



## Investment vs. Speculation Vs. Gambling

# Definitions

- Investment
  - The act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit
  - There has to be a reasonable expectation of profit
- Speculation
  - The act of trading in an asset, or conducting a financial transaction, that has a significant risk of losing most or all of the initial outlay, in expectation of a substantial gain
  - With speculation, the risk of loss is more than offset by the possibility of a huge gain; otherwise, there would be very little motivation to speculate
- Gambling
  - Gambling is defined as staking something on a contingency
  - The rewards are not inline with the risks

# Coin toss game at 3 Casino's

	Roger's casino	Fairy's casino	Granny's casino
You bet	Rs 100	Rs 100	Rs 100
Correct call – You get	Rs 150	Rs 200	Rs 250
Incorrect call - You lose	Rs 100	Rs 100	Rs 100
% of time you need to be right to break even	66.6%	50%	40%
On a great day (always right)	You make money	You make money	You make money
On an ordinary day (right half the time)	You lose	You break even	You make money
On a bad day (almost always wrong)	You lose money	You lose money	You lose money
Rationally this is a	<b>Losing proposition</b>	<b>Fair proposition</b>	<b>Great proposition</b>
	<b>Gambling</b>	<b>Speculation</b>	<b>Investment</b>
<b>In summary</b>	One is taking a chance, payoff is not in line with the risk	The payoff is in line with the risks	There is a reasonable expectation of profit

# Investment vs. Speculation Vs. Gambling

	Gambling	Speculation	Investing
Odds are	Unfair (reward not proportionate to risk)	Fair (rewards are proportionate to risk)	Favorable (risks more than compensated by rewards)
What should you be looking for	Having fun	Good pay off	Steady returns
What should be your ideal profile	Have wealth and looking to have fun	Have wealth and looking to increase it	Looking to build wealth
To succeed you need...	Luck	Expertise in the business	Fair understanding of business and common sense
If you do very well (and are lucky)..	Make a lot of money	Increase your wealth significantly	Will be do fairly well
Can you lose money	Yes	Yes	Yes
In the long run you will ...	<b>Lose</b>	<b>Break even</b>	<b>Make small profit</b>

# Investment vs. Speculation Vs. Gambling examples

	Gambling	Speculation	Investing
Investing in equities	Investing in a Pharma company IPO as most recent Pharma IPO's had a great run up.	Investing in a Bio tech company in the final stages of drug discovery and you being in the field believe it is promising	Investing in top few companies in the "Pharma" sector as exports and local sales are growing well
Buying land	Purchasing land near a town as the price of neighbour got a great deal and because land prices always go up	Purchasing land when you know from your "reliable" network that a large investment in building a highway is likely to come through	Purchasing land near an SEZ, after the SEZ has been commissioned as you believe that as people start moving in the prices are likely to appreciate
Buying residential property	Buying a house that has recently come on the market as the house prices in the city always go up	Buying a beach front property near a developing as you have studied trends in other markets where such property values appreciated	Buying property in an area which is land locked and the rental yields are very good and historical data points to a decent appreciation in price

# FAQ....

- I am looking to build wealth how can I speculate and gamble
  - To speculate
    - Earmark a **small portion** of **your investment funds** for speculation
    - Ideally you should speculate in the area of your expertise
    - Expect to break even
  - To gamble
    - Earmark a **portion of your expenses** for gambling (**should not be your investment funds**)
    - Gamble in areas where you will have most fun
    - Expect to lose the money

**Your top priority should be to make sensible investments and build wealth**