch how regulatory authorities will react to ensure sufficient protections are afforded to them.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

While Robinhood is not available outside of the United States (US), the increased participation in retail day trading is a global phenomenon to which Global Alpha has exposure to via the German retail online broker, Flatex (FTK:GY). Flatex also has an online bank (no brick and mortar branches) with a full German banking license. The company has market-leading shares in Germany (20%), Austria (40%) and the Netherlands (35%).

Flatex charges a flat fee of €5.90 per transaction regardless of asset type and transaction amount. There are significant economies of scale built into the platform. Each additional trade reduces the cost per trade settlement.

At the end of 2019, Flatex announced the acquisition of Dutch competitor, DeGiro, a low cost online brokerage (regulatory approvals were announced this week). With the acquisition, Flatex more than doubled their number of clients and transactions instantly, while expanding their geographic reach to 18 countries. The result is the largest pan-European discount broker and the opportunity for synergies appears to be tremendous, the largest being trading flow management. The largest cost items for deal flow management are expenses for custody, settlement and clearing so aggregating deal flow should reduce such costs. In terms of IT, Flatex can provide data centres (which DeGiro needed external parties for) and DeGiro business will be transferred onto Flatex's state-of-the-art IT backbone.

Flatex recently gave an update for the first half of 2020 and the results were extremely impressive. Pro forma the number of transactions executed increased by over 150% and almost 300,000 new customers were onboarded, an increase of over 200%. This resulted in record sales, EBITDA and net profit for H1 of 2020 and a new pro forma target for customers and transaction in the year of 1.2 million and 50 million respectively (previously was 1 million and 35 million). Looking slightly further out, the company is targeting 2 million customers and 60 million transaction per year in Europe.

Flatex continues to benefit from long-term trends that will support growth. Low or negative interest rates in Europe make equities or ETF funds more attractive while German households in particular are underweight equities compared to the European average. Finally, online brokerage is relatively under penetrated and projected to grow at high single digits.

Flatex has benefitted from increased volatility in financial markets so far in 2020, and with the situation likely to continue into the second half of the year, the company is set for a record year.

Have a great weekend,

The Global Alpha team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.