Markets in a Minute:
Vegas, Baby: Investing vs. Gambling

Ever heard someone proclaim, "investing in the stock market is just like gambling!" I've heard it, unfortunately, too many times. Of course, nothing could be further from the truth.

It may seem particularly ironic that I would feel that way since stocks are 10 ½ months into a bear market. Now some of you know I do enjoy visiting Las Vegas to play a lot of golf, some poker and a little blackjack. We also enjoy the diverse restaurants and Cirque du Soleil acrobatic shows at the large hotels. With smart decisions and conservative money management, I've learned how to minimize losses and sometimes even come home a nice winner.

However, when one compares serious long-term investing to gambling – there's no comparison - serious investing wins "hands down". It comes down to this: I'm happy to take risks and even sometimes sustain short-term paper losses as long as I can be reasonably sure that, over time, I'll make money. And Las Vegas, for all its excitement & glitz, just can't offer the right odds. However, in investing the odds are greatly in the investor's favor, as you will see in the next few pages. Let's discuss the very real and large differences between serious investing and gambling in this Markets in a Minute.

Odds Over the Long-Term

Gambling

While investing and gambling both involve risk and choice, they are drastically different activities that historically lead to opposite long-term outcomes. Have you ever stopped to consider how casinos stay in business? It's simple—the longer you play, the more likely you are to lose money since every game where you play against the house (slot machines, craps, and all table games such as blackjack) has a built-in, undeniable, long-term mathematical edge (ie., the "House Edge") that favors the casino[(a)]. The "house" always wins because your long-term odds of coming out on top diminish every time you place a bet. Now multiply that logic by every gambler and every wager they make, and it's easy to see how the U.S. commercial gambling industry generated $43.6 billion in revenue in 2019 before the pandemic shutdowns.

(a) *Side Note: The only exception to the long-term "house edge" is live poker since you're playing against other players at the table, not the house and your overall skill level, analytical ability and emotional temperament determines whether you're a long-term winner or loser – BUT that's a discussion for another time…Ironically, because of similar-type skills needed to succeed in investing and live poker it's no coincidence that I've met a LOT of investment people at live poker tables in Las Vegas.*

Investing

In contrast, the longer you invest, the more likely you are to grow your money and build wealth. Over the last 100 years, investors who invested in the U.S. stock market have experienced average annual returns of around 10%. Now in the short-term, you may experience a down month, quarter, or even a bad year like 2008 (or 2022 so far…), but the stock market has consistently rebounded over time and continued to provide positive returns over the long haul.

Separating Winners from Losers

While the key to making money in the stock market is to stick with it for the long-term, many investors treat the market like it's gambling in Las Vegas. It has become ever so common for individuals (notice I didn't say "serious investors"!) to buy and sell stocks cheaply, easily and quickly. But often, on-line trading platforms and financial media make it difficult for a person to "stay the course". The keys to making the market work for you, and not against you are:

- Avoid short-term strategies such as market-timing or performance-chasing;
- Remain disciplined and don't react to temporary market shifts

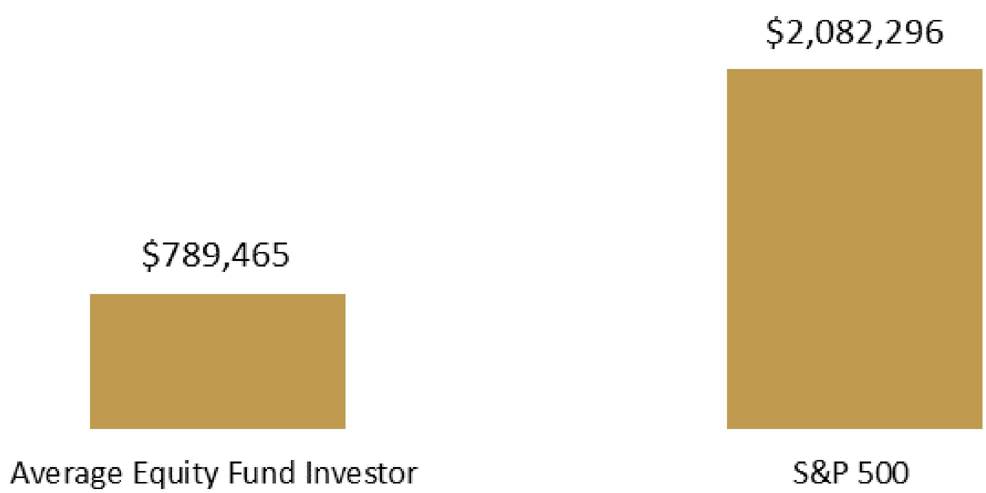
Extensive data demonstrates how most people struggle to implement those straightforward strategies, hurting their wallets in the process. Data from the 2022 Quantitative Analysis of Investor Behavior (QAIB) shows that investors who remained patient and didn't focus on short-term market gyrations were significantly more successful than those who let their short-lived emotions override a longer-term strategy to build wealth. In fact, the average equity fund investor earned only two-thirds of the return that the broad market offered. While fees contributed to somewhat lower investor returns relative to the S&P 500, much of those lost returns occurred simply because investors bought and sold at the wrong times.

The Dalbar Study: 30 Years of Average Equity Fund Investors vs. the S&P 500 12/31/1945 to 12/31/2021

Average Annualized Return:

(Continued) The Dalbar Study: 30 Years of Average Equity Fund Investors vs. the S&P 500: 12/31/1945 to 12/31/2021

Growth of $100,000:



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Average Equity Investor as determined by Dalbar. Study source: Dalbar QAIB 2022 study. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. Source: Kestra Investment Management with data from FactSet. Index proxies: S&P 500. Data as of December 31, 2021.

How to Pursue a Winning Strategy

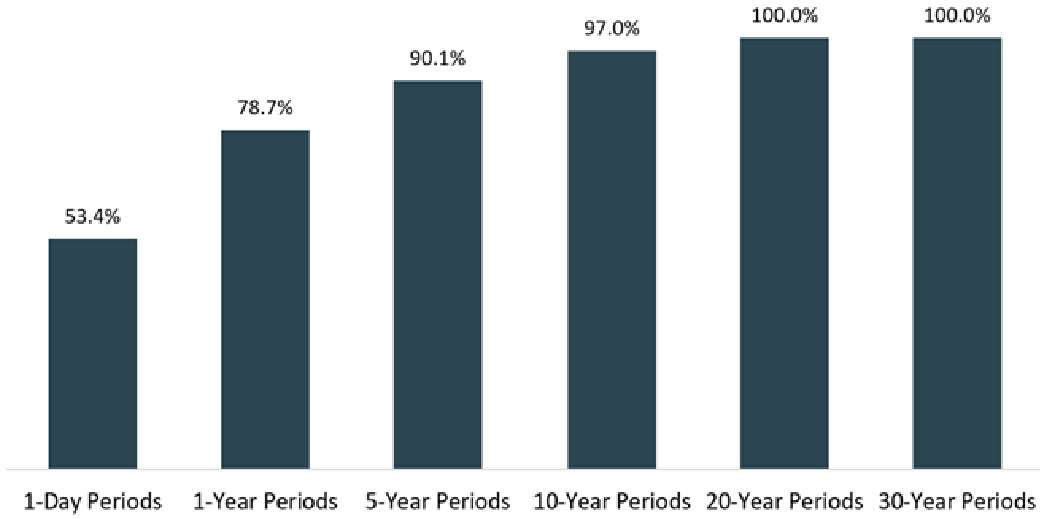
In a casino, Blackjack gives you the best odds to beat the house at 49%. But even at almost 50/50 that's still a losing proposition over the long-term.

Focusing on long-term gains is the key to stacking your odds of success in the stock market. Since 1945 the S&P 500 has delivered an impressive average rate of return of 11%. During that time, the index was up 79% of the time during all 1-year periods. That winning percentage increases to 90% during all 5-year periods and 97% for all 10-year periods. Buying the S&P 500 turned a profit 100% of the time for all 20-year and 30-year periods.

(see the chart on the next page)

S&P 500 Probability of Positive Returns
12/31/1945 to 12/31/2021

Percent of periods with positive returns



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While the market offers much more attractive odds than Las Vegas, it's critical that serious investors stay the course through turbulent periods, or those odds decline dramatically. In fact, because most investors sell when stocks are low, and buy when they're high, they tend to earn less than half of what they could if they simply had done nothing.

Improve your chances by investing strategically for the long-term, and odds are that you'll make a lot more than you'll lose.

Important Disclosures

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