LONG-TERM INVESTING OR GAMBLING

Differentiating the Two and The Role of your Financial Adviser to Help you Navigate the Odds

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Most investors realize that investing and gambling are not the same. However, they may find it difficult to express precisely how different they are. They are both frequently considered in a similar context — truth be told, when investors are asked to explain their personal investment strategies, they, more often than not, fall back on utilizing gambling terminology. Can investing truly be compared with gambling? If not, what then are the differences between long-term investing and gambling? Is there any real similarity between the two?

The differences between long-term investing and gambling include:

Long-term investing has economic benefits

When investors invest in a company's stocks, they are simply helping that company grow by making funds available for them to do business. The by-product of investing in "good" companies for the long-term is the economic benefit of a positive return on your investment. However, for gamblers, there are no economic benefits as the gamblers are not investing in any company or tangible asset.

Gambling is pure speculation

Although some gamblers believe they are skillful in analyzing the presumable outcome of a placed bet, this is usually an empty claim and false hope. Gambling is simply playing by hazard. With the correct research, diversification, and attention to detail, you minimize your chances of losing in long-term investing. On the other hand, gambling is purely chance. Long-term investing includes a plethora of research attempting to understand market trends, cycles, and asset-classes in an effort to exploit them and make money over the long-term.

Availability of information and research

Information is necessary for both long-term investing and gambling. While information about companies (such as earnings, financial ratios, etc.) and a company's stock are readily available for public use, gamblers have no way of obtaining information about what happened in the past. And where they have any such information, it's usually unquantifiable or inaccurate.

Gambling is time-bound

Gambling is a time-bound practice, but long-term investing can last several years, decades, or a lifetime. In gambling, once the game is finished your chances to make additional profits from your wager are over. But in long-term investing, coupled with diversification and a process, you have a better chance of making more profit as the years of investment roll by.

Risk management strategies

Both gambling and long-term investing include the basic principle of minimizing risk and maximizing returns. In every case, the adoption of this principle differs in both practices. While long-term investors think about how to diversify across various investments as a strategy for minimizing potential losses, gamblers have no real risk-reward ratio and bet their money if the odds "seem" favorable.

You are safe until you place a bet in gambling

In the case that you enter a casino and buy-in, you won't be taking any risks with your cash until the time when you choose to place a wager. In case you don't place a wager, you can easily withdraw the same amount of money you brought in; no profits, no losses. But, in long-term investing, your cash begins working right from the minute you invest. In this way, you rarely get back the exact amount of money you invested, regardless of whether you choose to withdraw your funds. It's possible you make some profit or losses.

Investors can limit losses in long-term investing

Investors can avoid total loss of their invested capital if the market or their investment begins to turn sour and there are no expectations of a positive turnaround. Investors have certain choices like diversification or focusing on high-quality investments to enable them to avoid undue risk. But in the case of gambling, you can't set "stop losses" on your wager. If you bet that a team will win a soccer match and that team loses, or you bet black and the color comes up red, you cannot get any return on your wager. In this way, gambling keeps individuals from limiting their loss.

Different indicators

Both stock investors and gamblers use different strategies in order to support their thesis or chances of winning. One such strategy is careful analysis prior to investing their money. In long-term investing, investors analyze trading patterns by interpreting stock charts, dissecting balance sheets, screening for product lines and earnings forecasts. This helps them predict what will likely happen in the market in the future. In gambling, however, the gamblers analyze the mannerisms and betting patterns of the opponents. They play the opponent, not the house. This information may be all you need to make a well-informed decision and predict the likely outcome of a bet.

However, both long-term investing and gambling involve risks and some type of return. The main goal of both investors and gamblers is to maximize returns and minimize risks. This is the only area where gambling is similar to long-term investing.

Conclusion

The role of a Financial Adviser is to help you understand the difference and act as your fiduciary

Financial Advisers encourage and assist you to plan and manage your personal finances or corporate wealth in a profitable or sustainable way. Some might wonder what you need an adviser for. Commerce and finance turn out to be so complex when investing amid these circumstances, and hiring an adviser could be your most critical life choice. The role of advisers is also very important to the new generation of individuals who are about to reach their retirement age. Many individuals have turned their interest towards investing their retirement money which can be scary at times, especially if this is your life savings.

A good financial adviser provides services by dealing directly with the investments of their clients. For this, they must be able to realize how much risk a client would want to take, and how long the client can wait until returns can be realized. It ought to be comprehended that the role of a financial adviser isn't to make decisions on the investment at his own discretion, particularly if your agreement requires a payment of services. When searching for a financial adviser, you should first determine the kind of adviser that you want to hire and work with. A great idea is to understand the types of clients that he/she is currently working with and those that they have worked with in the past. You then can determine if the kind of service you require is similar to the service that he/she has rendered to other clients. In the case that an adviser has worked for you before, and you liked their performance since they did a great job at managing your wealth, it will be best if you continue to engage their services again.

ABOUT MALVERN CAPITAL MANAGEMENT: Our team has over 30 years of experience building investment portfolios and advising clients during volatile markets, in addition to, working closely with institutional clients providing high-quality support and solutions. Malvern Capital Management's team believes that experience is the best teacher. Our wealth planning process is focused on your priorities established by you, for you, for your family, and for your future generations. Our comprehensive wealth plans integrate investment management, retirement planning, cash flow management, educational funding, tax planning, risk management, and asset protection. We also include asset gifting, estate planning, and business succession planning into the detailed plan.

When asked why clients hire us – first, is trust and second, is for us to assist in managing their emotions.

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