Center for the Study of Minority & Small Business

Department of Business Administration

Minority and Small Business Review

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Featured Articles

Minority and Small Business Review

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The Minority and Small Business Review is published annually each Spring by the Center for the Study of Minority and Small Business (CSMSB) and the Department of Business Administration at University of the West. This publication includes original contributions based on both theory and practical insights on a variety of topics on entrepreneurship. While the topics may vary, each volume contains articles on subject matters that are critical to the growth and sustainability of minority and small businesses, such as: leadership & management strategies; finance/accounting; access to capital; marketing/branding; and legal/tax issues. The contributing authors include UWest Business Department Faculty as well as industry experts, business leaders/executives and entrepreneurs. Each year, the Review seeks to provide information that is content-rich and topically current.

We invite such articles to be submitted to the Editor via e-mail to meskeremt@uwest.edu (using a standard MS word-processing program such as Word). All submissions are subject to editorial review and modification--acceptance is not guaranteed unless such notification is provided in writing by the Editor.

The annual subscription rate is $10.00 for mailing within USA and $15.00 outside USA. (Please see Order Form). All correspondence regarding contributors' writings, excerpt permission and scholarly exchange; as well as subscriptions, changes of address and request for sample copies, should be addressed to: Editor of The Review, CSMSB, University of the West, 1409 N. Walnut Grove Avenue, Rosemead, CA 91770.

Editor: Prof. Meskerem Tadesse, Director, Center for the Study of Minority and Small Business (meskeremt@uwest.edu)

Center for the Study of Minority and Small Business

The Center for the Study of Minority and Small Business (CSMSB) serves as a link between the University and the minority and small business community, offering regular seminars, lectures, conferences, business counseling and the publication of "The Review". The Center seeks to develop itself into an outreach link to connect area minority and small businesses with governmental and non-governmental organizations in order to broaden their exposure to current business realities and changing governmental regulations.

As the Center strives to strengthen its efforts to play a more meaningful role towards the long-term growth and sustainability of minority and small business, it is mindful of the fundamental need for a broad-based support and partnership of area stakeholders and the community at large.

Your subscription to The Review will not only provide us your contact info so we can advise you of upcoming programs and events, it will also signify your support to the Center's programs and activities.

We invite your ideas, feedback, support and involvement. Please address all correspondence to the Center's Director via email @ meskeremt@uwest.edu.

Minority and Small Business Review

Volume 19, 2021

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Minority and Small Business Review

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Message from Dr. Minh-Hoa Ta, President, University of the West

June 10, 2021

"In this world, good things are infectious, for one good cause can create another. We have seen how many good things can come one after another."

Venerable Man Yi

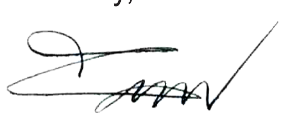
One of the main principles of Humanistic Buddhism is the emphasis on using one's intellectual knowledge to serve the community with compassion and character. At University of the West, we want to empower students to become agents of change in their communities. To achieve this purpose, we have partnered with our community to provide students with the opportunity to learn and read on relevant issues related to their fields of study. The annual publication of the Minority and Small Business Review is one of the venues to build that bridge for students majoring in our Business program.

The COVID-19 pandemic has created many economic challenges to many small businesses and a huge impact on the minority community in the United States in the past 15 months. Can small businesses reinvent themselves after COVID-19? What is the role of the UWest Center for the Study of Minority and Small Business in facilitating this discussion? In that aspect, UWest's Mission and values on having strong character, compassion and sense of community are needed now more than ever. What we as a Uwest community have learned from the last year is the need to collaborate, support and strengthen the community to overcome the hardships caused by the pandemic.

We value the relationships we have with our minority and small businesses partners and look forward to supporting you by providing research, studies, workshops, training, and discussion panels that would enhance the economic growth within your economic sector. We hope to receive feedback from you on future collaboration opportunities to create better days ahead.

Many thanks to individuals who contributed to the 2021 edition of the Minority and Small Business Review. A great appreciation to the leadership of Prof. Meskerem Tadesse, the Review has completed its nineteenth year of publication. Congratulations!

Sincerely,



Minh-Hoa Ta, Ed.D.
President

From The Editor

June 10, 2021

Each Spring for the past 18 years, the Business Administration Department of University of the West ("UWest") has published this UWest Minority and Small Business Review ("The REVIEW"), hosted by the UWest Center for the Study of Minority and Small Business (CSMSB). For 9 of these years, I have had the honor of serving as the Editor, bringing to our readers a collection of business articles authored by our faculty as well as distinguished professionals and business leaders on current and relevant topics. This Editor's page has served as a venue to extend our greetings and to reiterate our commitment to the growth and sustainability of our community.

As I present this 19th volume to our readers, I am mindful of the unprecedented challenges and tragedies Covid-19 has posed to our society, especially our small and minority businesses whose very survival has been threatened. Fortunately, this volume is being published as we finally begin to see the light at the end of the tunnel. As such, I want to focus our greetings on Gratitude and Hopefulness. While the pandemic has left significant economic and emotional scars in our community, I feel optimistic that our collective resilience and determination will bring us back to normality and even better days ahead.

Small businesses are the backbone of our communities that provide employment, produce goods and services for our livelihood and support our communities in many ways. As we begin to emerge from the Covid-19 gloom-and-doom environment, it is important that we all work together to support our community businesses so they can continue to serve us, grow and help us thrive in our respective and collective community optimization efforts. We invite your ideas, thoughts, articles, and partnerships to join us in this worthwhile mission. Please address your communication to the Editor at meskeremt@uwest.edu.

Finally, I want to extend our deepest appreciation to our contributing authors who enabled us to fulfill our determination to bring this volume to our readers, despite the pandemic-imposed challenges.

Best Regards,

Professor Meskerem Tadesse, Director
Center for Minority and Small Business (CSMSB) &
Editor, Minority and Small Business Review

Tax Impact of the CARES Act on Retirement Plans

By Fredrick Ho, CPA, MBA

Introduction

As COVID-19 arrived in the United States, Congress debated ways to pump cash and activity into an economy being ravaged by a microscopic threat. Many of the usual tools available to bolster an ailing economy would likely be less effective in an environment where the number of inactive businesses was as significant as the number of unemployed people. Accordingly, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, in an attempt to quickly provide relief, including allowing cash from retirement plans — where it might usually be unreachable for decades except at the cost of significant taxes and penalties — to flow into the hands of individuals and families.

This article discusses the 2020 changes to retirement plan distributions and loans made by the CARES Act, as well as options available to take the most tax-efficient advantage of those changes.

Early distribution from retirement plans related to COVID-19

Recognizing the economic impact of the COVID-19 pandemic, the IRS established procedures allowing individuals to take early distributions from certain retirement plans as established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The provision for corona-virus related distributions was intended to ease the burden on taxpayers who needed access to additional funds during such financial challenging times. The IRS clarified the procedures for withdrawing eligible funds and provided guidance on the various tax-reporting options related to these transactions.

COVID-19 led to many Americans exhausting their savings and emergency funds, either due to decreasing income, increasing expenses, or both, for an extended period of time. As a result, during 2020, many people were left wondering whether they would need to dip into retirement savings to cover current expenses. Typically, a taxpayer withdrawing funds from a traditional retirement account before age 59½ would be subjected to a 10% additional tax for early withdrawal, unless due to extenuating circumstances. Although these penalties, as well as lost potential earnings, make early withdrawals from retirement savings a last resort, many individuals found this necessary.

Congress recognized that the ability to access retirement savings, for many Americans, would be a necessary lifeline to financially survive the pandemic. Under the CARES Act, early withdrawals taken in 2020 due to COVID-19 hardships will not be subject to the 10% additional tax on retirement plans like IRAs and 401(K)s or the 25% additional tax on SIMPLE IRAs, if certain requirements are met.

To avoid the 10% penalty, the distribution must have been made to a qualified individual from an eligible retirement plan between January 1, 2020, and December 31, 2020, and must have been $100,000 or less in total.

Requirements for eligible early withdrawals

The first requirement was that distributions needed to be made to a qualified individual. The definition of a qualified individual in the CARES Act was fairly broad. A qualified individual was anyone diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention or had experienced adverse financial consequences due to being quarantined, furloughed, or laid off; had work hours or pay reduced; was unable to work due to a lack of child care; owned or operated a business that was closed; had a reduction in self-employment income; or had a job offer rescinded or a start date delayed. An individual also qualified if his or her spouse or a member of his or her direct household experienced any of the above.

A qualified individual was not required to prove a real need for the funds in order to take advantage of this provision. As long as the individual experienced adverse financial consequences for any of the reasons mentioned earlier, an early distribution would be allowed. In addition, distribution amounts were not limited to the extent of the adverse financial consequences experienced.

The burden of proof would fall on individuals to certify that they qualified, and employers or plan administrators were not required to verify the information unless they had actual knowledge contrary to the individual's certification.

The second requirement was that the distribution had to be made from an eligible retirement plan. Eligible plans included an IRA, 401(k), 401(a), an annuity such as a 403(a) or 403(b), and a governmental deferred compensation plan such as a 457(b). Distributions from these plans are ordinarily included in a taxpayer's gross income in the year of distribution.

The third requirement was that the distribution had to be made during calendar year 2020.

The final requirement was that the cumulative distributions eligible for COVID-19 relief could not exceed $100,000 per individual. Therefore, a single employer or plan administrator could not distribute in excess of $100,000 to an individual as COVID-19 relief. However, an individual could receive distributions from multiple unrelated plans that exceeded $100,000 in total, but the individual would only be able to exclude up to $100,000 from the 10% additional tax penalty.

Granted all these requirement were satisfied, the eligible distributions will be reported in the 2020 form 1040 as income and will be subject to income tax, but without additional tax or penalty for early distribution. The CARES Act further allows individuals to report distributions ratably over a three-year period. For example, an individual who withdrew $30,000 in 2020 may report $10,000 of income in 2020, 2021, and 2022.

The taxpayer may elect not to do the three-year ratable income allocation and instead, tax the entire amount in the year of the withdrawal. This election must be done by the date the 2020 tax return is filed and cannot be changed afterward. Further, all COVID-19-related distributions must be treated consistently, either all reported fully in the tax year withdrawn or all reported ratably over three years. This will require careful consideration to select the most tax-advantageous strategy for income timing.

It should be noted that if a taxpayer elects to report a distribution ratably over three years but dies before the third year, the remaining deferred income must be reported in the year of death.

It is also important to note that a qualified individual may opt to treat periodic payments and distributions that would have been deemed required minimum distributions as COVID-19-related, thus taking advantage of tax-preferential treatment for these withdrawals.

Amounts recontributed

The CARES Act included a provision that any portion of a COVID-19-related distribution would be eligible for tax-free rollover treatment to be recontributed to a qualified plan within three years of receipt and therefore excluded from income. Any amount recontributed would be treated as a direct tax-free rollover or as an indirect rollover with the 60-day requirement adjusted to three years. A recontribution would not be subject to the one-rollover-per-year limitation. Because the income reporting and recontribution can cover three years, a number of timing options are possible for tax planning strategies and income-smoothing opportunities.

As with traditional IRA contributions, the deadline to recontribute will be determined by the filing date of the tax return. If a distribution was taken in 2020 and recontributed prior to filing the 2020 tax return, which could be as late as October 15, 2021, if extended, the income will be excludable on the 2020 tax return. This leads to several possible scenarios, illustrated by the following examples:

Example 1. Year 1 distribution is recontributed in year 1: A $30,000 qualified distribution was taken in 2020. The entire $30,000 is recontributed by April 2021, before filing the 2020 tax return. The $30,000 will be excluded from 2020 income on the 2020 tax return.

Example 2. Year 1 distribution is reported in year 1 and recontributed in year 3: A $30,000 qualified distribution was taken in 2020. The full amount is reported as income on the 2020 tax return. The $30,000 is then recontributed in 2022. The taxpayer can amend the 2020 return to remove the $30,000 from income.

Example 3. Year 1 distribution is reported ratably over three years and fully recontributed in year 2: A $30,000 qualified distribution was taken in 2020. The distribution will be reported ratably, with $10,000 of income to be reported in 2020, 2021, and 2022. In 2021, after filing the 2020 tax return, the taxpayer recontributes $30,000. The taxpayer may amend the 2020 tax return to remove the $10,000 of income previously reported and may exclude the remaining $10,000 of income in both 2021 and 2022.

Example 4. Year 1 distribution is reported ratably over three years and partially recontributed in year 2: A $30,000 qualified distribution was taken in 2020. The distribution is reported ratably, with $10,000 of income to be reported in 2020, 2021, and 2022. In 2021, after filing the 2020 tax return, the taxpayer recontributes $15,000. The taxpayer has different options. The recontribution can first be used to offset the current year's income, so $10,000 must then be excluded from the 2021 tax return. The taxpayer then has the option to either carry the remaining $5,000 forward to offset 2022 income or carry it back to 2020 by amending the 2020 tax return.

The process of reporting coronavirus-related distributions will be similar to reporting other qualified disaster retirement plan distributions and repayments in years prior to 2020. Although the payer of the distribution can choose whether to treat a distribution as a coronavirus-related distribution, ultimately, the individual taxpayer will designate distributions as coronavirus-related by filing Form 8915-E Qualified 2020 Disaster Retirement Plan Distributions and Repayments.

It is important to note that a distribution will not be eligible for recontribution if it was structured through the employer or plan administrator as a hardship withdrawal rather than as a COVID-19-related distribution.

401(k) loans

Generally, individuals are allowed to take a loan from their 401(k) plan for up to 50% of the vested account balance or up to $50,000, whichever is less, if the plan allows for it. The CARES Act adjusted these limits to 100% of the vested balance or up to $100,000, whichever is less. These loans ordinarily must be repaid within five years. However, the CARES Act extended this period by one year for loan payments that were due between

March 27, 2020, and December 31, 2020. This meant that any payment that was due between those dates could be postponed by up to one year and reamortized over a period one year longer than the original loan term. This may benefit taxpayers who already had an outstanding loan from their 401(k) due to previous hardships, by providing a deferral of repayment and decreasing the required installment amounts by reamortizing the loan over a longer period.

Requirements for plan administrators

Plan administrators are required to report payment of any distribution to a qualified individual using Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This reporting is necessary even if the individual recontributes the distribution back to the same eligible retirement plan in the same year. The Form 1099-R can report the distribution using code 2 for "Early distribution, exception applies" if the individual certified that he or she is qualified and the plan administrator amended the plan to accommodate this. The distribution can also be reported using code 1 for "Early distribution, no known exception" if the plan administrator had no information of the type of withdrawal or had not amended the plan to accommodate these distributions. Ultimately, it us up to the individual to properly report the income on his or her personal tax return.

Employers and administrators were given the option of selecting how, or if, they would amend their plans to adopt the requirements of the CARES Act. Employers could adopt the provisions piecemeal and could provide for COVID-19 distributions but not make changes to their loan provisions or repayment terms. Even if an employer did not treat a distribution as COVID-19-related, qualified individuals may treat the distribution as such on their individual tax return if they qualify. Individuals are not required to treat the distribution on their personal tax return in the same manner as the plan administrator reports to them on Form 1099-R. The burden of proof will fall on the individual.

It is important to note that the plan administrator was not required to withhold 20% of a COVID-19-related distribution, as is usually required. The distribution was subject to voluntary withholding requirements, if the individual elected it.

Temporary waiver of required minimum distributions

The CARES Act included a provision waiving required minimum distributions (RMDs) required to be made in 2020 from IRAs, individual retirement annuities, 401(k) plans, qualified annuity plans, 457(b) plans, and annuities purchased by 501(c)(3) organizations. This included RMDs normally required to be taken by either the owner or the beneficiary. Although the CARES Act was not effective until March 27, 2020, the IRS provided relief for taxpayers who had already taken their RMDs prior to the signing of the CARES Act by extending the rollover period from 60 days until August 31, 2020.

Normally, tax regulations disallows rollover contributions in the amount of an individual's RMD for the year. The initial impression would be that the CARES Act provided an opportunity for an enterprising taxpayer of retirement age to take a three-year, interest-free loan by taking a 2020 coronavirus-related distribution in the amount of what would have been his or her RMD and rolling over or recontributing that amount over the course of the next three years. However, Congress recognized this potential tax strategy and added language to prevent a rollover or recontribution of an amount that would have been included in a taxpayer's RMD.

Changes to loans from qualified plans

Normally, the limitation on loans from any qualified plan is the lesser of (1) $50,000, or (2) the greater of $10,000 or 50% of the retirement account balance. For loans taken by a qualified individual (experiencing adverse financial consequences from Covid-19) between March 27, 2020, and September 22, 2020, the CARES Act increased the limitation to the lesser of $100,000 or 100% of the present value of the retirement account.

Additionally, the CARES Act allowed employers to modify plans to postpone repayment of plan loans borrowed between March 27, 2020, and December 31, 2020, by up to one year. Unless the proceeds from the retirement plan loan are applied towards the purchase of a primary residence, plan loans are normally required to be fully repaid within five years, with payments made on a quarterly schedule, at a minimum. The delay in repayment by up to a year, effectively makes the term of the loan last longer than the customary five years. Loan repayments need to resume after the end of the suspension period.

Conclusion and planning strategies

The COVID-19 pandemic altered the financial landscape for everyone from the young professional, to the retired former executive, and everyone in between. While we waited for life to return to some form of normalcy, Congress gave taxpayers a lifeline to see themselves through this challenging environment.

From a financial perspective, an individual generally should have exhausted all other assets before dipping into retirement savings. Although it may have been easy to draw money from a retirement account, it will be difficult to replace the money at an equivalent value. The principle of creating wealth through aggressively saving for retirement can be a very successful strategy. By making early withdrawals, the individual forgoes not just the current value of the withdrawal but its future value, which can be very significant if an individual is young and has many years of compounding, tax-advantageous growth available.

A concern to keep in mind with 401(k) loans is that they are often required to be paid back quickly once individuals leave their employment either voluntarily or involuntarily. Loans that remain unpaid become taxable distributions, potentially subject to the 10% early-withdrawal penalty. It is especially important to consider the unstable job security during the ongoing COVID-19 pandemic. If a 401(k) loan was taken, tax implications will be certain if a loss of employment occurs.

Given the above concerns, it may still have made sense to take advantage of the provisions of the CARES Act. No matter the potential consequences, it may have been worthwhile taking an early withdrawal to secure basic needs, maintain housing, or avoid high-interest debt. If a withdrawal was made, the taxpayer should benefit from the provision allowing recontributing the amount within three years — and the sooner the better.

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ABOUT THE AUTHOR

Fredrick Ho, CPA, MBA is principal of Ho & Associates, Certified Public Accountant, a full-service public accounting firm. Since his graduation from the University of Southern California's School of Accounting, Mr. Ho has been providing accounting services to profit and nonprofit organizations for over 25 years, and his firm has been awarded certificates of recognition by the American Institute of Certified Public Accountants. In addition to his accounting practice, he has been concurrently an educator at various colleges and universities in the southern California area. He is currently a tenured Professor in Accounting for the Los Angeles Community College District and an Adjunct Accounting Professor at University of the West. Mr. Ho can be reached by email at Hocpa@yahoo.com.

TELEMEDICINE: Optimizing, Not Replacing, In-Person Health Care

By Sylvette Mijares, BSN-RN, MBA, and
Kedist Tedla, MD, FHM

Introduction

"Telemedicine," which means "healing at a distance," is a term initially coined by Thomas Bird in 1970. But the actual practice of Telemedicine has been around since the early1900s. The earliest adaptation of Telemedicine was the use of a remote heart monitor- the first electrocardiogram (EKG)- invented by the Dutch physician, Dr. Willem Einthoven. More notably, in the US, Telemedicine was used in 1969 by the National Aeronautics and Space Administration (NASA) to monitor the health of astronauts who landed on the moon. Telemedicine has come a long way since its early days and has garnered a broader application. As defined by the World Health Organization (WHO), it is utilized in the delivery of healthcare services by all healthcare professionals, for the diagnosis, treatment, and prevention of diseases and injuries. It is also used for research and evaluation as well as continuing education of healthcare providers, in the interest of advancing the health of individuals and families, using information and communication technologies.

To truly comprehend the concept of Telemedicine, one can examine the origin of the term. The prefix "tele" is derived from the Greek word meaning "far. " or "reaching over a distance." When attached to the root word, "Medicine," it takes on a substantive context denoting the practice of diagnosing, treating, and preventing disease or injury from a distance or a separate location. Because of the distance component of the exchange, Telemedicine relies heavily on the use of information technology as a medium.

Telemedicine vs. Telehealth

Telehealth is often confused with Telemedicine, but there is a distinction between the two entities. Telemedicine mainly refers to remote clinical services provided by healthcare professionals, while the latter refers to how information technology is applied to the broader function of the healthcare industry. Telehealth encompasses not only remote, patient care related, services but also healthcare professional training, continuing education for healthcare workers, and even administrative meetings. Telehealth also extends to remote health surveillance, health promotion, and other public health programs using information technology. Telemedicine, on the other hand, is a subset of Telehealth. In other words, all Telemedicine endeavors can be classified under Telehealth, but not all Telehealth activities can be classified under Telemedicine. Nonetheless, both are part of a larger effort to promote accessible healthcare services and to help manage the increasingly complex healthcare delivery services network. This article will be focusing on Telemedicine and its application in patient care.

Types of Telemedicine

Telemedicine can be categorized into three primary types according to methods of service delivery: “store-and-forward”, “remote patient monitoring”, and “real-time interactive services”. The first form, “store-and-forward”, is also known as the "asynchronous" or "capture-store-forward" modality. It involves the acquisition of medical data such diagnostic images or laboratory test results and transferring them to a clinician through a secure messaging platform. The provider then analyzes and interprets the data to establish a clinical diagnosis and treatment plan. This is more efficient than the older method of waiting for a physical copy, which needed to be delivered by hand and manually filed, making it time and labor intensive. The transfer of electronic data is particularly helpful in emergency situations where timeliness and efficiency can impact health outcomes but can also offer economic advantages by eliminating the cost of personnel needed to handle large volumes of paperwork. This method also allows doctors to consult with other specialists that may not be available locally. Of course, this method applies only to cases where the clinician can make decisions from gathered data without physically seeing a patient.

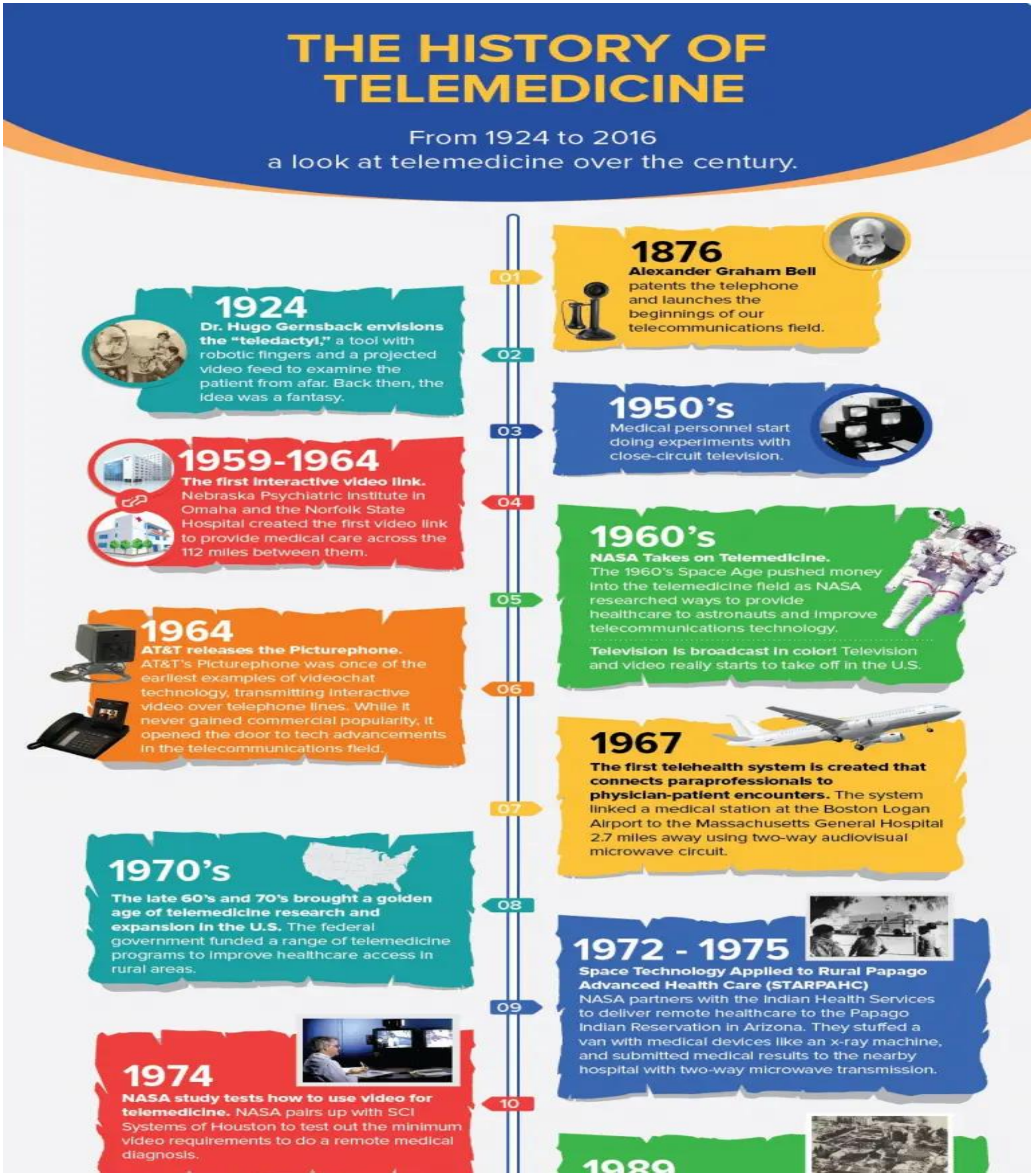
The second form of Telemedicine is "remote patient monitoring." As the phrase suggests, a provider monitors various parameters such as vital signs, blood sugar readings, or heart rhythms with the help of patient-wearable monitoring devices that can transmit data via a secure wireless technology. This is a popular method among tech savvy patients and healthcare providers alike. This methodology is used for managing chronic medical conditions such as diabetes, lung disease, heart disease and others that require regular monitoring. This type of advancement has optimized patient-doctor interaction by obviating the need frequent in-person visits and by providing a continuum of surveillance instead of a single data point from an in-person visit.

The third form of Telemedicine is "real-time interactive services." This practice allows medical providers to have two-way interaction with patients in real time using video conferencing technology. Nowadays, doctors hold video visits or “Tele-visits” with patients where they can do health assessments through visual inspection and even perform physical exams using a virtual stethoscope. Tele-visits also offer a valuable resource to those seeking mental health services such as virtual psychiatric assessments and therapeutic sessions. Interactive Telemedicine has revolutionized healthcare in situations where medical providers need to directly interact with patients that can’t be physically present.

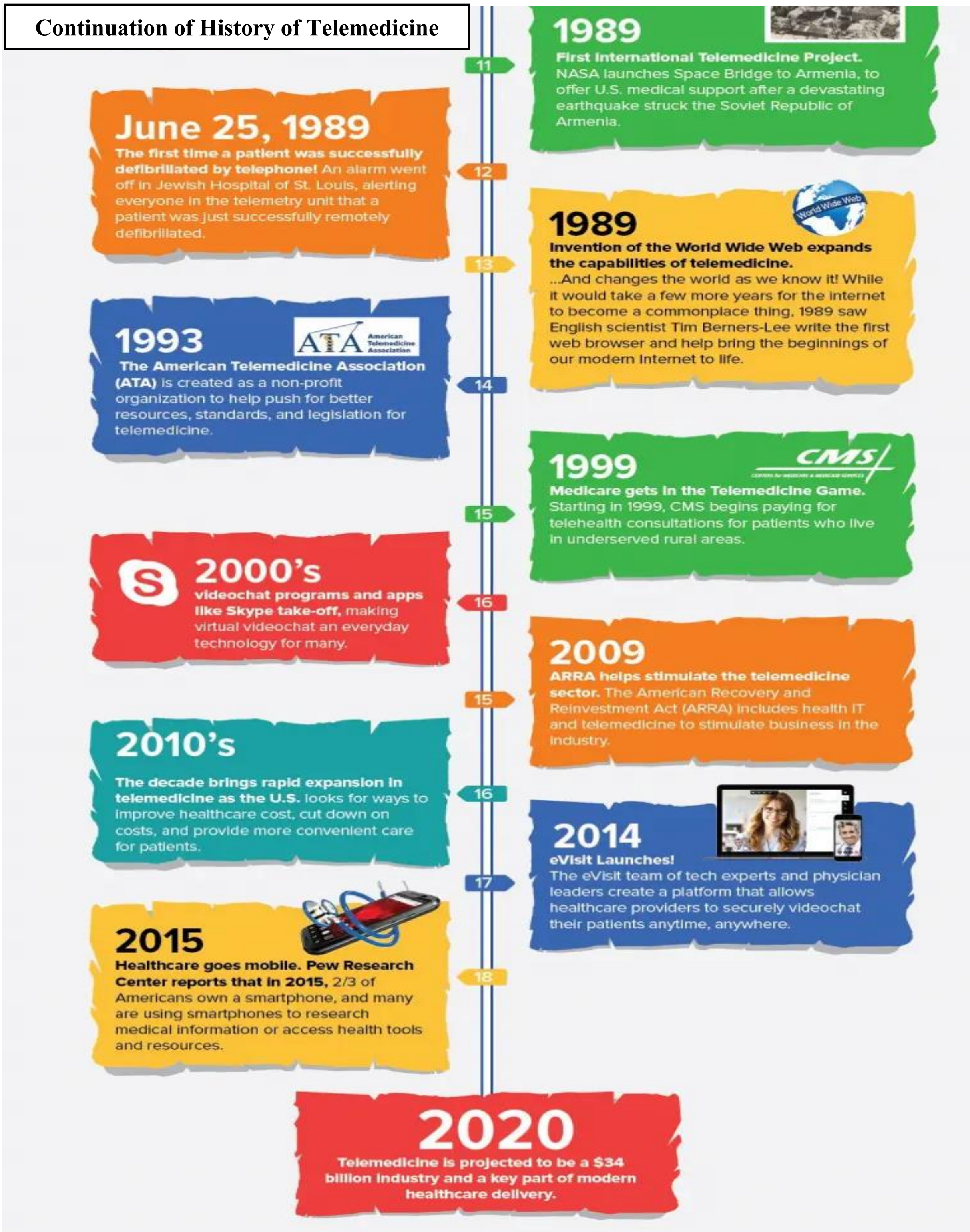
The Evolution of Telemedicine

Telemedicine has been a part of healthcare delivery for over 100 years and has been playing a pivotal role in patient care long before it was recognized as its own entity. There are numerous accounts of how the use of technology has shaped the healthcare industry over time. This evolution can be traced according to how computers and the internet have increasingly become integrated into every aspect of our lives. As technology evolves, its utility becomes more mainstream. As such, certain aspects of Telemedicine have already become the rule rather than the exception in how healthcare is delivered, especially in developed countries. The COVID-19 pandemic is a perfect example of how Telemedicine went from being a convenient tool to an absolute necessity. When in-person contact became a health risk and countries had to shut down, medical facilities who were set-up with Telemedicine capabilities were able to quickly adapt and provide virtual services to their patients and remain financially viable. By contrast, those who did not have such means faced many challenges and suffered financially. Although the technology is rapidly advancing, there is a great deal of variation in its adaptation both geographically and economically.

Below is an infographic showing the timeline of the radical evolution of Telemedicine, written by Karen Zundel, McKeesport Hospital Director of Health Services Library in Pennsylvania and graphically illustrated by EVisit, a thriving telemedicine company.


THE HISTORY OF TELEMEDICINE
From 1924 to 2016
a look at telemedicine over the century.
01
1876
Alexander Graham Bell patents the telephone and launches the beginnings of our telecommunications field.
02
1924
Dr. Hugo Gernsback envisions the "teledactyl," a tool with robotic fingers and a projected video feed to examine the patient from afar. Back then, the idea was a fantasy.
03
1950's
Medical personnel start doing experiments with close-circuit television.
1959-1964
The first interactive video link. Nebraska Psychiatric Institute in Omaha and the Norfolk State Hospital created the first video link to provide medical care across the 112 miles between them.
04
1960's
NASA Takes on Telemedicine. The 1960's Space Age pushed money into the telemedicine field as NASA researched ways to provide healthcare to astronauts and improve telecommunications technology.
Television is broadcast in color! Television and video really starts to take off in the U.S.
05
1964
AT&T releases the Picturephone. AT&T's Picturephone was once of the earliest examples of videochat technology, transmitting interactive video over telephone lines. While it never gained commercial popularity, it opened the door to tech advancements in the telecommunications field.
06
1967
The first telehealth system is created that connects paraprofessionals to physician-patient encounters. The system linked a medical station at the Boston Logan Airport to the Massachusetts General Hospital 2.7 miles away using two-way audiovisual microwave circuit.
07
1970's
The late 60's and 70's brought a golden age of telemedicine research and expansion in the U.S. The federal government funded a range of telemedicine programs to improve healthcare access in rural areas.
08
1972 - 1975
Space Technology Applied to Rural Papago Advanced Health Care (STARPAHC)
NASA partners with the Indian Health Services to deliver remote healthcare to the Papago Indian Reservation in Arizona. They stuffed a van with medical devices like an x-ray machine, and submitted medical results to the nearby hospital with two-way microwave transmission.
09
1974
NASA study tests how to use video for telemedicine. NASA pairs up with SCI Systems of Houston to test out the minimum video requirements to do a remote medical diagnosis.
10
1989

Continuation of History of Telemedicine



Source: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC226126/pdf/mlab00098-0087.pdf

Views on Telemedicine

Telemedicine has long been used as an alternative solution for the delivery of remote healthcare services. It has proven itself beneficial to different stakeholders in the health management continuum, especially in situations of medical scarcity. However, despite the apparent benefits, Telemedicine is not welcomed by all. There is a wide spectrum of opinions among patients, health care providers, and healthcare system administrators on how Telemedicine has impacted healthcare. This is evident when looking at examples of cross-sectional studies that reflect the varied reactions by these subjects. The opinions also vary by two significant time periods: pre-COVID-19 (before March 2020) and post-COVID-19 (after March 11, 2020, when COVID was declared a pandemic).

A. Patients' Perspective

Since its inception in the early 1900s, Telemedicine has been slowly building its influence, albeit at a considerably slower pace until recently. In keeping with a product life cycle, the concept of Telemedicine was not recognized or appreciated by the general public until recently. In the past, the in-person experience was the overwhelmingly preferred mode for healthcare delivery. In its early introductory phase, Telemedicine was pretty much dismissed by many, especially in upscale and urban areas where access to premier healthcare was not a concern. The accelerated integration of Telemedicine into medical services was propelled by need. When COVID cases surged and countries had to go into lockdown, people had to confine themselves in their homes to prevent the spread of the virus. Therefore, they had to find an alternative way to address their healthcare needs while also maintaining social distancing. Telemedicine provided the solution and therefore became more mainstream.

In a recently published retrospective cohort study done in New York-Presbyterian/Weill Cornell Medical Center, an 8729% increase was noted in remote video visits post-COVID-19. Out of 48,144 patients who were surveyed, 94.9% reported higher satisfaction with video visits than in-person visits which was at 92.5% pre-COVID-19. The overall satisfaction rate of Telemedicine as an alternative for healthcare visits was 93.4% during the COVID-19 pandemic, as opposed to 92.5%, before the pandemic. While these numbers may not show a wide gap between pre and post pandemic times, they prove that the satisfaction rate with Telemedicine is almost equal if not higher than traditional in-person care. The researchers did acknowledge that the surging pandemic may have influenced patients' perception of the experience. Nonetheless, the research dispelled doubt that Telemedicine could meet patients' needs and showed that patients openly accepted Telemedicine as a feasible alternative to in-person care.

Another cross-sectional study in Riyadh, Saudi Arabia, from February to August 2020, was conducted on 425 patients enrolled in a telemedicine program. It showed a satisfaction rate of 84.9%. Patients indicated that the Telemedicine program made the healthcare consultation process remarkably easier during restrictions of the COVID-19 pandemic.

Further across the globe, a community survey in Australia was launched mid-year of 2020 via targeted social media (i.e., Facebook and Instagram) advertisements to study the responses of citizens, ages 18 and older. They were asked their view on whether Telemedicine would still be useful after the pandemic ends. 62% of the 1369 participants responded favorably that Telemedicine would still be an effective alternative to in-person medical visits. The studies seem to denote an overall satisfaction with Telemedicine. Although many respondents were satisfied with Telemedicine as an alternative, it wasn't the preferred method for all. The preferences seemed to align demographically by age group. Overall, the baby boomer generation still preferred in-person visits where a physician conducted a thorough, hands-on physical exam. Some pointed out equipment and technology limitations, especially in rural settings where access to computer devices were limited. There were also concerns about delayed delivery in prescriptions and delayed interpretations of laboratory tests and other diagnostic studies, citing a need to use remote processing facilities instead of onsite.

There is a disparity in the trust level across generations when it comes to internet-based medical services. The younger generation is more accustomed to using the internet in many aspects of daily life, so Telemedicine seamlessly fits into that paradigm. However, the more mature generation may be more apprehensive about making a change. While some may resist Telemedicine due to lacking the technical skills required to keep up with the rapidly advancing technology, others may simply find it too impersonal and off-putting. If Abraham Maslow were to update the hierarchy of needs for today's millennials, and even Generation X that finds itself wedged between millennials and baby boomers, the internet would make it to the top of the list.

B. Health Professionals' Perspective

Telemedicine is not a new concept to healthcare professionals; it has been in practice in various clinical settings since early 1900. Physicians have been using Telemedicine to monitor patients' vital signs and heart rhythms from a remote location for many years. Peer-to-peer consults and the exchange of clinical data without geographical limitation are more recent advancements of the past decade. Physicians can now send electronic prescriptions to pharmacies that have capabilities to receive them. More notably, electronic medical records (EMR) have revolutionized how clinicians document, store, and share patient information within the healthcare system. Nowadays, consumers themselves can access their healthcare data as well as communicate with their doctors electronically using a secure portal. EMR has been a game-changer for the healthcare industry in three distinct ways. First and foremost, is efficiency. Before electronic medical records, there were paper medical records. Exchanging paper charts among clinicians and their patients was a slow process that involved waiting for fax, snail mail, or hand delivery which often delayed medical decision making. In the era of EMR, however, immediate access to information leads to timely diagnosis and treatment. The second advantage of EMR is improved accuracy. With EMR, clinicians are now able to access accurate medical history from a computer database in real time, rather than relying on patient recall. When it comes to pertinent health information such as a list of medications being taken, or past tests and medical procedures, patients may not recall the necessary details or have documents on hand. With access to EMR, healthcare professionals can easily obtain patients' accurate medical history that can span many years. Third, is the financial upside to using EMR. Having access to comprehensive medical records cuts down on redundancy in diagnostic testing. Both patients and health insurance companies are the beneficiaries in this.

No era has catapulted Telemedicine into the limelight more than the COVID-19 pandemic. Even though restrictions have softened due to an aggressive vaccination campaign, more and more health care systems and allied health centers are still using Telemedicine as a means to provide more efficient health care. Medical care integrated with intelligent software like electronic health records, monitoring devices, and even smartphones are being utilized by the healthcare industry to create efficiently and to streamline health services provided to patients.

An interesting study was recently conducted in South Korea, just before COVID-19 was declared a pandemic. Telemedicine was initially prohibited in Korea, but due to the circumstances of the pandemic, its use was temporarily allowed. According to the Ministry of Health and Welfare, around 27,000 patients in the country used Telemedicine, from February 24 to April 1, 2020. The study involved the participation of 182 doctors, 138 nurses, and 6,840 patients. More than 80% of the health care staff reported difficulty assessing and explaining patients' health conditions using Telemedicine. 70% of the nurses and 60% of the physicians were concerned about maintaining safety and preventing possible emergent situations that could occur due to limited physical access and visualization when providing Telemedicine services. Overall Telemedicine satisfaction among the health care staff was 49.1%, which was a notable contrast to the 86% satisfaction rating from patients.

On the flip side, a study conducted in the US, involved 220 respondents from a large multispecialty medical group of clinicians. Of the 220 participants, 12% had previously used Telemedicine in their practice. The study found that 91% of clinicians were open to, and planned to continue, offering telemedicine services even after the pandemic. Their main rationale was convenience for both the patients and clinicians.

Mayo Clinic, a renowned medical center, also conducted studies during July-August 2020 to assess employee satisfaction with using Telemedicine as an alternative to in-person health visits. A 48-question survey captured the responses of 1,594 physicians and non-physician providers that included nurse practitioners, psychologists, physician assistants, and social workers. More than 75% of the participants gave a favorable response to Telemedicine in general. They noted objective improvement in patients' health by 60%, with 80% indicating that Telemedicine significantly improved timeliness of care delivery. Interestingly, Job satisfaction using Telemedicine as a medium of care delivery garnered 55%. This fits the pattern of sentiment among healthcare providers who credit the contribution of Telemedicine to improving medical care, but not necessarily their job satisfaction.

In mid-2020, as the pandemic-associated cases started to rise, more and more medical practices implemented Telemedicine into their services. In a May 2020 McKinsey and Company survey, 57% of providers viewed Telemedicine more favorably than they did prior to COVID-19. 64% of providers stated that they became more comfortable using Telemedicine as an alternative to the traditional health care delivery model, sine the pandemic. The convenience aspect is most noted by younger clinicians as opposed to those older than 50 years of age. Younger clinicians are more tech-savvy and most of them likely began their careers in the era of information technology. Clinicians of more advanced age spent the majority of their careers in a traditional healthcare practice of in-person visits and paper medical records; therefore, they may not readily welcome the sweeping changes brought about by telemedicine.

All in all, when looking at these studies, one can surmise that most health care workers view Telemedicine as favorable to patient care, in spite of some of the challenges they may personally encounter with it. While health care professionals naturally prefer providing in-person care to patients, they do acknowledge the benefits of Telemedicine as a useful adjunct to modern-day healthcare delivery. With a profession that thrives on flexibility and adaptability, it is not difficult to see why Telemedicine is in the forefront during the current COVID-19 pandemic.

C. Physicians' Perspective

Physicians have been at the forefront of Telemedicine, from its inception to its current role. They are fully immersed in all aspects of this advancement and can provide a comprehensive view of how it has impacted their profession. They are not only users of telemedicine but continue to play a role in expanding its utility. That said, they are not keen on all aspects a non-traditional methods of patient care. Some providers feel that Telemedicine distorts the patient-provider relationship. For one, virtual visits undermine the art of the physical exam, which is a crucial part of patient evaluation. While minor concerns can be addressed in a teleconference, verbal communication is only the tip of the iceberg for larger issues that may be missed in a remote exchange. Second, is the loss of opportunity to build rapport between patient and doctor. Face to Face conversations during multiple encounters create trust in a therapeutic relationship, which lacks in electronic exchange. Third is the cost associated with implementing such technology into a medical office. While large organizations can afford to put an expensive telemedicine program in place, smaller offices and clinics may not have the budget for it.

Electronic medical record keeping also brings unintended challenges to healthcare providers. The ever-increasing requirement of electronic documentation has become labor intensive and time consuming for clinicians. In addition to providing medical care, clinicians are required to do more computer data entry than ever before; this has led to longer work hours, less family and personal time, job dissatisfaction, and in some cases, has contributed to burnout. Dissatisfaction is also experienced by some patients who feel they lack adequate face-to-face time with their doctors.

On the positive side, physicians have a lot of appreciation for many aspects of Telemedicine. In the case of clinic-based physicians, it has given them flexibility to offer their patients after-hour services by scheduling evening and weekend visits. Telemedicine also allows physicians to care for patients without physically travelling to various locations and to establish some modicum of work-life balance. Offering extended services to their patients improves the bottom line of their businesses as well. This vehicle also offers their patients increased access to medical care, on-demand, obviating the need for emergency room visits for minor problems that can be addressed remotely. Another reason physicians like Telemedicine is, being able to refer their patients to high-demand, low-supply specialty disciplines such as psychiatry, neurology, infectious disease and the like.

D. Healthcare Administrators' Perspective

For administrators of large integrated healthcare systems, establishing a good Telemedicine program means being able to serve patients more efficiently and being able to reach more vulnerable communities who have limited access to quality healthcare. Because of the shortage of generalists and specialists, and the high turnover rates of clinicians in most small or rural communities, the need to establish a solid Telemedicine program is paramount.

Telemedicine offers a workable solution for the shortage of primary care physicians and specialists in small and rural areas. It has also contributed dramatically to mitigating the crowding of emergency rooms, and increasing access to essential hospital resources to those who need it. Telemedicine has optimized medical care by facilitating more avenues for patients to connect with providers without having to go to the hospital or the emergency room unnecessarily.

In a 2017 study conducted by Blue Shield of California, the number of emergency room visits had significantly decreased due to the availability of Telemedicine. At that time, it was established that the average cost of a Telemedicine appointment was $80, but it was $150 for a clinic visit, and $1700 for an emergency room visit. This was a substantial saving while also helping with judicious use of healthcare resources through efficiency in medical, cutting down on emergency room backlogs with health concerns that could be managed remotely by capable providers.

Before Telemedicine can be fully scaled to every medical facility and consumer, there are a few barriers that must be overcome. A Telemedicine service that incorporates an insurance payment model can allow seamless compensation for contracted providers and clinics and can be a significant revenue source for healthcare businesses. Because Telemedicine is a relatively new concept, it requires the purchase of sophisticated equipment and secure, privacy-compliant communication technologies, which can be a costly endeavor for smaller medical offices. As we are moving towards a new norm in healthcare delivery, insurance policies on payment models are in the early stages of implementation. Policy revisions and amendments may delay return on investment for Telemedicine-related services for smaller clinics. With the looming threat of cyber hackers, identity theft, and privacy breaches, the need to utilize state-of-the-art electronic health record software is of primary importance for risk mitigation.

Telemedicine Today

In the years 2010-2017, the percentage of US hospitals that implemented patient care through the use of telemedicine equipment has considerably increased from 35% to 76%. This finding was supported by another study published by the American Medical Association, where they reported that insurance claims had seen an increase of 53% from 2016 to 2017 due to the use of Telemedicine. This surge is most likely caused by the increasing popularity of tech-based services, with more and more healthcare professionals opting to incorporate it in their practice.

One of the greatest strengths of Telemedicine as a modality for health care delivery is its versatility and adaptability. In the advent of radio and video conferencing capabilities, Telemedicine has time and again shown how it can quickly adapt to the times and revolutionize the way healthcare systems meet the everchanging needs of their patients. There is so much untapped potential in Telemedicine that we eagerly await new discoveries and inventions from those who are toiling industriously in their labs, as we speak, to create more modern applications of tech in healthcare. Beyond its use in the U.S., Telemedicine has established such a global and influential footprint that the world could be viewed as one big hospital, with patients and health care professionals interacting to promote targeted health outcomes.

In the digital age, convenience is the name of the game, and Telemedicine provides just that. To millennials, who are accustomed to fast and unlimited access to various resources from their smartphones, a health care delivery service that does not include a telemedicine option will be viewed as archaic and unacceptable.

Telemedicine clearly has an impressive repertoire of advantages, as outlined below:

1. Comfort and Convenience
2. Doctor visits from any location
3. Faster appointments and fewer wait times
4. 24-hour access to providers
5. Peer-to-peer consultations without geographical limits
6. Speedy delivery and interpretation of diagnostics
7. Management of chronic illnesses in the home
8. Provider quality of life
9. Global access to virtual healthcare
10. Cost Management
11. Saving time and travel expense
12. Reduced business overhead expenses
13. Access to premier specialists at a reduced price
14. Reduced time off from work
15. Reduced overall healthcare expense
16. Medical access for patients with no insurance
17. Reduced emergency room crowding
18. Infection Control
19. Reduced need for isolation protocols in facilities
20. No exposure to other patients during a pandemic
21. No contact with contaminated health equipment
22. No need for waiting rooms

Opportunities and Growth Potential of Telemedicine

The future is bright for Telemedicine. Technology advancements are almost intimidating when we realize the rapid ascent of virtual communication in the year of the pandemic. The dire need to practice social distancing and physical isolation has led us to be more adaptable, while inspiring innovators of the developed world to scale their offerings more rapidly. By contrast, poorer countries where vaccination programs are not as robust, are still suffering from the wrath of the SARS-CoV-2 virus. For example, India, an emerging economy, is rife with positive cases, with 1 in 4 citizens afflicted with COVID. Telemedicine would be an invaluable tool in such a place where healthcare resources (hospital beds, doctors, nurses) are overstretched and scarce. A robust Telemedicine program could offer the capability of virtual hospitals, where families can care for patients at home under the guidance of a nurse or a doctor from a remote location, and consultation of doctors with international specialists and sharing of best practices among healthcare systems globally.

The Downside of Telemedicine

As versatile as the science of Telemedicine has proven to be, it also has its setbacks. For example, it has reduced the requirement for face-to-face contact between patients and providers. For older patients who are used to in-person clinic visits, the absence of hands-on examinations has led to a feeling of dissatisfaction and an unsettling feeling of "not having a thorough physical check-up." Virtual visits cannot replace the comforting hand of a nurse on the shoulder of someone who is hurting or the close personal interaction between a doctor and a patient. No matter how sophisticated technology becomes, it is no substitute for human contact and the subtle cues that get picked by in-person examinations. It is also not appropriate for use in certain acute medical situations where hands-on intervention is necessary.

Another downside to Telemedicine is the issue of access and usability. Not everyone has access to a smartphone or Wi-Fi and some people lack the technological skill to operate electronic devices required for telemedicine services. Telemedicine is sometimes viewed as elitist by some as something that is only accessible to select groups who have the financial and technical capacity to utilize it. A digital divide between the richer versus poorer nations are also becoming more expansive, which can even be seen within the US among large hospital systems and small private practices. Access is more robust in affluent, urban versus rural communities. Financially well-off patients may have better access to a variety of healthcare services that include Telemedicine.

As with all things related to technology, Telemedicine is a double-edged sword that provides multiple benefits but also ushers in threats that would otherwise not have been present. Because the platform is rooted in technology, security and privacy breaches can pose a risk to personal health information.

The Future of Telemedicine: What to Look Forward to in the Years to Come

Today, Telemedicine has become a household word. With a majority of people having access to a mobile phone or computer, the array of Telemedicine services is easily within reach to many potential patients. An industry analysis by Fortune Business Insights was published in January 2021, which showed the tremendous growth of Telemedicine. With the unprecedented global impact of the pandemic, the demand for Telemedicine will continue to be high and may even increase further after we put the pandemic behind us. The market size has been estimated to grow from $79.79 B in the year 2020 to $396.76 B in 2027. There are multiple areas of future potential for Telemedicine. There are three sectors that will play a big role in driving Telemedicine services from being just adequate to being fully optimized.

Telemedicine Enhanced by AI and Big Data

Like Telemedicine, Artificial Intelligence (AI) has been around for decades. AI's massive potential, as an accelerating factor for modernized healthcare delivery, has become more evident in today's pandemic crisis. Artificial intelligence enhanced by cutting-edge big data analytics has driven this accelerated modernization. For a crisis as crippling as the pandemic, innovative decision-making software and automating technology provide healthcare teams and the industry at large with better access and capability to establish timely and accurate medical decisions relating to address the healthcare needs of patients locally and even globally. The powerful combination of AI, Big Data Analytics, and Telemedicine will produce critical, data-driven insights to providers that will lead to better patient outcomes. Telemedicine enhanced by predictive analytics also provides the advantage of maximizing provider consultation time coupled with reduced cost for health consult services.

Telemedicine with Stricter Data Security Measures

Telemedicine is rooted in delivering health services at a distance; therefore, it brings concerns over the high risk of breaching data privacy and security. Because of the sensitive nature of handling Protected Health Information (PHI), vulnerabilities during video conferencing are subject to cyber- attacks, hacking, and information breach. The growing potential and influence of Telemedicine comes with a similar if not more heightened need to implement more stringent privacy controls. It has become an inherent responsibility for the providers and health care institutions to manage and adequately handle sensitive patient data, especially during live sessions, to ensure proper security measures are in place.

Telemedicine and the Growing Need for Strong Regulation and Legislation

Because Telemedicine deals with patient health data, it must meet the requirements set by the Health Insurance Portability and Accountability Act (HIPAA). Even in the face of a pandemic, the breach of privacy or any breach-related error does not absolve the health care provider or institution from responsibility. This law known as the Coronavirus Preparedness, and Response Supplemental Appropriations Act of 2020, states that health providers and organizations are not relieved of responsibility should a data breach occur. Locally, the California Privacy Rights Act of 2020 and the California Consumer Privacy Act of 2020 strongly impose a more protective and stricter safety net for the handling of patient data related to Telemedicine activities.

Conclusion

Telemedicine has been around for decades but has risen to its now-ubiquitous status due to the pandemic. The pandemic changed remote medical care from a convenient option to an absolute necessity. Through recent years, Telemedicine has evolved into various forms, with current developments being more robust to address unprecedented needs. With technology speeding up the development of Telemedicine, one can only wonder how far it will go, and if its popularity will wane after the pandemic.

Telemedicine has magnified the deep chasm in healthcare delivery, when it comes to consumer and provider preferences as well as disparities in healthcare access based on economics. In developed nations, consumers in large metropolitan communities can choose healthcare options based on their values and preferences. Telemedicine is only one of the offerings in a smorgasbord of advancements that patients can enjoy these days. Unfortunately, developing nations are still struggling to meet basic healthcare needs of their citizens. Telemedicine may offer solutions to some of those challenges. Because one of the primary objectives of Telemedicine is to maximize the allocation of healthcare to all communities, it can only reach its full potential when accessible to all who need it.

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Coping with Covid-19: Redefining Productivity in a Pandemic

By Ashley E. Coleman, Psy.D. and Elizabeth Burke, Psy.D.

Abstract

This article reviews statistical data about the effects of the COVID-19 pandemic outbreak and how it has affected nearly every aspect of our lives socially, financially, economically, nutritionally, emotionally, and mentally. COVID-19 infection and death rates, nationally and globally, are also reviewed. The challenges to maintaining productivity professionally and personally are discussed. Seminal literature on stress and coping and the American Psychological Association's recommended strategies for coping with pandemic stress are the foundational framework for the R.E.D.E.F.I.N.E. model that is introduced.

***Keywords*:** COVID-19, pandemic, stress and coping, productivity

Introduction:

COVID-19 was first characterized as a pandemic by the World Health Organization (WHO) on March 11, 2020 (World Health Organization, 2020). Since then, this disease has forced us to look at life through a different lens. As of the writing of this article, the daily loss of life due to the coronavirus pandemic continues around the world (Dong, Du, & Gardner, 2020). Nearly every aspect of life has been affected by this devastating pandemic, from the separation of our friends, family, and loved ones, to food insecurity, financial burdens, loss of employment, and loss of businesses (Food, 2021;Donthu & Gustafsson, 2020). These have been major obstacles for many in the COVID-19 pandemic. Collectively, all of these factors have added to an unprecedented mental health crisis (Czeisler, Lane, Petrosky, et al.,2020).

Within one year, over a half a million lives have been lost to COVID-19 in America alone (APA, 2021b). Over 2.7 million have died from the coronavirus globally (Dong, Du, & Gardner, 2020). According to the WHO (2020), as of October 2020, there were 780 million suspected cases of COVID-19, which estimated to be about 10% of the world's population. With 1 out of 10 people infected with the coronavirus, many followed the Center for Disease Control (CDC) stay-at-home orders for fear of infection or death. Consequently, the COVID-19 outbreak led to an extraordinary disruption of commerce and productivity. Many industries have seen a significant loss in profits and staff members, forcing many businesses to close (Donthu & Gustafsson, 2020).

During the COVID-19 pandemic many manage information overload, being overwhelmed digitally, with a need to juggle various tasks including child and elderly care, housework, and the demands of one's job. All the while trying to figure out how to best protect our loved ones and ourselves. Many are under extreme amounts of pressure due to job loss or working in close proximity to potentially infected people, as the essential workers that society depends on to fulfill their job duties. Collectively, these stressors can increase vulnerability for the development of adjustment or trauma and stressor-related disorders (Kazlauskas & Quero, 2020). For these individuals, under these conditions, it is often a daily struggle to stay focused, and productive. According to Fuller (2016) at its most basic understanding, productivity is the amount of value produced, divided by the amount of time or cost required to do it. While this equation may seem simple, strategies for optimizing it are being redefined by the coronavirus outbreak, as it forces us to take another look at what it means to be productive.

Furthermore, this article will review the significant bodies of literature on productivity, stress and coping, and provide professionals with practical tips to maintain productivity during the pandemic.

Literature Review

According to the American Psychological Association (2021b), the stressful impact of covid-19 has had deleterious effects on adults including unwanted sleep changes, weight gain, and neglect of health and well-being. In fact, nearly 50% of all parents surveyed reported experiencing a significant increase in their stress levels in comparison to their stress levels pre-pandemic. Although chronic stress has always been associated with potentially negative health outcomes like cardiovascular disease, cancer, accidents, and suicide (APA, 2021a), the elevated stress levels endorsed by adult participants in the survey, suggested more than half of the participants are at elevated for risk of the onset of diabetes, type II and ischemic strokes (APA, 2021b).

The Transactional Model of Stress and Coping

The impact of COVID-19 has challenged individuals to manage their sources of stress with consistent employment of coping strategies. Stress is defined as a particular relationship between the person and the environment that is appraised by the person as taxing or exceeding his or her [one's] resources and endangering his or her [one's] well-being" (Lazarus & Folkman, 1984, p. 19). This transactional model of stress and coping reflects the understanding that stress is contextualized within an individual's experience, represented by the transaction or relationship between a person and one's environment (Lazarus & Folkman, 1984). One of the essential elements of Lazarus and Folkman's (1984) transactional stress model is the construct of cognitive appraisal. Embedded in their definition of psychological stress and in their transactional model, Lazarus and Folkman (1984) emphasize the importance of one's cognitive appraisals of the environment in the evaluation of possible harm, threat or danger. Cognitive appraisals are the product of scanning the environment and evaluating encounters with respect to its possible impact on one's well- being (Folkman, Lazarus, Gruen & DeLongis, 1986; Lazarus & Folkman, 1984). The researchers propose that when an individual is in a stressful situation, one may engage in primary appraisals and secondary appraisals to select appropriate coping skills. Once situations are determined to be threatening or challenging situations via primary appraisal, individuals are faced with deciding how they are going to cope. This initiates engagement in another appraisal process called secondary appraisal (Lazarus & Folkman, 1984). Secondary appraisal is a complex process in which individuals review all of the possible outcomes of the stressful event and engage in introspection to decide if they believe that they have the internal resources to cope with the potential outcome.

Coping. Similar to the appraisal process which leads to recognition of stress, the identification of available coping strategies is based on an individual's perception of its environment. Thus, the scanning and subsequent rescanning of the environment to detect feasible solutions is an on-going and rapidly shifting process. Lazarus and Folkman (1984) define coping as "constantly changing cognitive and behavioral efforts to manage specific external and/or internal demands that are appraised as taxing or exceeding the resources of the person" (p. 141). Therefore, coping is a sophisticated process that is constantly shifting based on the appraisals and reappraisals that occur. In the context of the coronavirus where a person may be managing competing demands such as working from home, responding to emails, monitoring distant learning for children, and preparing meals, the integrated employment of the three types of coping strategies (problem-focused coping, emotion-focused coping, and meaning-focused coping) can be effective for managing stress and maintaining productivity.

Problem-focused coping. Problem-focused coping strategies include redefining the problem, weighing the costs and benefits of possible solutions, and efforts to change the environment and change the self (Lazarus & Folkman, 1984). Problem-focused coping encourages one to manage or change the problem which is causing the distress. It is an effective coping strategy when the stressor is able to be controlled and can be changed (Myers, 2012; Campbell, 2015). Given there is no cure for the coronavirus to date, an individual can focus on reducing their vulnerability to acquiring the disease and cultivating an environment that allows one to adapt personally and professionally to the demands of the "new normal" environment.

Emotion-focused coping. In contrast, emotion-focused coping is geared toward managing the emotional responses to the problem. This process can include use of several strategies such as avoidance, minimization, distancing, and reappraisal of stressful situations in efforts to find positivity in the midst of adversity (Lazarus & Folkman, 1984). Although many individuals use the aforementioned strategies to reduce their emotional distress, there are some individuals who implement emotion-focused coping strategies such as self-blame and self-punishment in hopes of increasing their motivation– as they may have realized that they need to feel worse in order to take action towards feeling better (Lazarus & Folkman, 1984). While this coping strategy may be effective in the face of other stressors, self-blame and self-punishment in the wake of a global pandemic is ineffective and potentially damaging. Shifting one's vantage point to acknowledge feelings of frustration and mourn the losses of familiar routines and freedoms (e.g. gathering in groups without face coverings or significant distance) allows one to remain in the present moment and scan the environment for solutions and additional coping strategies.

Meaning-focused coping. In contrast to problem-focused coping and emotion-focused coping strategies, meaning-focused coping aims to accept stressful situations by learning lessons and making meaning of the situations/events (Guo, Gan, & Tong, 2013). The meaning making process is filtered through an individual's global meaning-making and situational meaning-making processes. Global meaning refers to an individual's main beliefs, goals and sense of purpose (Park & Folkman, 1997; Park, 2011). Situational meaning includes meaning about a specific event (Park & Folkman, 1997; Park, 2011). Park (2011) asserts that both levels of meaning are involved in the meaning-making process which leads to meaning-focused coping. Therefore, an individual experiences stress when there is a discrepancy between his/her appraisal of a stress event and his/her global meaning and goals (Park, 2011). Typically, in cases of loss and threat, meaning-focused coping is utilized in effort to help the individual reappraise global beliefs and reappraise meaning of the situation (Park, 2011). In the previous example meaning-focused coping might include connecting to deeply held values about education and achievement. Meaning-focused coping has been examined in narratives of college students' identity development, (McLean & Pratt, 2006), survivors of natural disasters (Guo et al., 2013) and in lives of bereaved college students (Park, 2005).

Mindfulness-Based Stress Reduction

There is an abundance of literature on efficacious approaches to stress management such as Stress Inoculation Training (SIT; Meichenbaum, 2007); Resilience Training (RT; Cornum, Matthews, & Seligman, 2011), and

Mindfulness Based Stress Reduction (MBSR; Kabat-Zinn, 2003). When reviewing the literature to inform the development of the R.E.D.E.F.I.N.E. approach, preference was given to MBSR which prioritizes awareness of the present moment and encourages reflection without judgement. MBSR is an empirically supported stress reduction program created by Dr. Jon Kabat-Zinn at the University of Massachusetts in 1979 (Kabat-Zinn, 2003; Woods-Giscombé & Black, 2010). MBSR incorporates mindfulness meditation practice, which is rooted in Buddhist principles, into psychology and medicine to alleviate suffering related to psychiatric, physical and psychosomatic disorders (Kabat-Zinn, 2003; Grossman, Niemann, Schmidt, & Walach, 2003; Bergen-Cico, Possemato & Cheon, 2013). Mindfulness is defined as the awareness of paying attention to present moments in a nonjudgmental manner (Bergen-Cico et al., 2013; Kabat-Zinn, 1994). Typically, MBSR is implemented in a group format and consists of 8-10 weekly 2.5 hour-long sessions, with an accompanying all-day workshop executed on a weekend (Grossman et al., 2003). Sessions are dedicated to teaching participants formal and informal mindfulness meditation skills, including body scanning, sitting meditation, and mindful hatha yoga (Miller, Fletcher, & Kabat-Zinn, 1995; Grossman et al., 2003). Participants are encouraged to practice the newly learned mindfulness meditation skills daily for approximately 45 minutes (Kabat-Zinn, 1994, 2003). While originally created for a group format, principles of MBSR can be effective for individual practice.

Redefining Productivity in a Pandemic

During the COVID-19 pandemic outbreak it has become commonplace for many to experience feeling overloaded and overwhelmed with various forms of stress as they struggle to stay focused and productive in the management of their daily lives. As many individuals have experienced throughout this pandemic, work and home life have changed dramatically, thus traditional ideas of work-life balance and being productive in each of these realms have changed as well. Shuffling various tasks simultaneously throughout the day such as caring for elderly relatives and children, tending to housework, while managing the demands and responsibilities that come with employment, that is if we are still lucky enough to be employed. According to Falk, Carter, Nicchitta, Nyhof, & Romero (2021) the national unemployment rate peaked at a level of 14.8% in April 2020 during the COVID-19 pandemic, which was an unprecedented high in every state and the District of Columbia reaching greater than the highest unemployment rates during the Great Recession. Faced with job insecurity, food insecurity, while attempting to keep ourselves and our loved ones protected from COVID-19 related infection, illness, or death has put many under extreme amounts of pressure. For many of us under these conditions, redefining expectations in our productivity at work and home is imperative.

Mourn your traditional baselines of productivity. Although large numbers of people throughout the world have shown resilience to the profound loss, stress, and fear associated with COVID-19, the virus will likely exacerbate existing mental health disorders and contribute to the onset of new stressors for many (Horesh, 2020). Taking these new stressors into consideration, pose challenges to conventional ideas about productivity. Application of these traditional models on how to improve productivity now seem outdated. One case in point for example, one productivist researcher suggests having an organizational approach towards productivity, such that one should first gain a sense of self-awareness towards understanding what kind of work actually drives value in the organization, then direct the employees towards those tasks to improve productivity (Fuller, 2016). While the COVID-19 pandemic still ravishes through society, forcing many businesses to close, leading to an unprecedented disruption of commerce in most industry sectors (Donthu & Gustafsson (2020), it becomes clear that understanding what actually drives value in many organizations is currently illusive. Ultimately making such a model to improve productivity antiquated.

Now more than ever, the quality and quantity of one's productivity depends on how well one can manage their professional and personal well-being. A focal point in the literature highlights how the management of stressors leads to effective productivity. Saying yes to everyone and everything guarantees low quality productivity due to being overwhelmed with taking on too many or the wrong things, which ultimately leads to a waste of time, energy and resources. Increased stress leads to reduced productivity and increased satisfaction leads to increased productivity. Work that overlaps with a workers' personal life, creates a negative effect on productivity. The quality of work is more related to mindset, conscientiousness and personal satisfaction than one's workload. Moreover, energetic and active individuals positively affect productivity. Ultimately, how environmental demands interact with one's personal characteristics, such as one's ability to maintain a positive mindset, manage stress, and the perceived level of satisfaction one has with their job, determine the quality and quantity of one's productivity (Crum, Salovey, & Achor, 2013; Halkos & Bousinakis, 2010; Tulgan, 2020).

Take-Aways: R.E.D.E.F.I.N.E.

The complexity of the challenges of the pandemic have been detailed in this article and resiliently survived by readers to date. In the midst of maintaining physical wellness and managing aspects of survival; desiring to be productive is healthy and can be essential to one's well-being. Informed by the Transactional Model of Stress and Coping (Lazarus & Folkman, 1984), Mindfulness-Based Stress Reduction (Kabat-Zinn, 2003), the American Psychological Association's (2021a, 2021b) recommendations for coping with COVID-19 stress, the R.E.D.E.F.I.N.E. model is presented to encourage professionals to mindfully approach their days with a healthy mindset.

R. - Recognize you are living in a pandemic. Most people remember where they were when media outlets reported that the World Health Organization (WHO) categorized coronavirus as a pandemic on March 11, 2020. First and foremost, applauding oneself for surviving up to this point is important. However, this survival has not been in a vacuum. There have been victories and significant losses - personal losses (e.g. deaths), professional losses e.g. layoffs), and communal losses (e.g. fears about increasing covid-19 death rates, police brutality and protests (Park et. al., 2021); yet individuals have employed coping strategies and have cultivated strengths. Thus, it is imperative to remain in the present-moment and engage in emotion-focused coping strategies such as journaling, listening to music or debriefing with a trusted friend to normalize and validate responses to life after the onset of COVID-19.

E. - Extend compassion toward self and others. Similar to the sentiments expressed in "R," it is important to extend compassion toward yourself and others as everyone navigates the "new normal" of life during the pandemic. Self-compassion practices have been found to be effective with encouraging psychological and behavioral flexibility in the face of experiencing stressful and trauma life events and becoming a barrier for the onset of psychological symptoms (Neff, 2021; Kaurin, Schonfelder, Wessa, 2018). Extending self-compassion toward self and others can include (a) giving others and yourself the benefit of the doubt when more time is needed to complete tasks; (b) completing self-compassionate mindfulness breathing exercises; and (c) reciting self-compassion affirmations throughout the day (e.g. "I am doing my best at this moment," and 'Despite how I am feeling, I've been working hard to complete this task").

D. - Develop daily and weekly priority lists/goals. An individual engaging in comparison of their pre-pandemic pace of productivity to their pace of productivity since the onset of the pandemic can be damaging and produce negative feelings. Given the moment-to-moment nature of news updates regarding the pandemic, the gross accumulation of emails, and preparation for the grocery store trips, the daily and weekly task lists can be overloaded. There can be an undeniable feeling of disappointment when to-do lists are incomplete. Therefore, by shifting expectations to reduce the number of items listed and allowing for more time to accomplish tasks, individuals can feel accomplished and progress toward larger tasks. While some individuals may meet or exceed their expectations of productivity, it is important to note that it is not a sign of weakness if extensions are needed (Boals & Banks, 2020).

E. - Eliminate distractions. In efforts to cope with social distancing parameters during the pandemic, people have increased communication through email, virtual meetings, and video-chatting. Although people have become more connected through technology, there is an increased risk for the potential to go down "technology rabbit holes," through binge-watching videos or becoming engrossed with text messages. While technology can provide fun breaks and outlets through online gaming and social media websites, constantly receiving news alerts or scrolling social media can induce anxiety. Therefore, it is recommended to take breaks from social media and to implement fifteen to thirty-minute self-care breaks in increments throughout the day (APA, 2021a).

F. - Flexibility! Flexibility! Flexibility! Change is the only constant. Adapting to change and accepting the ups and downs of life unfolding in front of us is a skill we can all benefit from learning. Problem-focused coping can help us to do this. We start by noticing a situation that creates feelings of rigidity or non-acceptance that come up within us. We focus on what we have the power to change in that moment, whether it be something in our environmental sphere of influence or within ourselves. We weigh the cost and benefit to our desired outcome and take action that helps us to see the originating "problem" in a new way (Lazarus & Folkman, 1984). With so many new stressors and challenges brought on by this pandemic, we will have plenty of opportunities to practice this new skill or strengthen an old one.

I. - Incorporate grounding techniques to check-in with and re-energize self. In MBSR, grounding one's self in the present moment helps one to re-center, recalibrate, and reinvigorate a shift in one's attention towards all the things in life that still evoke gratitude. Far too often during this pandemic, we spend time wallowing in all the things we don't have (future-focus) or no longer have (past-focus), while all of the things that continue to bring us joy and encouragement in our lives still exist, right here in the present moment, all we have to do is check-in with ourselves to find it. Engaging in present-focus awareness allows us to check-in with ourselves as we are now. Allowing us to accept ourselves with loving kindness There are a myriad of grounding techniques in MBSR that can help do this (Kabat-Zinn, 2003). Search the internet for one's you may like. Look on YouTube for instructional videos that interest you. Or ask a trusted friend, mentor, or mental health professional to help you find the MBSR and grounding techniques that are right for you.

N. - Negotiate needs and set boundaries with others. Knowing what we need to effectively care for ourselves is essential to creating a life we are invigorated and excited about living regardless of how many challenges life may send our way. Once we are familiar with what we need for ourselves then we are better able to communicate it to others. Another benefit to being familiar with our own needs, is being able to recognize when our needs are not being met in ourselves and by others. When this becomes apparent, we can make the necessary changes within ourselves to make improvements as we see fit. On the other hand, when this becomes apparent from others, we can use emotion-focused coping and acknowledge feelings of frustration, disappointment, or resentment in our relationships and engage in a dialogue towards resolving the problem with the other or create a healthy boundary to prevent future violations. These practices will help to strengthen our ability to find positivity within adverse situations (Lazarus & Folkman, 1984).

E. - Engage with a support system. Spending time with people that you love, care about, and feel supported by can be an uplifting experience. With so many stressors and challenges that have been brought on by the pandemic it may feel like experiences that are uplifting have been far and few between. It is for this reason we are encouraged to be even more diligent about spending quality time to create moments that are filled with connection and meaning. Because stay-at-home orders have forced many of us to spend time in isolation away from social gatherings or events, preventing us from being physically close to one another. However, when we engage our loved ones in the meaning-making process this creates stronger bonds and a deeper sense of connections that you all can share in (Park & Folkman, 1997; Park, 2011).

Conclusion

The COVID-19 pandemic has undeniably impacted the way we interact with others, experience stress, and subsequently cope in our everyday lives. It has also challenged our ability, beliefs, and behavioral practices about productivity in our professional settings and our personal lives. Through the lens of Lazarus and Folkman's (1984) transactional model of stress and coping, we are better able to understand that our stress is interconnected and influenced by the appraisals of our experiences, the quality of our relationships and the perceived availability of coping strategies within ourselves and within the environment. For many of us, the unforeseen challenges faced during this pandemic may have felt overwhelming or even insurmountable at times. While many have survived, we must mourn - the 500,000 lives lost, our beloved family members who are with us in spirit, and the dreams of the thriving businesses that had to reduce employees and/or temporarily or permanently close. Through the acknowledgement of these stressors and losses, the challenge (*redefined* as an opportunity) to engage in meaning-focused coping emerges. What have we learned from this pandemic thus far? Many have become creative and flexible with service delivery and learned to treasure personal engagement.

As the one-year anniversary of the onset of the pandemic has recently passed, it is clear that individually and collectively, people will continue to be challenged to tolerate the stress and ambiguity of the pandemic. On some days, the chronic stress will be taxing and may result in feeling dreary and unproductive. However, we can practice and strengthen new ways of coping, and afford ourselves compassion as we R.E.D.E.F.I.N.E. the quality and rate of our productivity in the context of an unpredictable and shifting "new normal."

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EQUITY CROWDFUNDING:
Access to Investment Capital for Small and Minority Businesses

By Mark T. Hiraide, Esq.

ABSTRACT

This article discusses a form of business financing commonly known as "equity crowdfunding." The article explains the significance of equity crowdfunding and the impact it will have on the future of financing small and women and minority-owned businesses. It is not legal advice. This author recommends engaging tax and legal counsel to ensure compliance with applicable laws and regulations.

Introduction

In the last 20 years, startups and small businesses have been vital to the growth of our national economy. During that time startup ecosystems emerged and investment capital to finance new businesses swelled -- and not just from VC firms. Financial institutions, such as mutual funds, hedge funds, sovereign wealth funds and corporations in search of ever higher investment yields, especially following the 2008 financial crash, fueled new business creation by investing over $133 billion in venture capital in 2020, as compared to $4 million in 1994.[i] Unfortunately, not everyone shared equally in the opportunity to access this capital.

In part, information asymmetry resulted in unequal access to this unprecedented inflow of early-stage capital. At one time information about creating a business was not widely available to those without a degree in business administration. Today, the proliferation of blogs on startups and other crowdsourced information have educated budding entrepreneurs.

But unintended consequences of outdated federal and state securities laws were the principal reason for inequity in capital access. Until as recently as five years ago, these laws, which govern how capital may be raised in this country, made capital accessible by only the wealthy and well-connected. "Equity crowdfunding" removed these structural barriers when it became legal five years ago. The convergence of the availability of startup learning, the abundance of investment capital, the modernization of securities laws, and, most recently, the uptick in online financial investing as a result of conditions created by the Covid-19 pandemic, have resulted in unprecedented opportunities to raise capital online, start or expand businesses, and generate significant personal wealth by those who historically were denied access to this capital.

Equity Crowdfunding Offering Under Regulation CF

Background

Just five years ago the Securities and Exchange Commission finished promulgating rules legalizing "equity crowdfunding" under the Jumpstart Our Business Startups (JOBS) Act of 2012. Until then most entrepreneurs had limited access to equity capital. Prior to the JOBS Act, federal and state securities laws strictly prohibited using the internet, social media, or any other form of advertising to raise equity capital, unless the company registered the investment offering with the Securities and Exchange Commission.[ii] Under the 90-year old Securities Act of 1933 (the "1933 Act") any form of advertising equity investments was considered to be a "public offering" of securities that required SEC registration and review – the same process that companies must undertake when they "go public" through an initial public offering, or "IPO." That SEC registration and review process is a lengthy one taking at least two months and costing several hundreds of thousands of dollars in legal and accounting fees.

As a consequence of these restrictions, small business were relegated to raising equity in "private offerings," which are exempt from SEC registration. Because the SEC required "private offering" to include only prospective investors with whom the company had a pre-existing relationship, unless an entrepreneur's parents or friends were able to spare risky startup capital, or unless the entrepreneur had connections to wealthy individual investors, an entrepreneur was unable to access equity capital. The law also required that investors in private offerings for the most part be "accredited investors," who, in the case of individual investors, have a net worth of at least $1 million or annual individual income of $200,000 or joint income of $300,000. This also meant that non-accredited "main street" investors were denied access to investments in this early-stage asset class.

The 1933 Act's restrictions on soliciting investors -- well-intentioned in the aftermath of the stock market crash of 1929 and the Great Depression -- made the ambition of successfully raising capital for startups unattainable for most people, especially those in low-income and minority communities. Consequently, an entrepreneur's parents, family, and friends, and the geographic neighborhood in which one lived were significant factors in determining who received funding, who became owners of a business, and what demographic eventually accumulated capital and wealth in this country. To close the capital gap for early-stage financing, stimulate job growth, and address issues of unequal access to capital, Congress dramatically changed the rules relating to raising equity capital when it enacted JOBS Act.[iii] The most revolutionary aspect of the JOBS Act was its legalization of advertising equity offerings without having to register the offering with the SEC. These offerings have since become known as "equity crowdfunding." When President Obama signed the JOBS Act, he summarized the concept of equity crowdfunding as follows,

> *[F]or start-ups and small businesses, this bill is a potential game changer. Right now, you can only turn to a limited group of investors—including banks and wealthy individuals—to get funding….[A] lot has changed in 80 years, and it's time our laws did as well. Because of this bill, start-ups and small business will now have access to a big, new pool of potential investors—namely, the American people. For the first time, ordinary Americans will be able to go online and invest in entrepreneurs that they believe in.*

Although the JOBS Act was enacted in 2012, the SEC did not complete its rules for equity crowdfunding, Regulation Crowdfunding ("Reg CF"), until March 2016. When the rules were first adopted, the maximum amount that a company could raise in any 12-month period was $1,000,000. As of this past March, 2021, the SEC increased that limit to $5,000,000.

Offerings under Reg CF do not require registration or review by the SEC. However, the offering must be conducted on an SEC registered Reg CF crowdfunding portal, which is regulated by the Financial Industry Regulatory Authority (FINRA). The portal may advertise the offering to the public and the company may inform the public that it is conducting a securities offering while providing a link to the offering page on the portal's website. The specific requirements of an equity crowdfunding offering under Reg CF are discussed below. In this author's opinion, Reg CF will become the predominant method for raising seed-stage and early-stage capital.

Moreover, until the legalization of equity crowdfunding, small and medium-size entities (SMEs) were typically not candidates for equity capital. This is so because SMEs typically do not intend to go public or be acquired and therefore did not provide an opportunity for an equity investor to have an exit or "liquidity event" for their equity investment. SMEs historically have relied on small business loans and debt financing – historically, by banks and, more recently, by online lenders. As we discussed below, equity crowdfunding will offer SMEs an opportunity to raise equity capital from the crowd in the form of revenue-sharing arrangements.

Non-accredited Investors – the "Crowd"

As a threshold matter, Reg CF is the *only* method of raising capital from the public without registering the offering with the SEC.[iv] Equity crowdfunding offerings under Reg CF contemplate raising capital from a large number of people – the crowd – who may each invest relatively small amounts. Equity crowdfunding campaigns often have minimum investment amounts as small as $100. Equity crowdfunding offerings under Reg CF impose no investor accreditation criteria and no limit on the number of investors who may invest. There, however, are limits on the amount an individual may invest in Reg CF offerings in any 12-month period. If either an investor's net worth or income is less than $107,000, the 12-month limit is the greater of $2,200 or 5% of their net worth or income (whichever is greater). If both their net worth and income is greater than $107,000, the 12-month limit is 10% of their net worth or income (whichever is greater).

The Reg CF Portal

An equity crowdfunding campaign under Regulation CF must be conducted on an SEC registered Reg CF Portal. Although Reg CF Portals are not broker-dealers, they are regulated by the Financial Industry Regulatory Authority ("FINRA"), which regulates the securities brokerage industry. There are approximately 100 Regulation CF Portals registered, but among the most well-known are Republic, WeFunder, StartEngine, SeedInvest and NetCapital.[v]

The JOBS Act requires Reg CF Portals to provide investor education and have a reasonable basis to believe that companies selling securities on their portal have complied with Regulation CF. By design, Reg CF Portals have become tremendous resources for entrepreneurs raising capital. Many Reg CF Portals include libraries of information and forms relating to startup financing. The CF Portals typically have technology that automates the offering document preparation process. The CF Portals' software, similar to software that creates websites, also takes documents and collateral materials uploaded by the company, such as photos and videos, and organizes them in an attractive landing page. Finally, the CF Portals employ associates who are very familiar with the requirements of Regulation CF, and they assist companies to comply with the regulation.

Testing the Waters

As of March 2021, the SEC amended Regulation CF to permit a process known as "testing-the-waters." This procedure allows a company to make written or oral solicitations of "indications of interest" to determine whether an offering is viable prior to preparing any materials required under Regulation CF. The company may post test-the-waters materials anywhere, including its on its own website or on the Reg CF Portal. The testing-the-waters procedure allows Reg CF Portals to launch very quickly, sometimes within a day, a test-the-waters landing page with information about the company and its proposed equity crowdfunding campaign. No sales of securities are allowed during the test-the-waters period.

Most Reg CF Portals will require the indications of interest during the test-the-waters campaign to reach a certain dollar level, $50,000 for example, before the portal will launch the actual Regulation CF offering. The Reg CF Portals thus may use the test-the-waters process as a mechanism to screen out those companies that the Reg CF Portal deems unable to successfully complete an equity crowdfunding offering under Regulation CF.

It is important to note that while Reg CF Portals often boast about the investor traffic they generate and the dollar amount of investments previously raised on the platform, most successful equity crowdfunding campaigns are by companies who bring with them into an equity crowdfunding offering a large group of followers or customers to whom the company may advertise the opportunity to invest in the company and own a piece of it. This ownership opportunity seems to resonate well with consumer companies whose customers have a strong affinity for one or more of the company's products and to companies who have large social media followings. Without those audiences already developed at the launch of the equity crowdfunding campaign, it may take too long for the company to develop the potential investor base organically by soliciting prior investors on the Reg CF Portal who have no previous knowledge of the company.

Types of Securities

Any type of security may be offered and sold pursuant to Regulation CF. The most commonly offered securities are the following:

- Common or Preferred Equity. Common or preferred stock, in the case of a corporation, or membership units in the case of a limited liability company. Holders of corporate preferred stock and LLC preferred membership units have a liquidation preference that pays the preferred equity holders before the common equity holders upon a liquidating distribution, such as a sale of the company. Preferred equity may pay a cumulative or non-cumulative dividend and may be convertible into common equity.

- Convertible Notes. A common seed and early-stage financing instrument is a note that is convertible into equity. Convertible notes convert into the first equity financing of a certain defined size at a discount, usually 5%-20%, to the first equity financing valuation. Convertible notes may also provide noteholders with a valuation cap, which provides that the conversion valuation will not exceed a specified value. One advantage of issuing a convertible note at an early-stage is that it is not "priced," as there is no specified valuation (other than the valuation cap, if one is provided). At an early-stage, it may be premature to place a value on the company or it may be unfair to the founders, as it may be too low at an early-stage.

- Simple Agreement for Future Equity (SAFE). In 2013 the accelerator Y-combinator developed a simple agreement for future equity, which is similar to a convertible note but carries no maturity date and therefore is not debt. The form of SAFE agreement has become a standard form of contract and is often used today by startups to raise seed capital.

- Debt. A conventional loan syndicated among the crowd.

- Revenue or Profits Interest Share. An agreement offering to pay investors based on the gross revenue or net profits from a specific revenue stream. Examples include agreements that pay investors a fixed percentage of gross revenue or net profit from a particular product or other asset such as an entertainment property. The investment returns may, for example, allocate all distributions to the investors until they receive their principal investment or some multiple of their investment and then split the distributions in excess of that amount between the company and investors.

It is important to obtain the guidance of tax and legal counsel in evaluating and selecting the appropriate financing vehicle.

The Offering Statement filed with the SEC on Form C

The most important requirement of Regulation CF, and the most time-consuming, is the requirement to prepare and file with the SEC an Offering Statement on Form C. The Offering Statement is a securities disclosure document that serves the dual purpose of selling the offering and offering a defense in the event an investor sues the company and its principals. Potential securities law liabilities are serious and separately discussed below.

Software on Reg CF Portals generates a draft of the Form C Offering Statement based on answers to online questionnaires completed by the company as part of the Reg CF Portal's onboarding process. It is critically important for the company to review Rule 201 of Regulation CF,[vi] as it sets forth the specific information that must be included in the Form C Offering Statement. But in addition to the information specifically called for by Rule 201, as a general rule, if there is something about your business or company that you would *not* like people to know, you should disclose it in the Form C Offering Statement.

Examples of disclosures that you should include in the Form C Offering Statement are any "related party" transactions between the company and its officers, directors, major shareholders and founders, and the terms of those transactions. The Form C Offering Statement should also make clear what milestones the company must achieve to accomplish its goals and whether additional financing after the Regulation CF offering will be required to fund the company's operations. If you are aware of an uncertainty that could materially adversely affect the company or its operations if the uncertain event came to fruition, you should disclose the uncertainty and discuss what impact it could have.

The Form C Offering Statement must also include a discussion of the material factors that make an investment in speculative or risky. These risks are contained in a section of the Offering Statement entitled, "Risk Factors," and the Reg CF Portals provide a few risk factors tailored to the specific business, but also include many risk factors that are of general application to every equity crowdfunding offering. It is important for the company to add any additional risk factors specifically tailored to risks unique to the company. To assist the company in doing so, it should review risk factors of other Offering Statements filed with the SEC under Regulation CF. But another source of well-crafted Risk Factors may be found in the IPO prospectuses in registration statements filed with the SEC. IPO prospectuses are prepared by securities lawyers and thoroughly reviewed by the IPO underwriters and accountants, as well as their lawyers.

Prospectuses for IPOs may be found on the SEC's website. You may find any filing made with the SEC by using the search functionality found on the SEC website homepage. You may search SEC filings in a number of ways, including by form type. Prospectuses are contained in Form S-1 registration statements. These are just a few examples of disclosures that may or may not be applicable to your company and situation. It is important to have an attorney who is familiar with securities offerings to review your Form C Offering Statement with you.

Financial Statements

The Form C Offering Statement must include the company's financial statements for the last two years that have been prepared in accordance with generally accepted accounting principles. Depending on the amount offered under the equity crowdfunding offering, the financial statements may require an independent certified public accountant to conduct a formal review or audit. Until August 28, 2022, a company may raise up to $250,000 without providing an independent certified public accountants review or audit of the company's financial statements; the financial statement need only be certified by the company's principal executive officer to be true and complete.[vii] If the equity crowdfunding offering seeks to raise more than $250,000, and the company is using

Regulation CF for the first time, it may raise up to $1,070,000 with financial statements reviewed by a certified public accountant.[viii] Equity crowdfunding offerings in excess of $1,070,000 will require audited financial statement.

Securities Law Liabilities for Violations of Reg CF and Certain Legal Considerations

In any offer or sale of a security, if the company or its representatives makes a written or oral communication that includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading, the company must return the investor's investment, unless the company can show that the company did not know, and in the exercise of reasonable care could not have known, of such untruth or omission.[ix] For purposes of the securities law liabilities discussed above, a fact is "material" if "there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by a reasonable investor as having significantly altered the total mix of information made available."[x]

If the plaintiff-investor(s) prevails in its claim against the company, every individual who controls the company is personally jointly and severally liable with the company.[xi] Control persons include directors, executive officers, and, in some cases, significant shareholders of the company. Joint and several liability means that all of the investors may seek a return of their total investment from the company or any one or more of the individual control persons.

Prior to issuing securities to investors, the company will want to review its corporate or limited liability company documents to ensure that the company was properly formed. The formation of a corporation is completed upon the conclusion of an organizational meeting, or, more commonly, when each of the newly appointed directors signs a unanimous written consent to the resolutions adopted in lieu of an organizational meeting. The organizational meeting or resolutions include such matters as ratification of the actions of the Incorporator, appointment of officers, adoption of form of share certificate or designation of uncertificated shares, Subchapter S election (if applicable), qualification to do business in appropriate states, adoption of fiscal year, authorization of banking relationship, and issuance of initial common stock.[xii] In the case of a limited liability company, the formation is complete upon the adoption of the LLC operating agreement.

While it is possible to operate a business without an entity -- as a sole proprietor, or as a general partnership with a few co-founders – is it not advisable to do so. If you operate the business without a separate legal entity, you are liable for the debts and obligations of the business. If you do business with one or more partners without forming a separate legal entity, each of you may be deemed to be a general partner of a general partnership. In a general partnership, each general partner is liable for the debts and obligations of the general partnership, and each general partner has the authority to enter into agreements on behalf of the general partnership. Therefore, as a general partner, you will become responsible for liabilities that your partners incur for business. Investors in a business that is not operated in a separate entity may be deemed general partners of the business, so Reg CF Portals will insist that any business raising capital on its platform be properly organized as a legal entity.

Although a discussion of the tax consequences to the business, as well as to the owners, is beyond the scope of this article, and entrepreneurs should seek the advice of a tax accountant or lawyer in the formation of the legal entity, there is one common mistake by many startups worth addressing.

The initial issuance of stock to the founders that is authorized in the organizational resolutions is often reflected in an agreement referred to as a "Restricted Stock Purchase Agreement." In addition to the payment for the shares – in cash, assets (often intellectual property), services, or some combination thereof – the Restricted Stock Purchase

Agreement will address issues such as whether the founder must earn his shares by staying with the company for a period of time, such as three, four or five years (i.e., whether the founder's shares are subject to vesting).

Whenever the consideration for shares is services, also known as "sweat equity," the recipient of the shares is taxed on the fair value of the shares received. If the shares are subject to vesting, the shares become taxable as income to the service provider/recipient of the shares in the year that the shares vest at the fair value *at the time they vest*. This vesting of shares potentially creates a significant tax liability for the service provider/recipient, if the value of the shares increases significantly during the vesting period. Hopefully, this is the case, as at each successive round of financing, as the business grows, the Company will command investments at increasingly higher valuations.

In order to mitigate the potential for a large tax bill for the recipient of stock for services, the Internal Revenue Service allows the stock recipient to elect to pay the tax on the total amount of shares subject to vesting as if all of the shares vested in the first year allowing the share recipient to value all of the shares at the current value, when it is presumably very low. However, this election, known as a Section 83(b) Election, must be filed with the Internal Revenue Service within thirty (30) days of the original issuance of the stock. This is a hard deadline, and there are no extensions.

Missing the Section 83(b) election 30-day deadline is one of the most common and costly mistakes entrepreneurs make when they form a corporation without the benefit of counsel. In recent years valuations of early-stage companies within the first five years of a company's existence is often in the several million-dollar range. For example, take three founders – one contributes intellectual property, one contributes money, and one contributes sweat equity in exchange for one-third of the company each. At the formation of the company when it has not started its business and has no assets, the shares are of nominal value, and therefore the tax liability to the founder who contributes services in exchange for shares is nominal, if the shares are fully vested upon grant. On the other hand, if the shares issued to the founder are subject to vesting over a period of years, the shares are taxed as they vest. In this example, if the shares issued to the service provider/founder, representing one-third of the outstanding shares, vests equally over four years, in year two, one-quarter of his or her shares vest. To continue the example, assume in year two the company closes a round of financing at a one million dollar pre-money valuation (i.e., the investor(s) receive 5% of the company in exchange for a $50,000 investment). The founder who received shares for services must report taxable income in year two approximately $83,250, which is the value of the shares vesting in year 2 ($1M times .333 times .25). Continuing the example, if the company raises a Series A financing in year 3 at a $10,000,000 pre-money valuation, the compensation income that the services founder must report is $790,875 ($10M times .333 times .95 times .25)! Unless the founder who provided sweat equity in exchange for his or her shares timely filed the Section 83(b) election, the vesting shares on paper may have a valuation worth several hundreds of thousands of dollars. It is that value upon which the tax liability will be calculated.

Other issues that may be addressed in the Stock Purchase Agreement or in a Founders' Agreement are the circumstances under which founders may be terminated. This is particularly important for a founder whose shares are subject to vesting and because, of course, disputes among founders are not uncommon. Founders may want an agreement among the founders that they may terminate a co-founder's relationship with the company (and therefore terminate vesting of shares) only "for cause," and define what constitutes "for cause." Founders who provide services may also seek similar protection by entering into an employment agreement with the company that includes similar terms relating to termination. Similarly, the company will want to enter into an intellectual property assignment agreement with the founder who contributes intellectual property, as well as with the founder contributing services and all other significant employees in order to avoid future disputes about the scope of what was contributed or provided to the company.[xiii]

The Cost of Conducting an Equity Crowdfunding Offering Under Reg CF

The final aspect of an equity crowdfunding offering is cost. The test-the-waters feature of offerings pursuant to Regulation CF may be commenced with very little cost or effort, as many Reg CF Portals will not charge a company to launch a test-the-waters landing site. If the company is accepted by the Reg CF Portal, the Reg CF portals typically charge between 6-8% of the total amount the company raises in its equity crowdfunding offering. Some Reg CF Portals may also require small equity interest, such as 1%, in the company. Because these fees are paid on the conclusion of the equity crowdfunding offering, and most Reg CF Portals do not charge an up-front fee, the most expensive up-front out-of-pocket cost accounting and legal fees. Fortunately, Reg CF Portals work closely with accounting and law firms who offer their services at reasonable rates.

Conclusion

Equity crowdfunding pursuant to Regulation CF promulgated under the JOBS Act makes the capital markets accessible to everyone. And the capital markets for early-stage capital, while once only occupied by institutions and high-net worth business angels, is now open to main street investors. No doubt the asset class is risky. But equity crowdfunding reduces the cost of capital by spreading the risk of loss over a large number of investors – the crowd. It makes available to all entrepreneurs the seed capital necessary to start a business, validate a concept, or obtain a first contract in order to attract subsequent rounds of capital investment. As such, equity crowdfunding represents an unprecedented opportunity to raise capital online, start or expand businesses, and generate significant personal wealth by those who historically were denied access to this capital.

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ENDNOTES

[i] See PwC/CB Insights MoneyTree Report [https://www.pwc.com/us/en/industries/technology/moneytree.html].

[ii] Securities Act of 1933 [FED CITATION].

[iii] Jumpstart Our Business Startups (JOBS) Act, Pub. L. No. 112-106, §§301–05, 126 Stat. 306, 315–23 (2012) (codified in scattered sections of 15 U.S.C.). 2 For the full discussion of the JOBS Act, see Mark Hiraide, Ready Capital, L.A. LAWYER (Dec. 2016), available at https://www.msk.com/assets/htmldocuments/2017%20l%20Ready%20Capital%20Parts%201%20d%202%20l%20Mark%20Hiraide.PDF.

[iv] Presently, most early-stage securities offerings are "private offerings" pursuant to Rule 506(b) of Regulation D, which allow an unlimited number of accredited investors and up to 35 non-accredited investors. Rule 506(c) of Regulation D allows general solicitations, but all of the investors must be "accredited investors," and the company must verify the accredited status of each investor.

[v] You may find a list of Reg CF Portals here. [https://www.finra.org/about/firms-we-regulate/funding-portals-we-regulate]

[vi] 17 C.F.R. §227.201 [https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=1&SID=b5ea047cfd7787ed402392037e7d3e89&ty=HTML&h=L&mc=true&n=pt17.3.227&r=PART#se17.3.227_1201]

[vii] The $250,000 limit is a temporary rule enacted by the SEC in response to Covid-19. After August 22, 2022, the threshold offering amount for financial statements that do not require a review or audit reverts to the original rule limit of $107,000.

[viii] If the company has previously conducted an equity crowdfunding offering under Regulation CF, it must provide audited financial statements if it raises more than $535,000.

[ix] 15 U.S. Code § 77l - Civil liabilities arising in connection with prospectuses and communications.

[x] See Dalberth v. Xerox Corp., No. 13-1658, 2014 WL 4390695, at *10 (2d Cir. Sept. 8, 2014) (internal quotation marks omitted) and Petrie v. Electronic Game Card, Inc., 761 F.3d 959, 970 (9th Cir. 2014) (internal quotation marks omitted).

[xi] 15 U.S. Code § 77o(a) – Liability of controlling persons.

[xii] Examples of entity formation documents may be found here [https://www.cooleygo.com/documents/incorporation-package/] and [https://www.orrick.com/en/Total-Access/Tool-Kit/Start-Up-Forms/Corporate-Formation].

[xiii] Examples of Stock Purchase Agreements may be found here [https://www.orrick.com/en/Total-Access/Tool-Kit/Start-Up-Forms/Founders-Stock-Purchase] and here [https://www.cooleygo.com/documents/incorporation-package/]; examples of Employment Agreements here [https://www.orrick.com/en/Total-Access/Tool-Kit/Start-Up-Forms/Employment-and-Consultant] and here [https://www.cooleygo.com/documents/form-employee-offer-letter/] and Intellectual Property Assignment Agreements [https://www.orrick.com/en/Total-Access/Tool-Kit/Start-Up-Forms/Technology-Related] and [https://www.cooleygo.com/documents/form-employee-confidential-information-inventions-assignment-agreement/].

The Gamification of Stock Trading - GameStop and the Rise of Meme Stocks

By Chi Sheh, PhD

Abstract

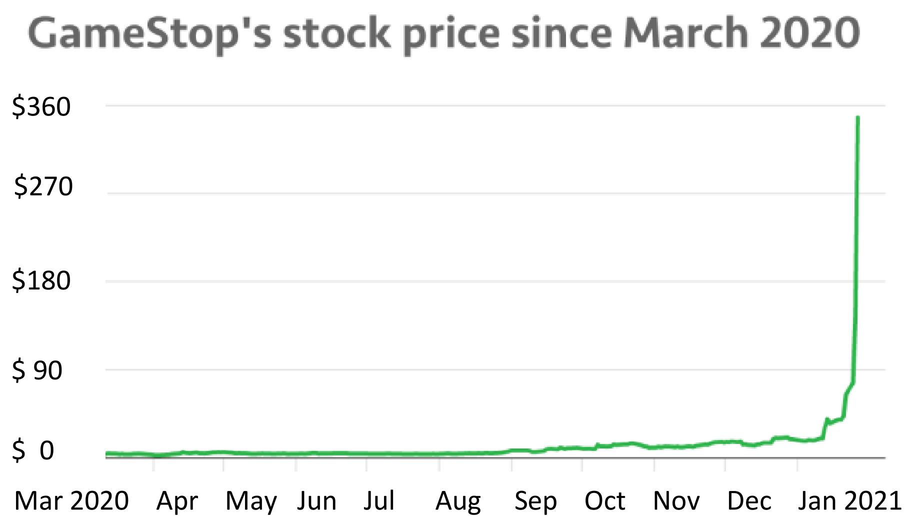
The meteoric rise and subsequent crash of GameStop stock in January 2021 was breathtaking in size and speed. On January 28th, GameStop stock price peaked at $483 a share, after a more than 600% rise in less than 5 days. The firm went from being worth $200 million on April 2020 to more than $24 billion in January 2021. GameStop stock dropped to below $45 a share in less than a month afterwards. GameStop was the most traded stock in America on January 26th, with trading volumes that matched that of the five biggest tech giants combined! This incredible event signaled to the world that a new era of retail investor power powered by new trading platforms like Robinhood and social media sites like WallStreetBets had arrived.

Introduction

At the beginning of the year 2021, very few people had probably heard of GameStop, a brick-and-mortar seller of video games that was on its last legs as the gaming industry had moved on to online gaming. Millennials might recall actually going to a physical store to rent or buy a video game in their youth, but the teenage gamers of today mostly have never stepped into a GameStop store in their lives. Well, nobody in the investment world can say they have never heard of GameStop now. GameStop's stock price has spiked from a few dollars in 2020 to a peak of more than $400 per share on January 27th, which meant that a firm that was worth 200 million dollars in April 2020 became a company worth more than 24 billion dollars almost overnight. This incredible rise has been shown in every front page of every newspaper around the country, as well as every major television news channel. Even Jerome Powell, the chairman of the Federal Reserve, had to answer questions about the firm at press conferences.

Why was GameStop such a big story all of a sudden? Because the story was literally incredible. Perhaps one can justify a higher price for GameStop in 2021 compared to 2020, as the economy started to open up. In August 2020, Ryan Cohen, the former boss of Chewy, an online pet food store, began accumulating a large stake in GameStop. In November he turned into an activist, writing to the board of GameStop to urge it to invest in e-commerce. The GameStop board liked his plan and offered him and his former colleague's seats on the board. Investors liked it too. By January 11th, his first day as a board member, the 12.9% stake that he had accumulated that he had paid about $76 million dollars had double in value. Mr. Cohen is scheduled to become Chairman of the board of GameStop in 2021, besides turning into an overnight billionaire.

What was the reason for the frenzy surrounding GameStop in the first place? Many point towards the users of the subreddit r/wallstreetbets, a forum on Reddit that now has more than 4 million followers. These retail investors have coordinated their efforts in accumulating huge positions in GameStop and other meme stocks as well as placed leveraged bets that their price would rise, by the use of options and margin trades. Some of the Reddit forum traders point to fundamental reasons such as Mr. Cohen's involvement in GameStop to justify their belief in the stock. But many others simply wanted to stick it to establishment investors such as hedge funds, which had placed massive short positions on GameStop. The retailer had become a target of short sellers, who borrow massive amounts of shares, only to turn around and sell them, in the hope to later buying back the shares at a lower price. This was quite a popular trade, short selling data show that the total value of short positions in GameStop was more than the company's market capitalization in late January. Retail investors wanted the shorts to lose money, so they coordinated their efforts to squeeze the shorts out of their short position on GameStop stock.



Data : Yahoo Finance

The result of all the trading frenzy was that the short sellers were squeezed out by margin calls. The bullish retail traders were further supported by the fact that the market makers who sold them their bets were ultimately forced to buy shares after incurring losses worth several billion dollars. The worldwide coverage of the stock in social media and popular media prompted even more investors to pile in further. GameStop was the single most trade stock in America on January 26th; volumes matched that of the five biggest tech giants combined[i]. GameStop's share price more than doubled the next day. The Reddit retail investor masses also piled into other heavily shorted stocks like AMC, Nokia, and Blackberry. These stocks have even gotten a moniker called "Meme" stocks[ii].

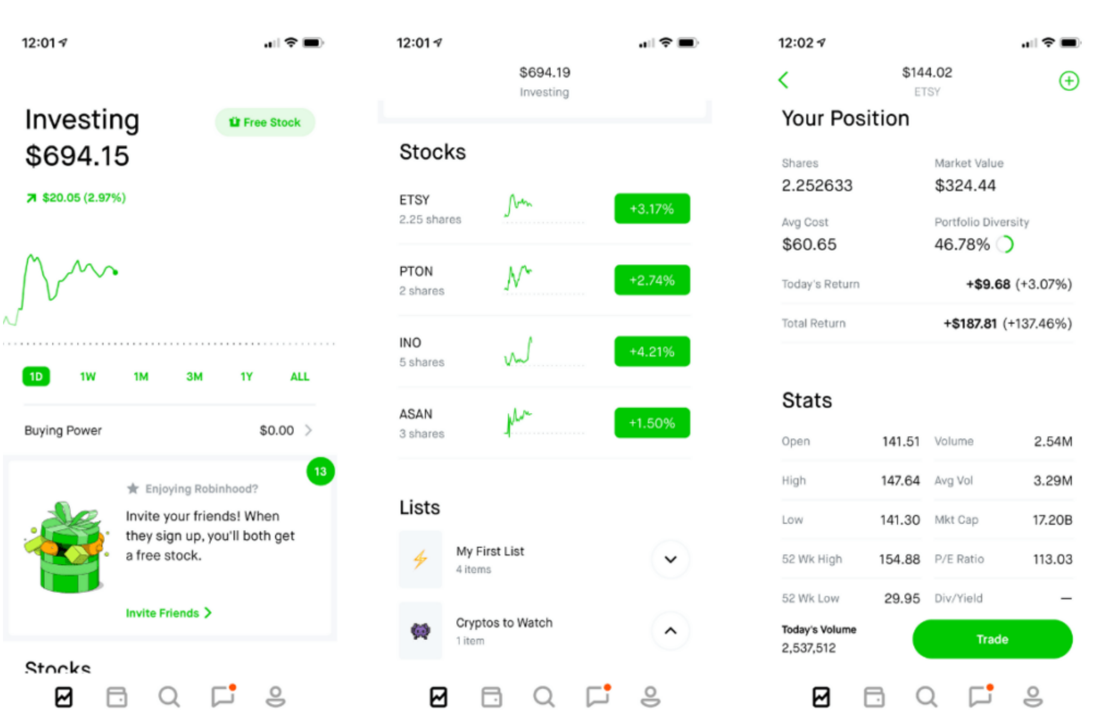
In many ways the reaction to this event is as remarkable as the move itself. For the short sellers who lost gigantic amounts of money because of the spike in GameStop stock, this event was hugely important. But for most investor's portfolios it was mostly inconsequential, as the effect was very narrow and centered just on these meme stocks like GameStop. The wave of bafflement, and in some circles, panic that many on Walls Street as well as those in government felt speaks to a deeper trend of changes that American stocks have undergone in recent years.

For many months many experts have been ringing the alarm bells about a potential stock market bubble, as their concerns were reflected in the fat valuations of tech stocks and the incredible heights to which shares of Tesla, an electric-vehicle maker, have soared beyond anyone's expectations. The exuberance displayed by retail investors is yet another reason to fret. Jumpy professional investors will now have to keep an eye on the Reddit "mob", and the other eye on the more conventional risks of an inflation scare or faltering corporate earnings. It is unclear how long it may be before short interest in meme stock once again wanes, but some analysts have said that the market could sour again once the Federal Reserve indicates it will ease up on its super accommodative monetary policy, which has effectively facilitated high asset valuations by injecting unprecedented amounts of cash into the economy. That could happen as soon as in June 2021, when Fed officials meet again to discuss monetary policy changes.

Robinhood and The Gamification of Investing

As we have traced earlier, discount brokerages made trading stocks cheaper back in the 1970s, but more recently, all major brokerages have taken the lead of Robinhood and made stock trading commission free. What made Robinhood special in its role to democratize investing though, is that it looked to make buying and selling shares not just cheap but seamless and fun. That is drawn a new class of US retail traders into the market and raised worries by experts and regulators on what happens when the "gamification" of investing obscures the connection between price and value, fueling the phenomenon known as meme stocks.

Robinhood offers trading of stocks, and more exotic financial products such as cryptocurrencies, on a game like phone app that has proved extremely popular with investors that are young and dipping into markets for the first time. The app has a colorful and uncluttered layout and lets users begin trading with as little as $1. For a long time, new investors were congratulated for their first trade with a confetti animation, which was later scrapped amid scrutiny from politicians and regulators. Investors who got a friend to sign up are offered a chance of snagging a share of a high price glamour stock such as Apple. For inspiration, they can browse the 100 most held stocks among fellow users.



An entertainment ecosystem has risen alongside Robinhood. Tiktok videos under #robinhoodstocks have millions of views, and communities of at home investors use online forums such as Reddi's WallStreetBets to join forces on stock buying campaigns, like the one that shocked the world of GameStop. This event was too much even for Robinhood, which, along with other brokerages, temporarily halted trading in the stock. The episode fed worries that the battle between the "flows" generated by small investors and the "pros", artificially pumps stocks higher in a feedback loop that could lead to a collapse. Back in December 2020 Massachusetts securities regulators had filed a complaint against Robinhood, calling out its "gamification" tactics, and more recently sought to revoke the brokerage's license in the state for continuing "a pattern of aggressively inducing and enticing trading among its customers." Robinhood, for its part, responded by saying that it would not "succumb to unfounded, politicized allegations and unreasonable demands." At a hearing in the wake of the GameStop episode, US lawmakers scolded Robinhood Chief Executive Officer Vlad Tenew over the brokerage's business practices. Gary Gensler, chairman of the US Securities and Exchange Commission, asked for public comment on gamification, a review that could lead to new rules.

Robinhood is not along in the fast growing retail trading platform space. Webull, a Chinese competitor, has partically followed the Robinhood model of offering free stock trades with a slick online interface, while also providing the live customer service hotline that Robinhood resisted adding until recently. EToro, founded in Israel in 2007, reported having 20 million registered users in dozens of countries as of early 2021, with plans to provide stock trading service in the US in the second half of the year. It brands itself as a social trading network, where investors can chat, see each other's portfolios, and even mimic each other's portfolios, a practice known as copy trading, with a simple app they can tap into anytime on their smartphones.

There are supporters of Robinhood that argue that platforms like theirs have democratized investing and brought investing to the masses, especially the younger investors that have traditionally been overlooked by traditional brokerages. They also point to the increasingly diverse backgrounds of their growing customer base. The concept of "gamification" itself has admirers too, as a 2018 Ernst and Young analysis points out, adding game like aspects to financial services could help reach users who might otherwise feel reluctant to try investing in the first place. "Gamification could be invaluable in educating clients", it said.

WallStreetBets and the Origin of Meme Stocks

WallStreetBets, is a forum of 8.5 million followers on Reddit, a social media platform. It can be best described as the collision of the worlds of online discourse and finance, and it has dominated the headlines during the GameStop saga that continues to this day. The forum has already become a subject of study in academia. A paper published in January 28th by sociologists at the Georgia Institute of Technology conclude that even though it may seem to appear chaotic and offensive to outside observers, to its members WallStreetBets represents a real and valuable online community. These researchers spent hundreds of hours reading posts and interviewing members. They say that the forum's foul language and crass memes, mostly in the form of humour, serve as a barrier to entry, as new entrants who are not committed to learning the community's memetic language are swiftly driven out. They also act as a social glue that holds the group members together. Even Elon Musk, the world's richest man earlier in the year, has expressed support for the forum. He features heavily in its memes, accompanied by statements of devotion, such as "Daddy Musk is taking us all to Mars."

Company	Ticker	Market cap. June 3, 2021	Market cap. Dec. 31, 2020	Increase in market cap during 2021
Nokia Corp. ADR	NOK	$31,102	$22,107	41%
AMC Entertainment Holdings Inc. Class A	AMC	$25,761	$348	7296%
GameStop Corp. Class A	GME	$18,272	$1,314	1291%
BlackBerry Ltd.	BB	$8,992	$3,726	141%
Tilray Inc.	TLRY	$8,804	$1,307	573%
Bed Bath & Beyond Inc.	BBBY	$3,402	$2,153	58%
MicroVision Inc.	MVIS	$2,846	$788	261%
Koss Corp.	KOSS	$263	$25	931%

Financial markets are the perfect focus for the community because they are ever changing, constantly offering new material for commentary. Even as one of its favorite stocks, GameStop, was crashing in price, the "degenerates", as its followers call themselves, still urged each other not to sell their shares. They renewed calls on the community to continue to stick it to the hedge funds who short-sold the stock. Those who held on were "diamond hands" and heroes. Those who sell are pathetic "paper hands".

While it was tempting to dismiss the retail investors who follow WallStreetBets and the GameStop sage as something that would be a one off outburst from the dark ends of the internet, the reality has proved to be different. As the researchers pointed out in their paper, this forum is an example of a "third place", a term in social science for a hub that is not home or work, like churches, cafes, and barber shops in the physical world. While this all may be baffling for outsiders looking in, it is undeniable the power that these communities have had in the creation of meme stocks which continue to confound expert prognosticators to this day.

One visible outcome of the meme stock sage has been an increase in interest in retail investing. Despite the actions of Robinhood and other brokerage firms in the aftermath of the GameStop rise and fall, new downloads of their trading apps skyrocketed after the events surrounding the GameStop stock. The Robinhood app specifically was downloaded more than 1 million times in the last week of January. Such increase in retail activity also prompted the SEC to issue an investor alert warning average investors of the risks of investing in a "hot stock" or "short term investing based on social media". On the other hand, as we have seen subsequently in the months that has followed, the astronomical price climb of another meme stock, that of movie theater chain AMC Entertainment Holdings has been fully taken advantage of by the company to raise billions of dollars of equity financing to seemingly magically bring a near bankrupt company into a bastion of impeccable financial health.

To many investors, it can be quite exciting to make money on day trading in meme stocks and feel like one is part of something bigger at the same time, it is ultimately not a long term strategy. Many academic studies have shown that even the most experienced of day traders lose money in the long run. So while it might be a positive thing that these meme stocks have increased interest in the stock market to the wider public, experts recommend staying away from chasing these latest fads and invest for the long term in diversified portfolios that have stood the test of time.

Frictionless Markets and the Rise of Retail Investing

Once one looks beyond the memes and the mania that have grasped the attention of the media and politicians though, and the story tells us something about the structural changes in financial markets. The

fact that the fast-paced frenzy was even possible is a testament to just how frictionless trading stocks has become, aided by state of the art technological advances. Nowadays, shares of almost any stock can be bought on an app while you wait in traffic, at a price that is a cent or two away from the wholesale price.

The progressive march towards frictionless markets started with the abolition of large fixed commissions back in the 1975, and then with the entry of discount brokers such as Charles Schwab. Later automated trading and the decimalization of share prices further reduced frictions in market trading. By the 2010s, high frequency traders had risen to dominate share trading. "At each stop along the road, the market offloaded some trading costs and liquidity improved", says Dr.Yakov Amihud of New York University.

As trading costs tumbled, the quantity of shares traded ballooned. And as more participants piled into stock trading, the quicker and cheaper it became to trade. In 2015, Robinhood, the online broker through which many GameStop trades would flow, was launched, becoming the first platform to charge users no fees at all. This event, along with the pandemic, which provided free time to trade and free money as started funds, have turbocharged retail participation to new heights. Retail investors made up a tenth of trading volumes in America in 2019. By January 2021 their share had risen to more than a quarter of all trading volume in America.

Conclusion

In the past, powerful institutional investors had padded their bottom lines by charging exorbitant fees for exposure to stocks, but now they were seeing their control slip away. Now they have to compete with a range of vastly cheaper offerings, which include index funds that track the market, exchange traded funds which offer access to baskets of assets, and robot advisers who allocate cash among cheap funds according to portfolio management theories taught in finance textbooks at universities. Such innovations were possible thanks to advances in computing power and machine learning, and they have saved investors $1 trillion or more in fees since 1975. The continued improvement of price transparency and liquidity will continue to give retail investors more power over Wall Street.

There are investment dangers inherent in the use of stock trading apps such as Robinhood and Webull, but there is an even bigger risk that is hidden behind the underlying psychology of the young investors that use them. For many, the instant gratification of these stock trading apps can be downright addictive, triggering risky behavior and driving compulsive trades that have no basis in any type of fundamental financial analysis. For these traders, the gamification of the stock market is all too literal. Those with a predilection to a gambling addition in the first place may use these apps as a replacement for the local casino, which leads them to compulsively trade riskier and riskier stocks and putting their individual wealth on the line. Many of them will continue their search for risk by leveraging up using margin trading and options to continually search for a the huge payoff which may never come.

In too many of these cases, day trading stocks online can become a gateway into a devastating gambling addiction, which is no small risk in a modern world filled with easy access to sports betting and casino games. The destruction to the individual and their family finances that follows is most definitely not a game that anyone can afford to play.

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Dr. Sheh is also the Director of the University of the West Socially Responsible Investment Fund, where he directs MBA students in the selection of socially responsible company stocks, mutual funds, and exchange traded funds. Dr. Sheh is also the founding advisor to the Sustainable Investing Club, which seeks to promote a sense of responsibility to the society, the environment, and future generations by searching for ways to make investing more sustainable, as well as to be a forum to foster innovative ideas in the various areas of sustainable investment.

His professional experience also includes working as a financial analyst for Enron Corporation, in the areas of Power Trading, International Energy and Water Project Development, and Energy Risk Management.

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[i] Alphabet, Amazon, Apple, Facebook, Microsoft

[ii] A meme stock is a stock that has seen an increase in volume of trading not because of the company's performance, but rather because of hype on social media and online forums such as Reddit. Because of this reason, these stocks often become overvalued, seeing drastic price increases in just a short amount of time.

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