

Is Investing the Same as Gambling?



I have been around the financial services industry for more years than I care to remember, yet it never fails to surprise me when I talk about financial planning and investing, and a new potential client says ‘Investing is just the same as gambling, isn’t it?’

I should not really be surprised, given that most people will only think about the world of investing as they watch films like ‘The Wolf of Wall Street’, ‘Rogue Trader’ and ‘The Margin Call’.

So how do we correct the myth that investing is just like gambling?

It’s actually quite simple, and the basic differences are clear: When you are gambling the odds are against you, and most definitely with the house. When you are investing, the odds (and time) are actually in your favour.

Gambling

Gambling is a zero-sum game meaning you effectively make your money from other gamblers, (less the margin for the house, of course)! Hence the phrase ‘the house always wins.’

That’s because casinos are a business and, at the end of the day they need to make a profit. They make their profit by stacking the odds against the individual, - just enough to keep it entertaining, - so it’s still a game of chance.



“The roulette table pays nobody except him that keeps it. Nevertheless a passion for gaming is common, though a passion for keeping roulette tables is unknown.”

George Bernard Shaw

Investing

Investing is stacked more in your favour because you can decide which asset you think has the best prospects and invest in it for a period of time. That way you can get a share of those profits that are making. By researching before you invest you are not relying on luck as you do when you gamble, but on your own – or someone else's – judgement.

“The individual investor should act consistently as an investor and not as a speculator.”

Ben Graham

The element of risk

It is true that both gambling and investing come with an element of risk. In both scenarios you can lose all your money.



However, if you diversify your investments across a number of assets, it is unlikely that you will be left with a big fat zero.

Even if one asset does badly, another is likely to do well - So Investing is also playing the long game...

While films may focus on the hustle and bustle of trading floor, where young men with the keys to supercars in their back pockets are constantly buying and selling stocks multiple times a day, the real world for investors is quite different. Many fund managers will buy and hold a stake in a company for three to five years.

The Bottom Line

Investing doesn't mean throwing your money into a hat and hoping to magically pull out more than you put in. It's not betting on black ,or trying to count the cards. It's putting your faith in an asset that it will grow and prosper over time, and you can 'stack the odds in your favour' by diversifying your investment holdings.