

Why investing isn't gambling

By [Lynn Bolin](#)

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You may have heard the cynical saying that the stock market is the world's biggest casino. It implies that there's no such thing as being a successful investor: it's all just the luck of the cards.



Source: Supplied. Lynn Bolin is the head of communications at M&G Investments.

It also summons up the idea that “the house always wins” and while you might get lucky for a brief period of time, over the long-term you’ll lose more than you’ve won, and probably your initial capital as well. But neither of these is true for investing.

Why do some of us have this impression? Well, over and above the human need to simplify ideas into bumper stickers, it also relates to the influx of individuals investing directly into stock markets, often with little knowledge or expertise, and simply chasing prices.

They’re basically betting that a stock will continue going up, or going down, depending on the circumstances, with no understanding of the company they’re investing in. They see a trend and try to jump on it before it’s too late. At best, this is speculation, not investing.

Chance vs skill

While having a winning night at a casino depends entirely on chance (unless you’re talented enough to count cards), meeting your financial goals depends to a large degree on the skill of the investor. This is why it makes sense to invest in unit trusts offered by an investment house with a consistent track record of long-term outperformance of their benchmarks. Successfully picking companies to invest in takes considerable skill.

Another key difference between investing and gambling is diversification. Investing gives you the opportunity to spread your risk across several different asset classes, whereas gamblers throw their capital into a single hand, throw of the dice, or pull of the slot machine handle, with no loss mitigation strategy.

As an investor, you can also prevent total loss of your capital through diversification, or by selling when you think it’s a sound investment decision to do so. With gambling you can’t stop your losses on a bet and get part of your money back. This is because investing is based on ownership of something tangible and gambling isn’t.



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In the long run, when investing with professionals, the odds are in your favour, because they have been trained to identify the exact conditions in which the odds are in the investor’s favour. When it comes to gambling, however, the house almost always wins. This has got a lot to do with availability of information – a priceless commodity.

It’s best to opt for fund managers that have the expertise and analytical tools to gather histories of local and offshore investments and use this information to increase your odds of winning in the long run.

If you sit down for a game of blackjack in Sun City, you have no information about what happened an hour, a day or a week ago at that particular table. You may hear that a table is either “hot” or “cold”, but that information is not measurable, nor useful.

In it for the long run

Another key difference between investing and gambling has to do with time. With gambling, your chance to profit ends as soon as the game is over, while with investing there’s the opportunity of a future income stream in terms of dividends and interest, as well as the prospect of capital growth and compounding returns over time. And don’t forget that the risk of losing money in equities declines with time in the market.

A word of caution

It’s essential to realise how easy it is to actually gamble under the pretext of investing. The internet has made investing wonderfully accessible, but the basic tenets of diversification, time in the market and risk versus reward are as relevant as they’ve ever been. Unless you’re prepared to put in the time and effort that true knowledge-based investing requires, you’ll certainly be better off trusting the professionals.

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