Are You A Gambler Or An Investor?

Scott A. T.: Broadcasting from One Dallas Tower. Welcome to the Be A Financial Rock Star Show. I am your Host, Scott Alan Turner, ready to help you get out of debt, save more money and retire early. In the studio with me is Producer Katie, up from a nap. Another one. On the show today I'll be answering your questions about money, business, and life. If you have a question you'd like answered on the show, please visit goaskscott.com. Raphael from New York, New York, asks if investing is gambling? Hmm.

Well, let's go to our good friend dictionary.com, and give us a baseline to work with. What is gambling defined as? It is ... Got a couple definitions. Number one, the activity or practice of playing at a game of chance for money or other stakes. Number two, the act or practice of risking the loss of something important by taking a chance or acting recklessly. For example, if you don't backup your data, that's gambling. What about investing? It's a verb, used with an object. Several definitions, there's actually a bunch. I limited it down to three though.

Number one, to put money to use by purchase or expenditure in something offering potential, profitable returns as interest income or appreciation in value. Number two, to use money as in accumulating something. For example, to invest large sums in books. Three, to use, give, or devote time, talent, et cetera, as for a purpose or to achieve something. He invested a lot of time in helping retarded children. Hmm. Dictionary.com not being very politically correct right there anymore. We don't use that word anymore, but anyways, that's dictionary.com being not politically correct. Not me. You might have heard someone say stock investing, "Well, it's the same thing as playing the casino." Let's dig into that and see what some of the differences and similarities are.

First, let's go to Vegas and compare Vegas to Wall Street. If you've ever been to Vegas or have seen pictures of it, you know that it's very, very extravagant. There is a lot, billions and billions of dollars that have been spent up building Las Vegas, and other casino places around the world. You know they're making money, but if you've ever been to Wall Street or even gone into your local bank, for that matter, you know they're making a lot of money, too, because those buildings aren't cheap. Somebody is paying for that. That someone is you, if you've gone to either of those places. If you're looking at it from that standpoint you're thinking, "Oh, yeah. They're both ripping people off to build up those big buildings and fancy places."

Investing carries with it a lot of positive side effects. Investing grows the economy in a positive way. Investing allows businesses to expand and add new jobs. It allows the average person to put their money to work without having to start a business. You can have micro investments in third world companies, helping out families who are dirt poor, help them earn a living wage so that it can start a small basket weaving company in their village, for example. The world economy would come to a grinding halt if investments didn't exist, because businesses wouldn't be able to raise the capital they need to grow and hire more people. Gambling, it also helps local economies. It provides jobs. It also has some well-documented unpleasant side effects like addiction.

Let's look at some of the similarities. They both involve risk and they both involve choice. Gamblers risk their money in order to try to make more money. Investors put their money at risk in order to try to make more money. Both involve playing the odds. Investors, they look at past history to help them make a decision on whether they're going to put their money in a particular investment. Gamblers, they can look at an opponent's history occasionally, but only if you're playing some type of poker championship. You can't look at the history of a slot machine, for example. People do, but no. That's ... No, that doesn't work. You're looking at a slot machine that says, "Oh, we paid out two hours ago and two hours before that." It doesn't mean it's going to pay out two hours from now, as an example. That's ... No.

Another example of gambling, if you're into sports betting, betting on a team whose from a warmer climate. They're going to play an outdoor game in a colder climate. Does the team typically do better or worse based on their past history? You can use that to help you in your decisions. Investing, the odds are in your favor. Gambling, the odds are against you. What are some of the differences? There are no loss limits on gambling, such as fantasy football pool or sports betting. You're going to win it all or you're going to lose it all. If I put $100 down on the roulette table, I am either going to make some money or I'm going to lose it all. There's no in between.

With investing, there's a couple of things you can do, what's called a stop loss. If the investment drops below a certain percent, it automatically sells it for you, or you can do it manually. If your investment loses 10% over the course of a month, you can sell it. Gambling, on the other hand, you bet on the Dallas Cowboys and they lose, you lose all your money. What about timing? Gambling is a very short lived activity, seconds, minutes over a period of hours. Investing, that can be for decades. You can put your money in and leave it there for 30 years, a big difference there.

Dividends is another. Investing in companies, they like to ... Some of them, reward their investors who purchase stock, by paying out periodic dividends. Gambling, your reward in Vegas for losing money by getting your meals comped sometimes and maybe your rooms comped sometimes, or free tickets to a show, but they're trying to entice you to gamble, therefore, lose more money. What about available information? Investing, you have company annual reports. You have the stock history that you can look at. You have the prospectus guides, which shows the history of what investment has gone through. A lot of information available on investments.

Gambling, you've got stats that you can look at. You've got the odds of a particular game, not much else. You can make an argument that day trading, the act of buying and selling stocks as frequently as a day, every few minutes, a few seconds sometimes, is a form of gambling. As someone who used to engage in this activity, myself, I would agree with that. It's frenzied, it's a rush, it's a big high when you win, it's a big low when you lose, and when you lose more than planned, doing day trading, you sometimes you find a way to get more money to make up your losses. I remember doing this one time. I lost too much, so I went and pulled some money from a checking account or savings account, transferred it into my brokerage account, so I could invest more to make up for the losses.

Day trading can be very consuming. It's very similar to the behavior of a compulsive gambler. In my opinion, anyway. How about the odds of winning gambling versus investing? Well, if you look at some of the common types of gambling at a casino, I've got a list here. You've got Caribbean Stud Poker, the house is edge is 5.22%. Roulette, house edge 5.26%. Blackjack house edge .63%. Slot machines, house edge 15.2%. Then you got some Vito Poker, Craps, Bokharat. Anyway, the house always has an edge in those. If you look at the stock market over a ten year period, let's see we've got year 2000 return, -9%. 2001, -12%. 2002, -22%. 2003, 28%, so it was up. 2004, 10.9%, up. 2005, 4.9%, up. The history of the stock market, the increases over time way outweigh the declines, so the house doesn't have the edge.

If you run into somebody who says, "Investing, that's just gambling. They're just calling it something else." You can just use that data. Data shows gambling, it's a no-win venture over time. You can't compare it to investing, which has a positive return over time. The major investment areas, diversified, stock portfolio, investing in bonds, real estate, they have been profitable over time. Yeah, there's some that don't work out, if you're getting into penny stocks, trading gold commodities, all kinds of different things. You can turn investing into gambling, but to use a gambling turn, if you put your money in investing, keep it there, let it ride. Are you going to be better off putting your life savings in a well-diversified portfolio that's got a track record of decent returns or dropping it on the blackjack table in Vegas? I would go with the investment. 99.99999% of even average investors are going to do better investing in the stock market over time than trying to get into the world series of poker and make it to the final table. In summary, never, ever bet on the Dallas Cowboys to win. Thanks for the question, Raphael.

Peter in Canada works part-time in Finance and wants to change employers. Says,

Peter: "I'm currently in school and plan on becoming a Financial Advisor. Almost all companies in Canada use mutual funds as the investments they sell. One company I may work for, sells all different brands of mutual funds, ranging from Fidelity to AGF, there's a large selection. I'm a passive investor, but all the funds appear to be actively managed. With larger clients, the company can get the management expense ratio down to around 1.2%. From that the Advisor gets .25% to 50% of the assets under management. I want to know your thoughts as I'm a huge fan of index funds, but I don't know any firms that utilize index funds that will take me on part-time, as I don't want to leave my full-time job. I'm in school while working full-time. Anyways, your thoughts on this would be appreciated."

Scott A. T.: While it might look like you're ... It's a detriment to where you're working right now, I kind of see it as an advantage for you going in the future. Now why is that? Because you're an insider. Not like an insider, insider trading or anything, but you're working for the firms that are charging the big expenses and the big actively managed funds, so you can learn all that stuff while you're there, how that works, what's going on, and do that. Learn everything that you absolutely can. When we get into debates with people about A versus B, X versus Y, all that stuff, the people who excel at the debates don't always win them, but the people who do better at them are the people who can debate both sides of the issue. If you know an issue inside and out, and can be able to debate it successfully from the point of person, even if you don't agree with it, that is super powerful. If you ever went to debate school ... Or not a debate school, take a debate class in high school or university, that's one of the things they teach.

I did not do this, but I've read about it. When you can debate both sides of those things, you have a much better chance of winning the debate, so take advantage of that while you're in a place right now, which is teaching an investment philosophy you don't necessarily agree with. I don't necessarily agree with it either. Academic research doesn't necessarily prove it, but then when you move on and you start interacting with those clients and they're talking about, "What about all these actively management stuff or what about all these other companies?" You can say, "I used to work for those guys, and I did that, and I've done the research. Let me tell you why I think this particular philosophy that I'm following now, the index philosophy, passively managed funds, are better for you. Let me show you the academic research that backs it up on a piece of paper." You show them, lay it out in front of them.

To me, that instantly gives you more credibility, because you've played both sides, and you've learned how the system that you're in now works, and then down the road when you're in a place where they emphasize the passively managed funds, you're just going to be in that much better position. Right now you're just playing defense, and index funds are the offense. You want to think about it that way. You can figure out how to debate both sides, you can deflate every argument that you're ever going to encounter from a potential client who walks into the office years from now. Many people come over from the dark side where you are now.

Most financial advisors, or a lot of financial advisors, I won't say most, they start having to pay their dues, they get their feet wet, they work at a big brokerage firm or a bank, learn the industry, et cetera, working for somebody else, one, two, three years, how ever long it is. Three years if you're going for the big Certified Financial Planner designation, and then they move on and they branch out on their own. Start their own firm or work for another smaller company.

I would say it's kind of typical, nobody just graduated school and runs out and starts their own passively managed investment firm. You could do that, but certainly it's going to be harder to find clients, because you don't have the credibility, the network, the Rolodex, in order to build up your business quickly. While you're there, learn, learn, learn, learn, learn. Learn everything that you possibly can about both sides of the equation so that when you do graduate, when you put in those three years, when you get that whatever designation you're shooting for under the belt, then when you go out and find these companies in Canada that have that investment philosophy, you're much more likely to get hired.

If there's not a lot of those companies in Canada, that, to me, just screams, "Opportunity." That screams to me, "Opportunity." It would be more challenging because you're going to educate the public on why this investment philosophy might be or is better than the old school, where you're competing against all these other folks, but man, to be in a tiny market where you have a superior product and you're one of the few people offering that superior product, golden opportunity for business. Also, don't forget about being a Virtual Planner. Look online for American companies that might be branching out into Canada or have existing branches in Canada where you can work remotely, and take on clients. The boundaries are limitless today. There's nothing that says you have to sit in an office. Thanks, Peter, for the question.

Shane in Oil City, Pennsylvania, is getting frustrated with life and finding a job. You're going to have to excuse the construction noise in the background. One Dallas Tower doesn't have the best soundproofing. Shane says,

Shane: "I'm 18, I have absolutely nothing, and have been looking for jobs and applying, and I'm starting to get frustrated with life. Trying to surround myself with more people like you." Thank you, Shane. "I need more real, loyal, true friends." I looked up Oil City, Pennsylvania, on Google Maps. Just wanted to find out a little bit about it. Population 10,000, which I would consider a small time, small town, type of city.

Scott A. T.: My hometown was 2,000 people, and the next closest big town was 10,000, so I'm familiar with those types of areas and the lack of job prospects. It's ... Sometimes it's a dead end area to live in, small towns. When you consider all the different job titles in the world, and in the labor pool, much larger city has much more opportunities. Smaller city, smaller opportunities. It doesn't mean you can't have a great life there. It doesn't mean there's not jobs and there's things to do there. It's just a smaller pool to pick from. You're right, there's not as many opportunities.

You see the same people on the street every day. You're passing them on the car ... Passing them on the cars each day, if you get a car and you're driving around, or you're walking around. You've got to make a decision. The decision I made growing up was I looked around, saw the potential employment opportunities, and realized, "You know what? I can't work here. I can't work in this town. I'm leaving for better opportunity." I moved to a bigger city. You've got to do the same thing. You've got to look around and say, "All right. Do I see myself here for the rest of my life?" Yes? No?

If it's no, you got to get out. You got to get out. You got to move to a bigger area, bigger city, so there's greater opportunities for you to excel and thrive in life. If you make that decision, "All right. I'm going to do this." Well, all right, how are we going to get there? Because you said you don't have a job, you've got nothing. You've got nothing. You're starting from zero with nothing, so we need money to get out. You're going to have to scrimp and save and do the crap jobs, in order to do that. Mow the lawns, shovel snow, wash dishes, paint houses, paint fences, any manual labor job. Most of what I contributed to college, the part that I paid for, was money I did from doing manual labor jobs, working outside. You have to do the crap jobs if you want to get ahead in life.

Every town, no matter how big or small, the crap jobs are there. Whether it's working at a fast food joint, washing dishes, making minimum wage, you just got to do it. You do. Some people don't, and they don't have to make those sacrifices, they may have it easier, have parents who have some money to help them get out or get started, foot the bill to college or they get a free ride for a scholarship. I'm talking education here, but I don't think you need to go to college to excel in life. There's a huge gap in the trade world because young people, like yourself, they don't want to be electricians. They don't want to be welders. They don't want to be plumbers. They don't want to be sheet metal workers, but man, 18 years old, you can go to one of these apprentice schools or apprenticeships and start making good money, if that's what you want to do.

You'll be able to write your own ticket because of that labor shortage in those skilled working jobs. Have your own business. You're going to be able to set your own hours if you go to a trade job, or maybe you want to go to college. Maybe you're super gungho. You just want to start a business right now, and do what you're doing. Learn from others, see how they did it. You don't need a college degree to start a business. Oil City is 90 minutes from Pittsburgh, which is a very, very large city, which means it's going to have a lot more employment opportunities. If you get a vehicle, commute 90 minutes a day each way. Make the sacrifice in the short term so you can get ahead, or just flat out move.

Scrimp and save, and save up enough so you can move down to Pittsburgh where the opportunities are. Life can be frustrating. No doubt about it. What you choose to do with your frustration is going to define if you stay frustrated or use it to your advantage. Some people, they will complain and moan and accept it, stay in the same place all their lives, and that's the life that they choose, they choose, to live. Others, use their frustration as fuel to ignite. They get over it. They see it as temporary. They look past it. They see what lies ahead. Do not settle, Shane, because you don't have to settle.

As Tony Robbins says, "Your past does not equal your future." You're super young, 18. Holy cow. You get to manufacture your future, starting with the decisions you make in the next five minutes. When you hit a roadblock, which you will, because we all do. It doesn't matter what age you are. You manufacture your future, starting with the decisions you make in the next five minutes, after you hit the roadblock. I am jealous because you are 18 and you've already recognized you need to surround yourself with others that are going to bring you up. More, real, and loyal, and true friends. If I had access or knew about the information available today that you have access to at age 18, I would be able to skip over a lot of the stupid stuff I did. You're already on your way, you've recognized, "Hey, there's more out there for me. There's a better way and I want it." Go get it. Thanks, Shane, for the question.

Quick break. Got to pay some bills. You're listening to Scott Alan Turner. Hey, Nation. Scott Alan Turner here. Now for those of you that are my longtime listeners, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy pencils, because who needs to learn how to write anymore, or recommending you listen to Yanni to pump you up on your workouts? No. I have a name to call to you, the Rock Star Nation, but if I were, if I were to recommend something to you, I would tell you about Sweet Potato Skin Cleanser. Never will your skin look so fresh and smell so scenty. It's illegal in nine countries. Yep, it's made with bits of real sweet potato, so you know it's good. They've done studies, and 60% of the time, it works every time. Available nowhere. Tell them Scott Alan Turner sent you.

The Lone Duck has some questions on selling stuff on eBay. He writes, "I wanted to know what your experience with selling your stuff on eBay is like? Have you ever had a situation or a customer who wanted to return what they bought?" Several questions here. I'm going to answer them one at a time. I have bought and sold hundreds of items on eBay, both sides of the coin. Selling and buying. I have had situations where people wanted to return stuff. Typically, in all of my options, I put no return. No returns accepted. I put enough pictures up there, I describe the defects with whatever it is I'm selling, so it's pretty clear what somebody's getting.

Even if I sell something that's broken and doesn't work I put, "Hey, this is broken. It doesn't work." Be very clear on what it is you're selling, and that way you minimize those opportunities or requests for returns. Now if someone still wants to return something, yeah, I'm an ethical and a moral guy. I just feel I'm going to do that anyway, even though the policy says, "No returns." Sometimes, and this is very, very rare. I'd say like 1% or 2% of the time, this actually happens, somebody wants to return something. In the few times it's happened, a couple times just because I screwed up on the description of what I was selling. I thought I had the description right of the product, and what I sent them, it was just completely different.

They get it and say, "This is not what I thought I was getting." That's my fault, and so of course, I'm going to take that back. A couple times, they just changed their mind or whatever reason, "Yeah, I'll take it back." Not that big of a deal. I'd rather have a happy customer, even though technically not a customer, because you're just doing one off transactions. Not somebody going to go report me to the Better Business Bureau or anything like that. Also, I do not sell anything internationally. Zero. I don't want to deal with the shipping charges, going to the post office and filling out a customs form or whatever, domestic only.

eBay does have a service where if someone is international and they want to buy your product, you ship it to the central repository of eBay, which I don't remember what state it is in, and then they handle all that stuff, shipping it overseas. That's happened before. Really, I didn't even know about it. Somebody from the UK bought a piece of guitar equipment. I ended up shipping it to, I think, I guess it was Virginia, and then eBay shipped it on. It's possible for someone to buy your stuff through eBay internationally, even though you're only selling it domestically, but that's on eBay to handle that, not you.

Next question, "What is the process of coming up with the price for the stuff that you want to sell?" I look at comparable stuff on eBay for products to see if there's stuff that's already being sold. Also, eBay gives you a recommended minimum for what you should start charging with products. If it's something common, you're selling a used iPhone or something. They'll tell you, "Okay, here's what your starting bid should be." If they do that, go with that starting bid. If you don't know, you can go out and research other websites, maybe get an idea of something. Maybe you have an antique you're not sure about, something unique. Custom artwork. You've got a vintage guitar, which I've bought before and sold before on eBay, so you've got to go out and find that information out on your own to see what the starting bidding price is that you want to start with. That's just research.

Finally, does it take a long time for people to find your stuff and buy it? You can set the duration of your option three days, seven days, ten days, I want to say it is, off the top of my head. I know I'm going to do seven, and I start it on usually a Sunday night, is when I'll start my auction, so I'll schedule them. People get seven days, because Sunday night people are sitting around on the computer and they have the opportunity to wait for those final few minutes, final few seconds, and bid up the price on them. Whereas if you pick Monday at lunchtime, well, everybody's out to lunch, right?

Child: Daddy.

Scott A. T.: Oh, it's a son. It's a son popping his head in. All right. What's that key right there?

Child: B.

Scott A. T.: B for what?

Child: B for bam

Scott A. T.: What's this one?

Child: E.

Scott A. T.: E for eBay.

Child: E for eBay.

Scott A. T.: Okay, and that's the answer to your question, does it take a long time? No, unless you've got something that is a product or something that nobody wants, and you might have to re-list it a few times, and sometimes you have to give it to Goodwill and just get the tax break on it if nobody wants to buy it. That's generally a rarity though. Thanks for the question. Pawan or Pawon, my apologies for mispronouncing your name, asks about time limitations for investing in Roth IRAs.

Pawan: "I recently opened a Roth IRA account about a month ago. I was wondering if there was a time limitation for me to start investing in it?" There's several questions here. I'm going to answer that one first. It's going to depend on the brokerage, how much the fee is going to be for that account.

Scott A. T.: One brokerage might charge you $3 a month if you don't have a minimum amount of money in your investment account. Another one might charge you $5, another one might be free, another one might charge you $29 a year. Just depends on the brokerage house, how they're going to do that. Once you get up above a certain amount. I'll make up a number, say $1,000 as a balance in your account, they may start waiving those fees and instead charging you a percentage of the money that they manage in that account. Again, make up a number, maybe it's .03%, .012% something like that. To the best of my knowledge, you don't have to get started right away, but they're probably not going to let you keep that account open for years and years and years without any money in it. Eventually, they're going to send you a notice saying, "Hey, hey, put some money in here."

All right. Next question. "Shares of stocks or mutual funds, if there is one, how long?" Oops, my mistake. That was a continuation of the first question. When you open a Roth IRA, if it's got a zero balance in it, again, that goes back to the things I just talked about, but if you just deposit money in it, it's just going to sit in what's called a money market account, not doing anything. You don't have to do anything in there. It can just sit in the money market account. It's going to be earning .5% or 1% interest, maybe a little more. It's the equivalent of an online savings account.

You don't have to invest in stocks or mutual funds or bonds right away. You can just leave it in the money market account. This is true of any brokerage where you first invest your money and it gets transferred in there. It sits in this holding account, it doesn't go anywhere. It doesn't go into stocks or mutual funds or bonds immediately. You can hold it there forever. Typically you wouldn't do that, because you want your money to go to work for you, so you'd get them into stocks and mutual funds and bonds or whatever that you want to buy and invest in.

Next question, "Do I buy stocks online through Fidelity or Vanguard or meet with a Financial Advisor?" That is a decision that's entirely up to you. If you're comfortable and you know what you want to invest in, you've identified particular index funds that you want to buy in. I'll make up one. Let's say you want to invest in the Vanguard 500 Index Fund. Then you'd go into your online portal through Vanguard, log into your account, and you'd look up the Vanguard 500 Index Fund, and you'd be able to buy as many shares as you had money available based on the price of the share. It would take you a couple minutes to do it, just go in through their online portal. You could also call them up on the phone, and have somebody walk you through the process the first time. Get some help.

If you have no idea what you want to get into, now that's different. Then you'd want an Advisor through perhaps Fidelity or Vanguard to help you out with that, and then you can call them up and say, "I'm a beginning investor just getting started. Can you give some recommendations to me?" However, if you're listening to this show, you probably already got a general idea of what you want to get into. Not individual stocks. It's going to be low cost index funds at Fidelity, or Vanguard, and you could go with a target date fund if you just want something really simple to get started with, or total stock market index fund at either one of those places. A mixture of the total stock market index, total international index, total bond fund given your asset allocation, risk tolerance, and your age, if you've gotten that level of knowledge to where you can figure that out and you're comfortable doing that on your own. Just depends where you are.

Final question, "Which is better to have, life insurance or health insurance?" If it's just you, you have no dependents, no spouse, you don't need life insurance. Life insurance is to protect your family in the case of a loss of income, so if you don't have a family, you don't need life insurance. Probably health insurance I'd pick over either of them, even though it's going to be way more expensive. It's just that throughout the course of a year, you are much more likely to get sick and have to go to the doctor or the emergency clinic than you are to die. Given that you can get a 20 year term policy for half a million dollars, if you're young and in decent health for $500. Again, I'm just throwing out numbers. I don't know how old you are, what your health is. It's not an either or. It's both. You want both if you've got a family. Thanks for the question.

Aubrey from Liberty, Texas, wrote in,

Aubrey: "I successfully negotiated the proposed 17.54% increase in my property taxes down to a 7.5% increase. This will save me considerable amounts of money in taxes. I plan on being in my house for nine more years, and plan on appealing every year until then. The housing and job market in the area is booming due to construction of oil pipelines and affiliated jobs. Thank you for all the hard work and great information you provide."

Scott A. T.: Thank you, Aubrey, for listening, and congratulations on the win saving some dough. Those are the words. That's it for this episode. I'm your Host, Scott Alan Turner, Rock Star Katie is my Producer. Above lines mentioned on the show are available on Show Notes on scottalanturner.com. If you have a question you would like answered on the show, visit goaskscott.com. Thanks for listening.