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Danger to all Robinhooders

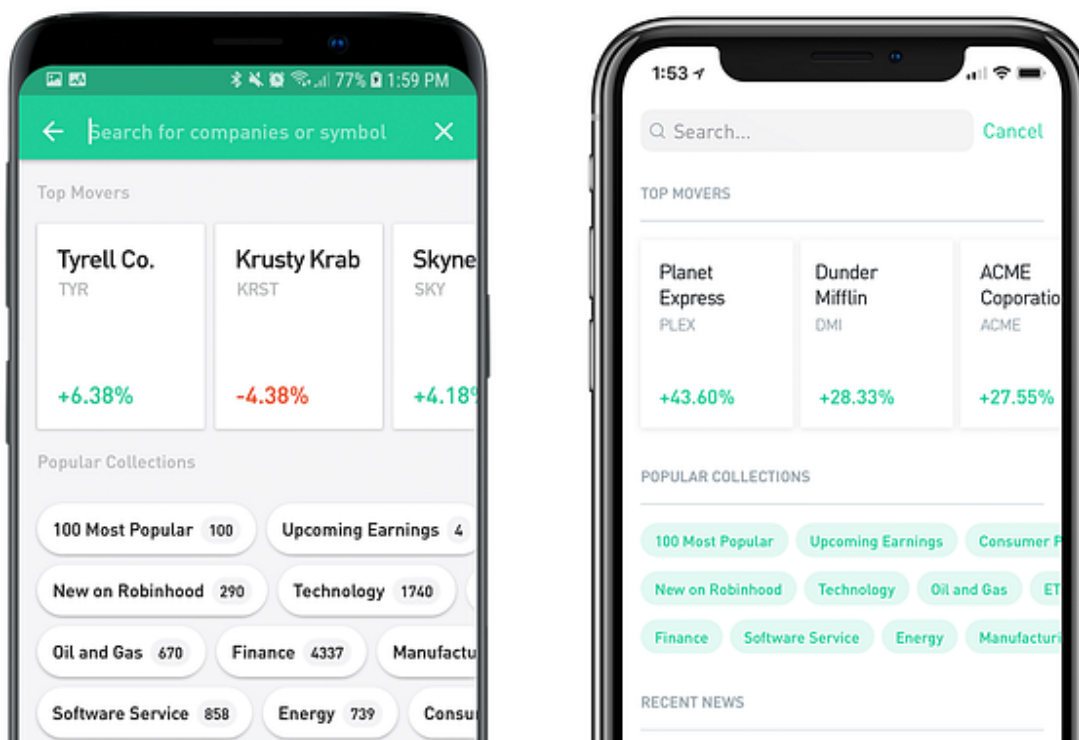


Mark Lyck · Follow

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If you've ever bought stocks on the trading platform **Robinhood** or you just buy trending stocks in general this article could potentially save you a lot of money!



Robinhood has this little section called “Top Movers”. This tells you which stocks are having the biggest swings upwards or downwards.

An example you’ve probably heard about is the bankrupt company Hertz made it onto this list, and hundreds of thousands of Robinhooders started buying this bankrupt company.

This is not an article about Hertz, but what’s interesting is when a stock shows up on this Top Movers list, a lot of people tend to add that stock to their portfolio.

But how many people actually do this?

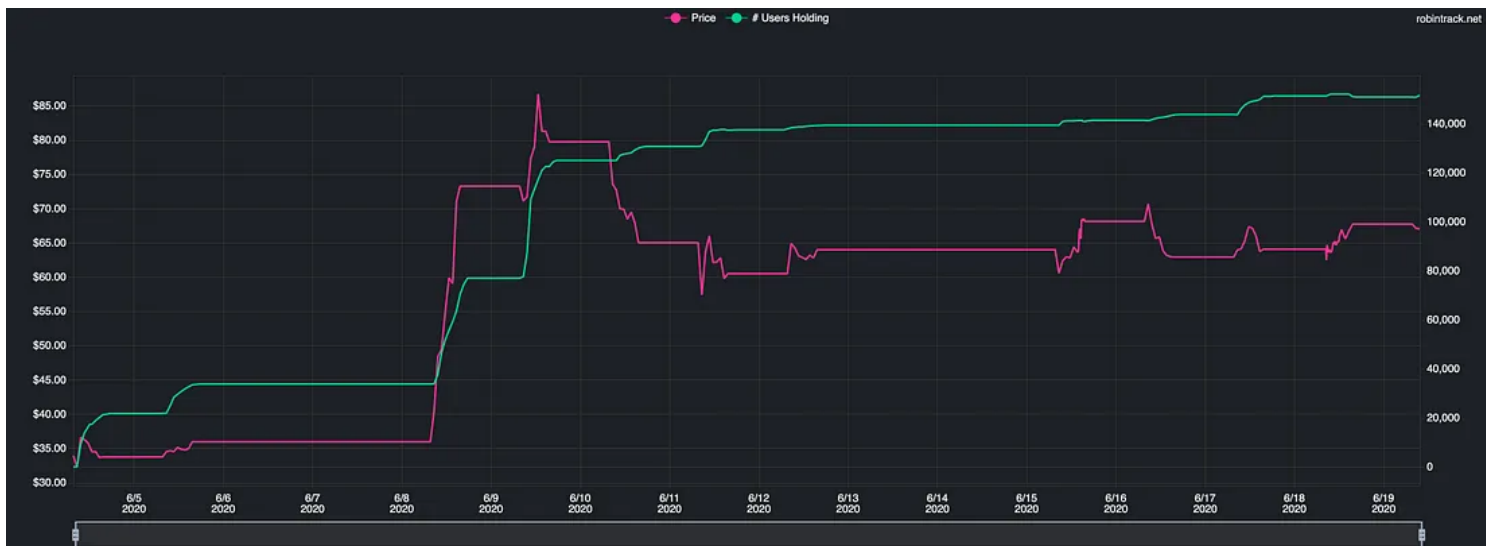


Hertz price & Robinhood users holding Hertz shares

This chart shows, that in March only 2,713 Robinhood users owned shares in Hertz. Then when the company went bankrupt and showed up on this Top Movers list, over 170,000 Robinhooders stormed in to buy this stock (in a bankrupt company)

Nikola

Let's take a look at another stock that ended up on this Top Movers list, NKLA (a startup, with \$0 in revenue that intends to compete with Tesla).



When Nikola went public, about 9,300 Robinhooders bought Nikola stock at about \$35 a share. After Nikola ended up on the "Top movers" list a few times, over 150,000 Robinhood users bought shares in this company, driving up the price to about \$66 a share.

There are many more examples of this, but in short, a lot of Robinhood users buy stocks simply because they end up on the Trending tab. So why is this a problem? Surely Robinhood is just a small part of the Stock

market compared to all the Hedge funds in the world, institutional investors, and certainly not as big as TD Ameritrade or Charles Schwab, etc.

How much impact can Robinhood investors really have on the stock market?

Well to determine that we need a little more information.

So we know that the amount of individual Robinhood users holding Nikola shared went from less than 10,000 to over 150,000 over the course of a few days. Over those same few days, Trevor, the former CEO and founder of Nikola mentioned that 300,000 new individual investors had been buying their shares. This means it's quite possible that over 35% of people who bought NKLA shares are using Robinhood.

That's actually... A lot!

Okay, so what's the problem? Maybe Robinhood investors see something the rest of us doesn't, it's a new hot startup with great growth prospects. Why would you not buy into NKLA?

The problem with the trending sections is that it can lead to a crazy buying frenzy without a care for any of the fundamentals of the actual value of the company or the real growth prospects for the company.

Let's be real, How many of us when we go to buy stock in Apple or Tesla, actually go to the SEC (Securities and Exchange Commission) website and pull up the earnings report? Let's be honest, most investors just don't do that. But those are also highly established companies. They are not in bankruptcy and they are not startups. But if you don't do your research you wouldn't catch these many red flags.

Red flag #1

Remember that Nikola is currently selling for about **\$66 a share**

So let's look at the Nikola Warrant.



So what is this? Each Nikola Warrant allows you to, 5 years from now buy one share of Nikola at a cost of just **\$11.50**

So if I buy a warrant now for **\$27.81** in 5 years I will pay an additional **\$11.50** and I will be the owner of a Nikola stock for just **\$39.31**. That is cheaper than the current stock price! Usually, with warrants, they would

be selling for about the current stock price because the company is expected to grow at least a little over the next 5 years and there are some parity between the stock price and the warrant prices. So why is there such a big difference here? (Fun fact, you can't buy the warrants on Robinhood 😞)

Is this some crazy opportunity to buy NKLA stock for cheap and make a ton of money where nobody else is seeing it? Most likely not... This negative difference in price is a huge red flag! If the warrants are priced very differently than the common stock there's usually a reason for it. So let's delve a little deeper.

Red flag #2 — Shorting Nikola stock

If you're new to investing you might not be familiar with the term "shorting" a stock. It basically means betting against it instead of with it. So if I short a stock and the stock drops 50% in price, I will have earned +50%.

So let's say I want to short \$200,000 of Nikola stocks, thinking that the stock will drop 50% in price by August. (that's just a month and a half from now!)

If I'm right I would have earned ~\$100,000! (minus the option fees). So whenever you want to short a stock you have to pay a fee to short it. The option fees for well-performing companies are usually very low (because the chance of them dropping a ton (like 50%) in value is very very low.)

So let's look at the option fees for shorting NKLA, as of June 19th, 2020, it will cost over \$120,000 in fees to short 3,000 stocks in NKLA. That means even if my bet is right and NKLA drops 50% in value, I would still lose \$20,000! In fact to just break even NKLA would have to drop about 80% in value. This is a huge red flag that the company is very likely to drop in value in the near future because no one wants to sell reasonably priced options for it. This is likely because big hedge funds realize what's about to happen, and they bought up all the sensible options, and there's no one left who wants to be on the other side of this deal believing that NKLA will be worth more than \$30 in the near future.

How crazy is it that you can lose money betting on a company dropping 50% in value when you are right? Usually, when you are right in a bet you should be winning money!

Red flag #3 Why didn't NKLA sell their shares?

Remember that NKLA prices sky-rocketed from \$10–20 per share up to \$90 per share basically overnight? Why do you think Nikola, a growing company, didn't sell a whole bunch of their shares after such a massive leap like most companies do? They could probably use some of that cash to build the hydrogen infrastructure they are talking about, but they didn't do it!

This is red flag #3 and you're gonna see exactly why in a bit when it all comes together. There's a very scary reason why they didn't.

Red flag #4... 360 million outstanding shares

According to the SEC, Nikola has about 360 million shares outstanding. Guess how many of those actually publically trade?

23 million shares... Wait, what..? That's only 6.4% of the shares that are actually trading!

And remember 30–40% of the people who were trading these 23m shares were Robinhood users? So basically a HUGE amount of people on Robinhood are trading a proportionally tiny portion of the outstanding stocks.

Red flags so far:

- Warrants are totally mispriced for some odd reason.
- It's crazy expensive to short the company right now. (usually, this means a lot of institutions are shorting the company)
- Nikola didn't sell their shares when they hit all-time highs 😞
- The public only has access to 6.4% of the total outstanding shares.
- Robinhood users represent ~30–40% of the new investors in that 6.4 % of shares

The bombshell

On May 8th, Nikola registered their prospectus with the SEC.

NKLA (formerly VectoIQ) created 52.5 million shares, known as PIPE shares (Private Investments into Public Equity), complicated right?

All you really have to know right now is that there are 52.5 million shares that were bought for just \$10 a share in NKLA.

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Subscription Agreements

In connection with the execution of the Business Combination Agreement, effective as of March 2, 2020, VectoIQ entered into separate subscription agreements (each, a "Subscription Agreement") with a number of investors (each a "Subscriber"), pursuant to which the Subscribers agreed to purchase, and VectoIQ agreed to sell to the Subscribers, an aggregate of 52,500,000 shares of VectoIQ Common Stock (the "PIPE Shares"), for a purchase price of \$10.00 per share and an aggregate purchase price of \$525 million, in the PIPE.

The closing of the sale of the PIPE Shares pursuant to the Subscription Agreement is contingent upon, among other customary closing conditions, the substantially concurrent consummation of the Proposed Transactions. The purpose of the PIPE is to raise additional capital for use by the combined company following the Closing.

Pursuant to the Subscription Agreements, VectoIQ agreed that, within 45 calendar days after the consummation of the Proposed Transactions (the "Filing Deadline"), VectoIQ will file with the SEC (at VectoIQ's sole cost and expense) a registration statement registering the resale of the PIPE Shares (the "Resale Registration Statement"), and VectoIQ shall use its commercially reasonable efforts to have the Resale Registration Statement declared effective as soon as practicable after the filing thereof. Under certain circumstances, additional payments by VectoIQ may be assessed with respect to the PIPE Shares in the event that (i) the Resale Registration Statement has not been filed with the SEC by the Filing Deadline; (ii) the Resale Registration Statement has not been declared effective by the SEC by 60 days (or 120 days if the SEC notifies VectoIQ that it will review the Resale Registration Statement) following the Filing Deadline; (iii) the Resale Registration Statement is declared effective by the SEC but thereafter ceases to be effective prior to the expiration of a designated effective period or a Subscriber is not permitted to utilize the Resale Registration Statement to resell the PIPE Shares; or (iv) under certain circumstances, VectoIQ fails to file with the Commission any required reports under Section 13 or 15(d) of the Exchange Act, such that the Subscribers who are not affiliates of VectoIQ are unable to sell their PIPE Shares without restriction under Rule 144 under the Securities Act. The additional payments by VectoIQ shall accrue on the applicable registrable securities at a rate of 0.5% of the aggregate purchase price paid for such registrable securities per month, subject to certain terms and limitations (including a cap of 5.0% of the aggregate purchase price).

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<https://www.sec.gov/Archives/edgar/data/1731289/000104746920001479/a2240989zs-4.htm>

The filing also states that Nikola will register the resale of these PIPE shares within 45 days of the IPO.

That means by late June (the 45-day mark) Nikola will register an additional 53.5 million shares that are now available for sale.

So let's think about this for a moment, if you're a PIPE investor, and you bought a ton of these stocks for \$10 and the current stock price is \$66... You just earned +500% on your capital! That's a crazy good return, and if that was me I would definitely want out ASAP and get my cash. Even if it was only selling at \$20 I'll still happily take an easy 100% return.

How do you think you would be feeling about a company, that has \$0 in revenue and you can sell the PIPE shares you've been holding for a very long time, with a +400% return? If that was me. I'd sell all of it ASAP!

Now, they don't all necessarily have to sell their shares of course. But if most of even half of them do. Nikola's stock price will plummet!

Remember, right now the public only has access to 23 million of all the shares that exist, and all of a sudden you have this PIPE investment group coming in with another 52.5 million shares all wanting to sell for a huge profit!

That's almost 2.5 times the amount of shares currently available. WOW!

Connecting the dots.

- Why are the warrants so cheap? Because the stock isn't going to be selling for \$66 for much longer, that's why!
- Why is it so expensive to short the company? Because the hedge funds have already priced in that this stock is WAY overvalued, and every Robinhood investor buying off the trending tab is about to get screwed.
- What about Nikola not selling their stocks when it went up to \$70-\$90? Because PIPE investors are people you want to do business with again in the future. How would you feel if you were a PIPE investor and your return was up +600%, and the company you invested dumped a bunch of all their shares before you could? Think about it. The PIPE investors absolutely have to get out first so you don't screw them over.

When you invest in companies I always recommend doing research. You absolutely have to be aware of just how little or how much you know about a company before you put your savings into it. Especially when it comes to volatile startups!

So please if you're a Robinhood user or just a trend trader in general. Do your research before you just buy whatever is trending or you could be in for a very nasty surprise like the one that's about to hit a bunch of unknowing users.

This took a lot of research to write, so if you found this article helpful, please hit the living hell out of that clap button!

Normally I'd just use the stock screener over at Weekly Stock tip, but to run our algorithmic analysis we need at least 7 years of public financial data to analyze, and since NKLA only have about 30 days of data, this had to be done manually.

If you want to invest in stocks that have all gone through much more comprehensive evaluations than this one, that is selling for cheaper than they should be (opposite of NKLA) check out <https://weeklystocktip.com>

Disclaimer: I'm not a registered financial advisor or an expert in what Nikola does or their business model. This is just my best guess of what will happen given the lackluster financial information available about this company.

UPDATE:

Nikola stock dropped almost 50% in value under a week since this event happened. Just as expected. This is why you always do your research before you invest!



-Mark Lyck

Founder of <https://weeklystocktip.com> We provide value/growth investment signals with a historical win rate of +90%

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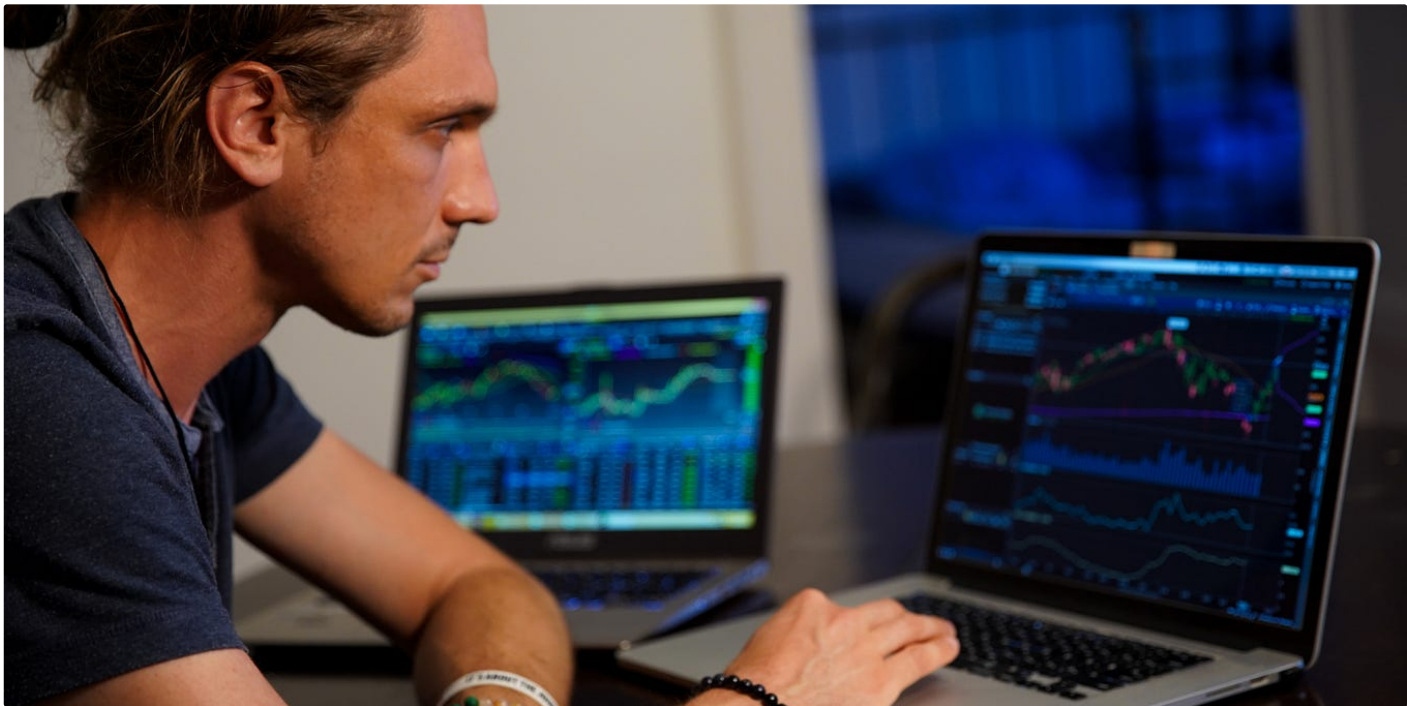
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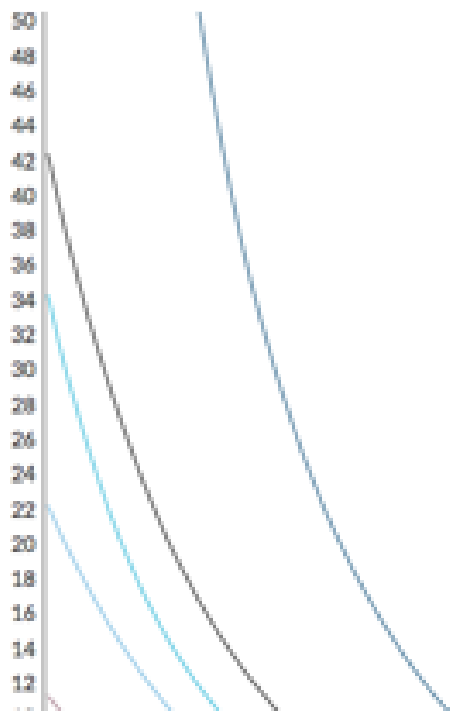
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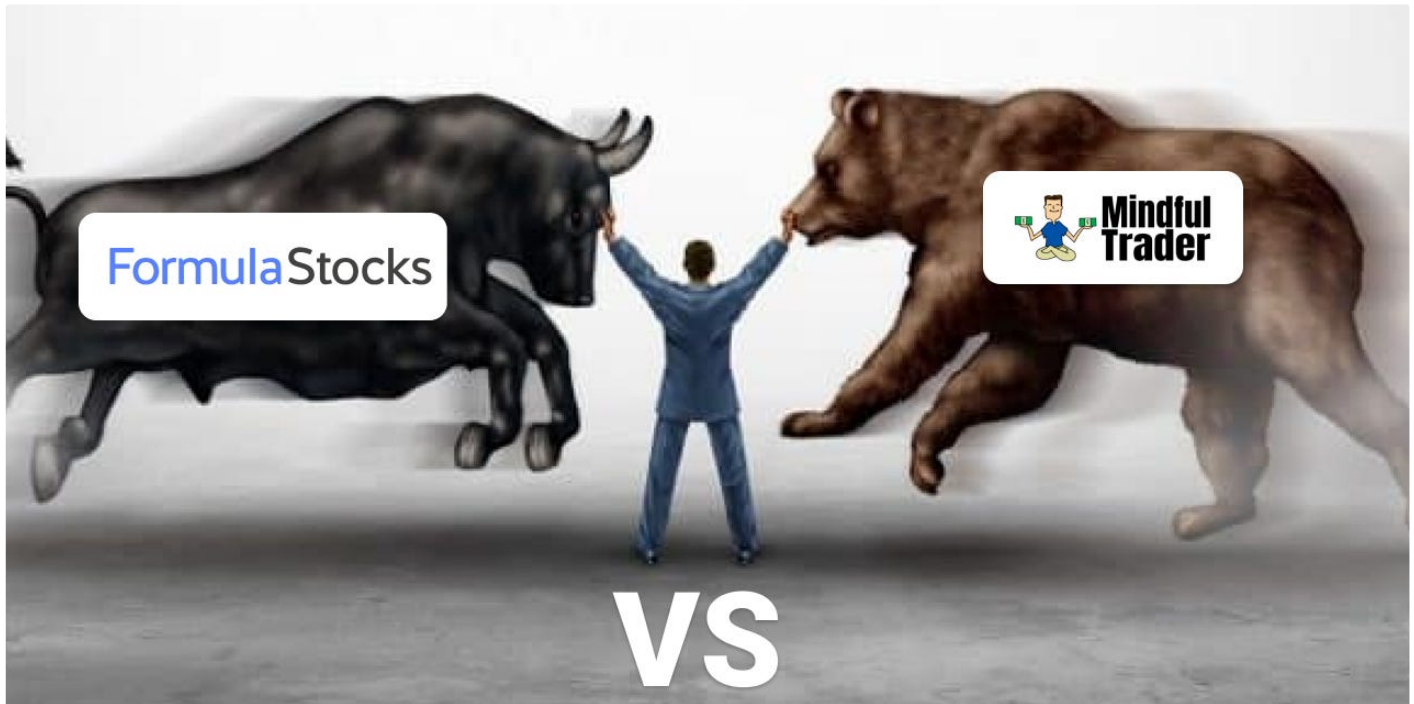
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Basic	Sortino ratio:	3.18
MF	Sortino ratio	1.69
DJIA	Sortino ratio:	0.94
Maximum drawdown:		20.88%
Maximum drawdown:		48.36%
Maximum drawdown:		50.50%
Maximum drawdown:		46.46%
Maximum drawdown:		62.98%
Maximum drawdown:		54.00%

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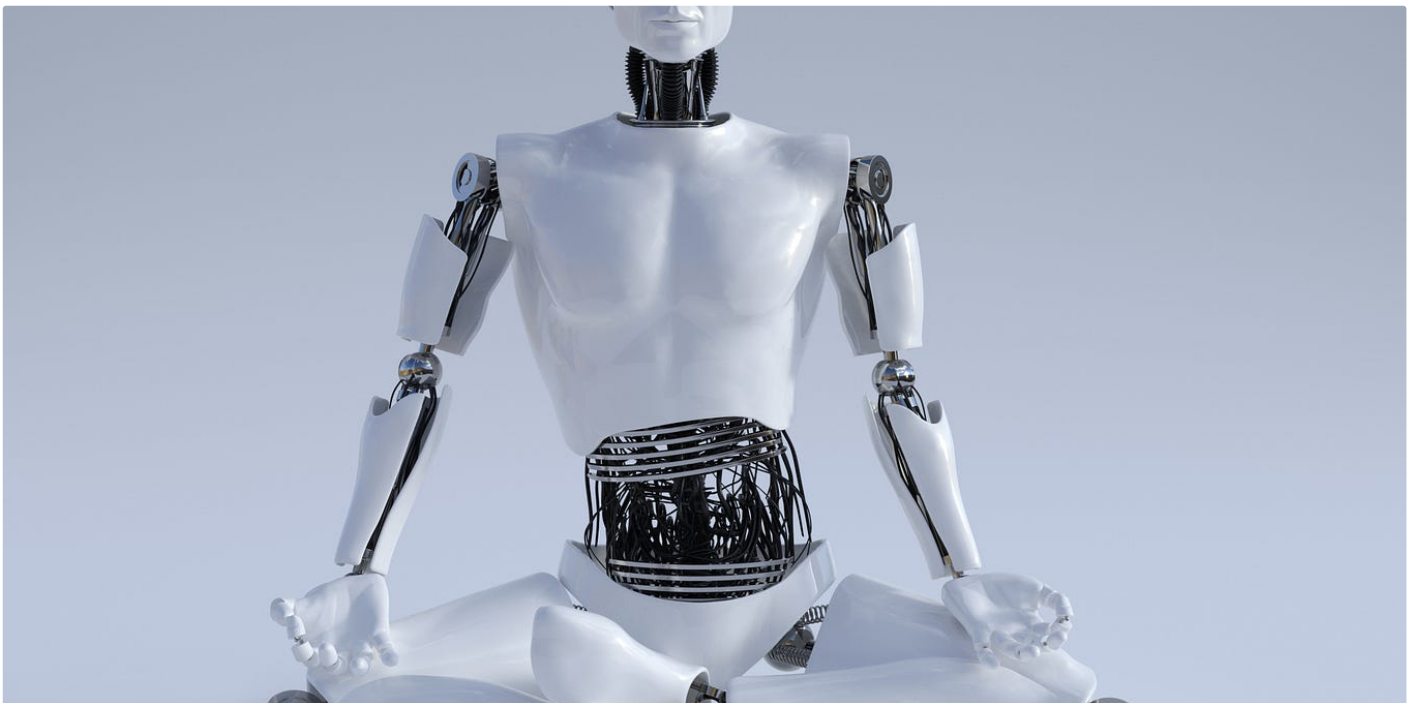
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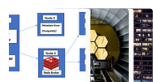
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