

## A Real Difference Between Investing and Gambling?

Colin Bloodworth explains the benefits of investment with the help of a casino

Imagine attending an investment conference in a Macau hotel whose main attraction is its casino. I actually did so with a colleague. We thought we should try our hand at the tables. Did we make our fortunes? Read on!

### Is investing simply a form of gambling?

Some would think so. But let's consider the risks of investing. The first thing to appreciate is that no investment in the world is risk-free. Failing to invest is a risk in itself! If you leave all your money in a bank there is a risk, albeit a small one, of the bank failing. Then there is the risk of your money losing its purchasing power, definitely over time and possibly even in the short term. Many will recall the meltdown of the rupiah in 1997.

One solution to such a risk locally has been to invest in properties, even to the extent of leaving them vacant. The new risk then becomes one of liquidity; you cannot sell a bathroom if you need cash in a hurry.

### Many people lose money in the stock markets

This may seem strange since stock markets have risen steadily over the years, reflecting the growth and profits of thousands of successful companies around the globe. The paradox is that while mar-



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kets have risen over the long term, many if not most investors have lost money. This is because people tend to buy when the news is good and sell, sometimes in panic, when the markets crash or there is a prolonged period of dismal performance.

So is investing in stock markets tantamount to gambling? It probably comes close in the case of someone who is following stock prices all day and buying and selling in the hope of quick profits. But take history's most successful stock market investor, now one of the richest men in the world, Warren Buffett. His empire was built on seeking good value stocks and staying with them for the long term. While day traders and lesser souls were "gambling" in opportunist stocks before the technology bubble burst in 2000 he was "investing" in mundane businesses such as paint companies. This illustrates the difference between a gambler and investor where stocks are concerned. One is trying to make quick profits while the other has his eye on long term growth.

### But even day trading is not 'true' gambling

The difference perhaps between a day trader and a true gambler is that the day trader is not likely to lose everything, whereas the punter going to the casino or the races could lose all his money in one day. The addicted gambler is doomed to lose because even if he wins he will tend to keep gambling until he does lose. An investor on the other hand will tend to pull out at a point where further losses are unacceptable, even if that may not be the best decision.

### How to take the 'gambling' out of investing

When you place your hard-earned money into any kind of investment vehicle your aim is to make a profit over time. It may be for a specific purpose such as your children's higher education or for retirement or simply to build up your wealth. When you walk into the casino you are looking for a quick profit; your retirement pot is probably the last thing you are thinking of — unless you are actually blowing it!

Even if you are seriously investing, you can never exclude an element of chance or risk. But you can reduce the risk significantly by following a few basic principles:

- Never put all or most of your eggs in one basket.
- Maintain ample cash reserves so you never have to sell investments at the wrong time.



- To the extent that you are able, invest in a wide range of assets.
- With stocks, buy more when prices are low and less when prices are high. This is an automatic feature of many regular savings plans.
- Take profits, particularly after a surge in price.
- Never panic. Most stock market crashes are followed by rapid recoveries (the S&P 500 gained 100 percent between March 2009 and July 2010).
- Be wary of any investment that offers unreal returns.
- Seek independent advice if you are unsure of a product.

### So did we make a fortune at the casino?

We each bought chips worth the equivalent of the princely sum of \$125 and settled at a roulette table. My attempt to place a single \$5 chip on red (with an almost even chance of winning) was swiftly rejected as too small by the efficient young lady croupier.

So we had to go big time and accept a much higher risk on a single number or a group of them. The chips quickly evaporated. We clearly unsettled the other gamblers who were from the Chinese mainland. They must have decided we were bringing them bad luck as they all moved to another table, leaving us to make an embarrassing exit and a croupier with an empty table.

Consequently I will definitely stick to investing in the future and have no choice but to continue with my day job.

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