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focus

Investing or Gambling: **Which Game Are You Playing?**

Earlier this year, Warren Buffett, the world's most famous investor, said 'We've never had people in a more gambling mood than now'. Buffett compared financial markets to a church with a casino attached. The church is long-term investing. The casino is short-term gambling. What has changed, he said, is that the casino has become much more crowded.

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> **...The same market can be used to build wealth steadily over years, or to make highly speculative bets over minutes or hours...**

Buffett's point is that participating in financial markets does not necessarily make someone an investor. The same market can be used to build wealth steadily over years, or to make highly speculative bets over minutes or hours. Understanding the difference starts with remembering why we invest in equities in the first place.

Why do we invest in equities?

At its core, we invest in equities because, over time, good businesses tend to grow alongside the economy.

It's important to remember that owning equities means owning shares in real businesses. Population growth, innovation, rising productivity, and increasing demand for goods and services create opportunities for those businesses to expand. Companies that successfully capture these opportunities can grow their revenues, earnings, cash flows and, ultimately, their value.

Of course, not every business succeeds. Some companies will grow faster than others. Some will stagnate. Others will fail. That uncertainty is part of investing.

Investors, however, do not need every company they own to be a winner. Across a diversified portfolio there will inevitably be some winners and (unfortunately) some losers. But taken together, those investments allow investors to participate in the broad growth of the economy without necessarily identifying in advance exactly which companies will drive it.

Gambling is different

Buying shares, however, does not necessarily mean you are investing.

Two people can buy the same share for very different reasons. One might buy because they believe the business will grow earnings and become more valuable over the next five or ten years. Another might buy because they think the share price will jump tomorrow following an announcement, a social-media tip, or simply because it has been going up.

The first is investing. The second is closer to gambling.

Both involve putting money at risk in the hope of making a return, but the source of that expected return is very different. An investor is principally relying on the business to create value over time. A short-term speculator is primarily relying on correctly predicting what the share price will do next.

The line between investing and gambling becomes even clearer when people trade over very short periods, use leverage, or turn to products such as short-dated options.

The casino in your pocket

One reason speculative trading has grown is that it has never been easier.

Not so long ago, buying or selling shares generally meant speaking to a broker, paying a commission, and making a deliberate decision. Today, anyone with a smartphone can open an account, access sophisticated products such as options, and make trades within seconds.

Trading apps can reinforce that behaviour. Push notifications, flashing prices, lists of trending stocks, and other game-like features encourage users to stay engaged. In the US, platforms such as Robinhood and Interactive Brokers now offer event contracts alongside stock trading, allowing users to wager on outcomes in financial markets, sports, politics, and other events. Research suggests these features can increase both trading frequency and the amount of risk investors take.

Making investing more accessible has clear benefits. The danger is when ease of use encourages activity just for activity's sake. Good long-term investing generally requires patience. Today's technology makes it straightforward to react to every headline or social media post and make another trade. The risks become greater when that frictionless trading is combined with products that magnify short-term market movements.

Zero-day options

Options are financial contracts that give the holder the right to buy or sell an asset, such as a share or share market index, at a specified price within a set time. They can be used for legitimate purposes, including managing risk, but they can also be used to make highly speculative and leveraged bets on short-term market movements.

Zero-day options take this to the extreme. These are options traded on the day they expire, meaning investors are wagering on what a share or market index will do over the next few hours. Because options can magnify the impact of market movements, even small changes in price can produce large gains – or large losses.

Options trading has soared. US volumes have more than tripled since 2019, with an increasing share concentrated in very short-dated contracts. In 2025, zero-day options accounted for 59% of all S&P 500 Index option trading, averaging 2.3 million contracts a day. By June this year, average daily volume had reached a record 3.3 million contracts.

These trades have little to do with the long-term earnings or value of the underlying businesses. The outcome depends on correctly predicting a very short-term price movement. This type of activity looks far more like gambling than investing.

Leveraged ETFs

Another product that has seen growing uptake is leveraged exchange-traded funds (ETFs).

A traditional ETF might track a market index such as the S&P 500. If the index rises 1%, the ETF should rise by roughly the same amount. A leveraged ETF is designed to magnify that movement. A two-times leveraged ETF, for example, aims to deliver twice the daily movement. A 1% rise becomes roughly a 2% gain, while a 1% fall becomes roughly a 2% loss.

South Korea has recently provided a real-world example. In May 2026, it saw the launch of its first single-stock leveraged ETFs, linked to Samsung Electronics and SK Hynix. These products aimed to deliver twice the daily movement in the underlying shares and quickly attracted strong retail interest. Even more aggressive three-times leveraged products linked to the same companies were subsequently launched overseas.

The timing of these new products proved painful. After soaring on enthusiasm around artificial intelligence, Samsung and SK Hynix shares fell sharply. The losses on these leveraged ETFs were substantial. Last month South Korean authorities tightened regulations amid concerns about investor losses and increased market volatility.

Leverage does not make the investment itself any better. When used to chase short-term gains in a hot stock, it just makes the bet bigger.

Investing as entertainment

The gambling mentality is not only showing up in the products people are trading but also in the reasons they are trading.

Social media has transformed the way many people engage with financial markets. TikTok, Reddit, YouTube, X and other platforms provide an endless stream of stock tips, trading strategies, and predictions.

Recent research from US financial regulator FINRA provides an insight. Among investors who use social media for investment information, 59% cited entertainment as one of their motivations for investing, compared with just 18% who don't use social media. Among investors aged 18–34, 61% had made an investment decision based on a recommendation from a social-media personality.

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There is nothing wrong with enjoying investing, and social media can be a useful source of information. The issue is when entertainment becomes the primary objective. That can encourage behaviours familiar to a casino: chasing what is hot, following the crowd, and constantly looking for the next opportunity. The excitement comes from the movement in the price rather than the progress of the business itself.

Gambling can amplify volatility

We live in an era of constant noise. In the short term, markets can whip up and down, driven by an endless stream of commentary, media hype (or panic), geopolitical shocks, shifting interest-rate expectations, or a hundred other reasons. Investors trading on social-media sentiment, short-term news, or leveraged positions can amplify those swings.

The shorter the timeframe, the greater the influence of noise, randomness, and speculative behaviour. Share prices can move sharply over a day or a week even when very little has changed in the business itself.

Even for long-term investors, those swings can be disconcerting. But it is important to distinguish between a change in price and a change in the value of the business. The two are not always the same.

Over longer periods, the noise fades and what matters is how the business performs. For patient investors, volatility is principally something to endure (or occasionally take advantage of) rather than something to trade around.

Which game are you playing?

Some short-term traders make money, just as some people win at the casino or back the winning horse. There are professionals who apply considerable research and skill to trading. But evidence suggests that, for most people, frequent trading is more likely to detract from investment returns than enhance them.

In contrast, long-term investors have something important in their favour. The businesses they own can grow in value over time.

The stock market provides the venue for both investing and gambling. What separates the two is not necessarily what you buy, but why you buy it, how long you expect to own it, and what you are relying on to generate your return.

For investors, the money generally isn't made by correctly predicting what markets will do tomorrow. As Warren Buffett's long-time business partner Charlie Munger put it: 'The big money is not in the buying and selling, but in the waiting'.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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