Sep 30, 2021

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology To Develop and Provide Investment Advice (File No.: S7-10-21)

Dear Ms. Countryman:

I appreciate the opportunity to comment on the use of digital engagement practices ("DEP") by broker-dealers and investment advisors. I applaud the Securities and Exchange Commission (the "Commission") for requesting information concerning DEP before enacting new regulations. While I have responded to the specific questions asked by the Commission, the following comments are intended to supplement my survey responses.

Volume attributed to retail investors has increased substantially.[1] And yet, this growth may be transitory. Pandemic boredom, working from home, and increased savings may have led to a surge in trading activity that proves temporary. Zero commissions, lower account minimums, and technological ease of use may serve as more permanent catalysts for incentivizing greater retail participation. These catalysts have led to an increase of "new investors"[2] - more popularly known as the "democratization of finance."[3]

While technological innovation has made investing more approachable, zero commissions have done more than anything to make trading economical for this new cohort of investors. Zero commissions have significantly reduced the economic cost of trading frequently or transacting for small dollar amounts. Of course, there is still a cost - the bid-ask spread. However, this cost is significantly less than under the previous fixed-commission regime for many investors.

There is a perception that retail investors are harmed by payment for order flow ("PFOF"). If hedge funds are paying hundreds of millions of dollars for retail order flow,[4] it stands to reason that retail investors are being exploited. Furthermore, the PFOF model incentivizes brokers to solicit more orders from their customers to increase revenue. Is it shocking that a core

[1] https://www.wsj.com/articles/it-isnt-just-amc-retail-traders-increase-pull-on-the-stock-market-11624008602
[2] https://www.finrafoundation.org/sites/finrafoundation/files/investing-2020-new-accounts-and-the-people-who-opened-them_1_0.pdf
[3] https://robinhood.com/us/en/support/articles/our-mission/
[4] https://www.barrons.com/articles/payment-for-order-flow-robinhood-51623412441

motivation behind DEP is to entice the customer to transact? Yet, it isn't clear that PFOF harms the retail investor, at least in comparison to the previous fixed-commission regime.

The "democratization of finance" has required technological investment. Many banks have supported retail trading for years, yet their user interfaces look like they were designed in the 1990s. In addition, many banks have focused on wealth management and "hands-off" investment versus empowering their customers to pursue self-directed investing. Clearly, there was an opportunity for disruption. Yet, PFOF, as the primary revenue source for these disruptors, does come with a cost. A negative side effect of order matching internalization is a decline in orders routed to lit pools. Whether dark pools[5] and off-exchange transactions[6] harm or help liquidity in the market is subject to debate, yet it seems intuitive that the value of information in the lit market diminishes when significant volume transacts off-exchange. Thus, although PFOF likely weakens pricing signals visible in the broader market, it remains unclear whether this harms retail investors specifically.

The growth of new investors leads to the conclusion that the less wealthy investor was underserved. Robo-advice may not be as effective as advice from an investment advisor. But robo-advice is more cost-effective, enabling financial services to be provided to less wealthy individuals. While customers would undoubtedly benefit if DEP were more aligned with long-term investor performance, protecting investors by re-erecting barriers to entry seems undesirable. Technological innovation reduces friction. Transactional costs for the retail investor have declined markedly. More investors than ever before have the tools to transact for themselves. Some retail investors will assuredly lose money through participation in markets. But isn't the average investor better off compared with not participating at all?

While disruption creates winners and losers, I know the Commission is primarily focused on protecting the interests of retail investors. Thank you for the opportunity to speak on this vital matter.

Sincerely,

Nate Kalich

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[5] https://www.nasdaq.com/articles/a-deep-dive-into-dark-trades-2021-04-29

[6] https://www.cowen.com/insights/retail-trading-whats-going-on-what-may-change-and-what-can-institutional-traders-do-about-it/