Nobody Had to Cheat

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> On January 28, 2021, customers of Robinhood and several other brokers were allowed to sell GameStop but not buy it. I have been angry about that for five years. This essay is what happened when I checked my anger against the record. The record does not show a conspiracy. It shows something I think is worse: a market that works so that nobody has to break a rule for the small investor to be shut out at the worst moment. It also says what a person can do about it.

Words worth knowing

The words this essay leans on, each explained twice: first in plain English, then in one line for the expert.

settle

When you buy a stock, the deal is agreed in a second, but the shares and the money change hands later. That handover is settlement. In 2021 it took two days; since May 2024 it takes one. Until it happens, someone has to guarantee that both sides will pay up.

> FOR THE EXPERT Settlement is the final exchange of securities and cash between the parties to a trade; US stocks moved from T+2 to T+1 in May 2024, with the clearing agency guaranteeing trades in the meantime.

clearinghouse

A middleman that stands between every buyer and seller so neither has to trust the other. If a broker fails before a trade settles, the clearinghouse makes sure the other side still gets paid. To protect itself, it makes brokers keep a deposit with it, and asks for more when prices swing.

> FOR THE EXPERT A central counterparty (for US stocks, the DTCC's National Securities Clearing Corporation) that guarantees trades between its clearing members and collects collateral, including clearing-fund deposits, against the risk of a member defaulting before settlement.

margin calls

Demands for more deposit money. Like a landlord asking for a bigger deposit when a tenant looks riskier, the clearinghouse asks brokers for more collateral when prices swing wildly. A broker that cannot pay fast is in serious trouble. On January 28, 2021, Robinhood's bill was about $3.7 billion.

> FOR THE EXPERT Demands by a clearing agency that a member post additional collateral; here, NSCC's clearing-fund requirement for Robinhood on January 28, 2021, the largest piece of which was waived that morning.

market maker

A firm that is always ready to buy from you or sell to you, a bit like a currency exchange booth at an airport. It earns money on the small gap between the price it buys at and the price it sells at. A few such firms fill most stock orders from phone apps.

> FOR THE EXPERT A dealer that continuously quotes bid and ask prices and trades from its own inventory, earning the spread; in US retail equities, a few wholesalers internalize most marketable retail orders off-exchange.

short squeeze

When a price rises fast, people who bet it would fall rush to buy shares back to limit their losses, and that buying pushes the price up further, forcing more of them to buy. The SEC staff found this was not the main reason GameStop rose, though it added to the rise at times.

> FOR THE EXPERT A price spike amplified by short sellers buying to cover under losses or margin pressure; SEC staff found buy-to-cover activity contributed at times but positive sentiment sustained GameStop's January 2021 rally.

short selling

A way to bet a price will fall. You borrow shares, sell them now, and hope to buy them back cheaper later to return them, keeping the difference. If the price rises instead, the loss has no ceiling. Naked short selling means selling without first borrowing, or arranging to borrow, the shares.

> FOR THE EXPERT Selling a security one does not own, normally after borrowing it or locating a borrow under Regulation SHO; a naked short sale lacks that borrow or locate, which the SEC says is not necessarily a violation but is fraud when it involves deception about delivery.

payment for order flow

When a free trading app sends your order to a big trading firm, that firm often pays the app for it. That is how a lot of 'free' trading is paid for. The worry is a conflict of interest: the app could send your order where it gets paid most rather than where you get the best price.

> FOR THE EXPERT Compensation a broker-dealer receives from a market maker for routing customer orders to it, legal in the US with disclosure (Rules 606 and 607) but flagged by SEC staff as a potential conflict with the duty of best execution.

swaps

Private contracts, here between a fund and a bank: the bank pays the fund whatever a stock gains, and the fund pays the bank a fee plus any loss, without the fund owning the stock. The bank usually holds the shares, so the public cannot see who is really behind a big bet.

> FOR THE EXPERT Here total return swaps: over-the-counter derivatives exchanging a reference stock's total return for financing payments, giving economic exposure without ownership and, at the time, without public disclosure of large positions.

expense ratio

The yearly fee a fund takes, written as a percent of what you have in it. It comes out of your money quietly, so you never see a bill. A 1 percent fee sounds small, but in the SEC's example it costs about $29,000 more than a 0.25 percent fee on $100,000 over 20 years.

> FOR THE EXPERT A fund's total annual operating expenses as a percentage of average net assets, deducted from fund assets and disclosed in the prospectus fee table.

index fund

A fund that does not try to pick winners. It holds every company on a list, such as the 500 in the S&P 500, so it rises and falls with the whole list. Because nobody is paid to pick, fees are usually low. Most funds that do try to pick trail the list over long periods.

> FOR THE EXPERT A passively managed mutual fund or ETF that tracks a benchmark index, usually at a low expense ratio; S&P's SPIVA scorecards show most active US large-cap funds trail the S&P 500 over long horizons.

The morning the buy button went dark

On the morning of January 28, 2021, Robinhood and several other brokers stopped letting their customers buy GameStop and a handful of other stocks. You could sell. You could not buy. Customers of brokers that did not restrict, and most institutions, could keep buying.

I have been angry about that since I learned how it happened. A market is supposed to be the one place where my order counts the same as anyone's. That morning, for millions of people, it did not.

For a long time I believed what a lot of people believe: that someone powerful picked up a phone. I wanted to write that essay. Then I did what I should have done first and read the record.

How to be angry without being wrong

David Hume said a wise person proportions belief to the evidence. Almost nothing about the world can be proved the way a theorem can. What we have instead is evidence, and it comes in grades. So I sorted everything I believed about that week into three piles.

Documented. It is in a regulator's finding, a court record, a filing, or sworn testimony.

Disputed. Serious people have looked at it and disagree, or the record points in more than one direction.

Inferred. It is a guess about what someone intended, and no record establishes it.

Then I made a rule: I can argue as hard as I want from the first pile, I have to show both sides of the second, and I am not allowed to state the third as fact. Most of what makes people sound unhinged about Wall Street is pile three dressed up as pile one.

What is documented

In 2021 a stock trade took two days to settle. During those two days a clearinghouse stood between buyer and seller, and it required brokers to post collateral against the trades still in the pipe. When prices swing wildly, the collateral bill goes up.

On January 27 the clearinghouse made $6.9 billion in intraday margin calls to 36 of its members, according to the SEC's staff report. On January 28 it assessed Robinhood about $3.7 billion, a House committee staff report found. Robinhood did not have it. The largest piece, $2.2 billion, was waived, and Robinhood restricted buying in the stocks driving the bill. The same House report quotes a Robinhood brokerage manager writing to a colleague on January 27, as the firm planned limits: "The real reason is firm risk and us needing to control the velocity of trading."

The SEC staff report says the affected brokers maintained that the restrictions were a reaction to those margin calls and capital charges, and that the clearinghouse does not tell brokers which stocks to halt. Each broker decided for itself.

Now the parts I did not want to read.

The lawsuits claiming that a market maker and a broker conspired to shut off buying were dismissed. The trial court found the brokers' collateral problem a more plausible explanation than a conspiracy. The appeals court upheld the dismissal on a narrower ground and did not decide whether a conspiracy was plausible. Dismissed is not the same as disproved, but nothing in the record establishes the phone call I believed in. Ken Griffin, who founded both the hedge fund manager Citadel and the separate market-making firm Citadel Securities, testified under oath: "We had no role in Robinhood's decision."

The SEC staff also concluded that a short squeeze did not appear to be the main driver of the rally, though covering added to it at times. In their words, "it was the positive sentiment, not the buying-to-cover, that sustained the weeks-long price appreciation." They found no evidence of a gamma squeeze. And the SEC's own guidance says two things that cut against what I had absorbed online: naked short selling "is not necessarily a violation," though deceiving someone about delivery is fraud, and failures to deliver "are not evidence of abusive short selling."

What is disputed

I promised a second pile, so here it is, with both sides.

The House report documents a "blunt" call between Citadel Securities and Robinhood on January 27. On the record, it was about capping the payments the market maker was sending the broker, which had exploded with the volume. It was not about halting trades. People who suspect coordination point to the call. The documents describe a billing dispute.

On January 25, three days before the restrictions, Citadel and its partners put $2 billion, and another fund $750 million, into Melvin Capital, a fund losing heavily on its GameStop short. That is a fact. Why they did it is not in any finding, and the firms described it as an investment. I am not going to guess in print.

Separate claims that Robinhood itself manipulated the market by restricting trades survived a motion to dismiss in 2022, and were later denied class-action status. That case was about the broker's own conduct, not a conspiracy.

And on the other side of the ledger: most brokers did not restrict buying that day. The margin rules applied to every clearing member. The ones with enough capital kept their customers trading. The House staff found Robinhood's own risk planning deficient.

So the story I carried for five years has a hole where its villain should be.

Nobody had to cheat

I expected that to make me less angry. It did the opposite.

If someone had made a corrupt phone call, there would be a person to prosecute and a rule that was broken. What the record shows instead is that no regulator or court found the restrictions broke a rule. The rules allowed them. A broker serving millions of small investors was permitted to run so thin that one volatile week left it unable to cover its bill, and when that happened, the response of the brokers who could not post the collateral was to stop their customers from buying. The customer agreement said they could.

Nobody had to break a rule for a thinly capitalized broker to shut off its customers at the worst moment. That is a harder problem than fraud. Fraud can be punished. An arrangement that is working as written just keeps running.

John Rawls offered a test for whether a rule is fair: would you agree to it before knowing which position you would occupy? Run that test here. Nobody choosing from behind that veil, not knowing whether they would be the fund or the person with four hundred dollars in a phone app, would agree to a market where the newest and smallest participants are the ones whose buy button can go dark.

And once you stop looking for a villain, you start seeing how much of the structure asks ordinary people to accept things on trust.

Your order is a product. Many commission-free brokers are paid by large trading firms to send them your orders. The SEC staff wrote that these payments "can create a conflict of interest for the retail broker-dealer." This is not theoretical. The SEC found that Robinhood misled customers about this arrangement from 2015 to late 2018 and that worse execution prices cost them an estimated $34.1 million, even after counting what they saved on commissions. Robinhood paid $65 million without admitting or denying the findings.

A few firms handle almost all of it. The SEC said in 2022 that retail brokers route more than 90 percent of individual investors' marketable stock orders to a small group of off-exchange dealers. In GameStop in January 2021, just three firms executed 88 percent of the dollar volume that dealers handled in-house. The law allows a single owner to control both a large retail market maker and a hedge fund. The two Citadel firms are separate, the law requires walls between them, and no regulator has found that those walls failed. My point is narrower: a fair design would make that separation visible to the public instead of leaving it to compliance departments we cannot see.

Positions can be invisible. In 2020 and early 2021 a family office called Archegos built enormous stakes in a few companies through swaps, contracts that prosecutors noted carried no public disclosure requirement. When it collapsed, Credit Suisse alone lost about $5.5 billion. Its founder was convicted of fraud and market manipulation and sentenced to 18 years. He has appealed. The positions being invisible to the public was legal. Lying to the banks about them was the crime.

Some fixes were made. The biggest were shelved. To be fair to the regulators: settlement got faster, from two days to one, in May 2024, which is a real repair to the pipe that burst. The SEC adopted rules requiring better public data on how well orders get filled, and large shareholders now have to disclose sooner. But after January 2021 the SEC also proposed making retail orders compete in open auctions, and proposed public reporting of large swap positions. Both were withdrawn on June 12, 2025. The rules the agency adopted in 2023 to disclose more about short positions and stock lending were challenged in court, and compliance has been pushed to 2028.

And the quietest cost is fees. I cannot prove it is the largest, but it is the one that touches nearly everyone. The SEC's own example: $100,000 growing at 4 percent for 20 years ends near $208,000 with a 0.25 percent annual fee and near $179,000 with a 1 percent fee. Meanwhile S&P's scorecard shows about 93 percent of actively managed large-company funds trailed the S&P 500 over 20 years. Nobody is breaking a rule there either.

The best argument against me

The strongest reply goes like this: small investors have never had it better. Trading is free. Researchers have found that in stocks, retail orders often get a slightly better price than the public quote. Most brokers kept their buy buttons on. The arrangement I am complaining about is the one that put the stock market in everyone's pocket.

I think most of that is true, and it does not answer the charge.

First, free is not the same as costless. One study of 85,000 simultaneous trades found the round-trip cost, before commissions, ranged from 0.07 percent to 0.46 percent depending on the broker, because the dealers priced the same trade differently for different brokers. Separate research finds retail investors get worse prices in options from dealers who pay brokers for the orders, and the payments there are larger. The cost did not vanish. It moved to where you cannot see it.

Second, an arrangement should be judged on the day it is tested. A bridge that carries traffic every ordinary day and closes, only for the newest drivers, during the one storm that matters is not a good bridge. January 28 was the storm. That most brokers held is a point in the system's favor. That the one built for beginners did not is the point against it.

Where the reply does land: the people who restricted trading that morning were, on the record, trying to keep their firms from failing, and a broker failing would have hurt its customers too. I accept that. It is my whole point. The harm did not need bad people.

What changes now

For most of history, checking any of this meant hiring someone. The filings were public in the way a document in a locked basement is public.

That has changed. The SEC's full-text search covers every electronic filing since 2001. The data on failures to deliver, short interest and off-exchange trading is posted for anyone. With an AI assistant, one person can now read a staff report, a court opinion and a fee table in an evening and ask plain questions of them. That is how this essay was written. It is also how I found out I was partly wrong, and how the first draft of this essay got corrected: an independent check found three errors in it, and they are fixed.

I do not think that fixes the design. It changes who can see it. An arrangement that depends on nobody reading the fine print has a problem when everyone can.

What you can do

I would rather you leave with something useful than something to be angry about.

1. **Find out what your funds cost.** The expense ratio is in the prospectus and in your 401(k) fee notice. I built a free calculator that shows what your fee adds up to over the years next to a low-cost index fund: knownquantityllc.com/for-good/fund-fees. It compares costs. It does not tell you what to buy, and I am not a financial adviser.
2. **Ask how your broker is paid.** Brokers must publish where they send orders and what they are paid for it. If trading is free, you are entitled to know who is paying.
3. **Read one primary source.** The SEC staff report on January 2021 is short and written in plain English. It will change your mind about something. It changed mine.
4. **Know the real reforms.** Open auctions for retail orders. Public reporting of large swap positions. Faster disclosure of short positions. The European Union bans payment for order flow and publishes large short positions by name. When someone promises to fix the market, ask which of those they mean.

I am still angry about the buy button. I am just angry at the right thing now. It was never one man. It was the plumbing, and plumbing can be rebuilt by people who know where the pipes are.

Sources and a note on method

Every factual claim here was graded before it went in: documented in a primary source, disputed, or inferred. An independent fact-check then went through the draft line by line against the primary sources. It found three errors and a number of overstatements, all of which were corrected. Claims in the third group were cut or labelled as my own suspicion.

The events of January 2021: SEC staff, Staff Report on Equity and Options Market Structure Conditions in Early 2021 (October 2021), which reflects staff views and not the Commission's; and the House Financial Services Committee majority staff report, Game Stopped (June 2022). The antitrust claims over the trading restrictions were dismissed in the Southern District of Florida (November 2021, and finally in

May 2022); the Eleventh Circuit affirmed on June 26, 2024 on the ground that no harm to competition in a defined market was alleged, assuming without deciding that a conspiracy was plausibly alleged. Separate market manipulation claims against Robinhood survived dismissal in August 2022 and were denied class certification in November 2023. Mr. Griffin's statement is from his sworn testimony to the House Financial Services Committee on February 18, 2021. The Melvin Capital investment is from the firms' announcement of January 25, 2021.

Short selling: the SEC's Key Points About Regulation SHO and its notes on fails-to-deliver data. Payment for order flow and Robinhood: SEC press release 2020-321. Routing of retail orders and the auction proposal: SEC press release 2022-225; that proposal and the public swap position reporting proposal were among those the SEC withdrew on June 12, 2025. The short position and securities lending rules were sent back to the SEC by the Fifth Circuit in August 2025 without being struck down, and compliance was later delayed to 2028. Archegos: Department of Justice releases on the conviction and the sentence of November 20, 2024, and Federal Reserve and UK regulator actions over Credit Suisse's losses; the appeal was pending when this was written.

Fees: the SEC investor bulletin How Fees and Expenses Affect Your Investment Portfolio (July 2025) and S&P Dow Jones Indices' SPIVA U.S. scorecard (mid-year 2026: 92.61 percent of large-cap funds underperformed over 20 years). The study of simultaneous retail trades is Schwarz, Barber, Huang, Jorion and Odean, "The 'Actual Retail Price' of Equity Trades," *Journal of Finance* (2025); it found that payment for order flow did not explain the gap between brokers. The finding that retail stock orders often receive price improvement while options fare worse is Ernst and Spatt, "Payment for Order Flow and Asset Choice" (NBER, 2022). The broker disclosure requirement is SEC Rule 606. European rules: the EU's ban on payment for order flow, in full effect since July 2026, and its public short position threshold of 0.5 percent; the United Kingdom now publishes only anonymous totals.

Hume's line about proportioning belief to evidence is from *An Enquiry Concerning Human Understanding*, section X. The fairness test is my paraphrase of the veil of ignorance in John Rawls's *A Theory of Justice* (1971).

Left out on purpose: any claim about why any firm or person acted as they did beyond what they said under oath or a body found; any claim that failures to deliver or high short interest prove counterfeit shares, which the SEC's own material does not support; political donations, which are public but which no finding links to any regulatory outcome; and most of what was left unresolved after 2008, which deserves its own essay.

Disclosure: I have held GameStop securities and I trade through Robinhood. I may hold positions in companies mentioned here. Nothing in this essay is a recommendation to buy or sell anything.

I used AI to research and draft this, under my direction, with a standing instruction to tell me where I was wrong before telling me where I was right.