JULY 2020 CLIENT QUESTION OF THE MONTH: INVESTING VS. GAMBLING

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Over the past few weeks, we have received several questions about the rise of day traders in the stock market. During the pandemic, many people who are stuck at home without sports to bet on, or other activities to keep them occupied, have begun trading stocks for the first time. Online brokerage firms have reported a rapid increase in new accounts and trading activity. Many of these day traders are looking to make a quick buck by rapidly buying and selling stocks. They are gambling rather than investing.

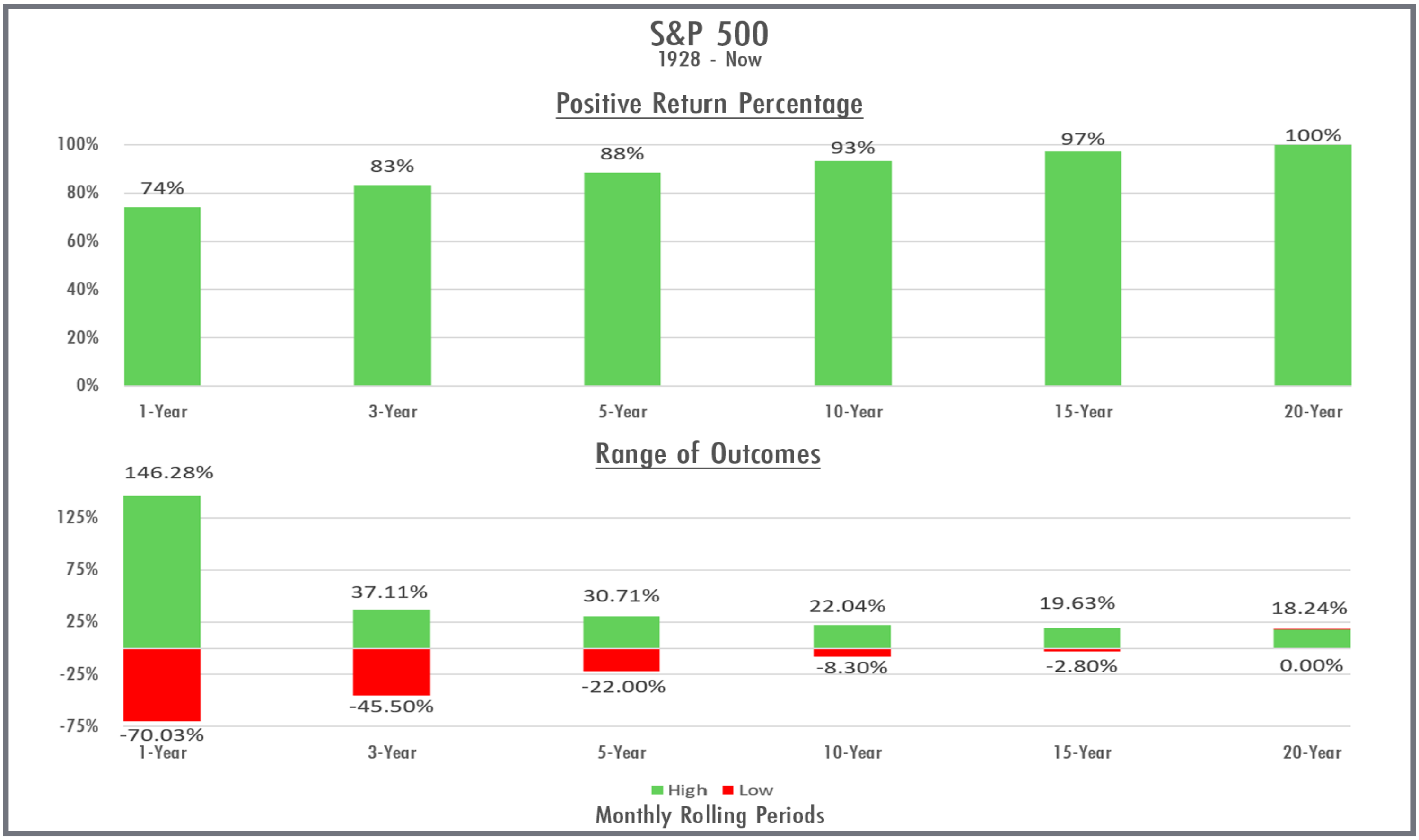
- **Gambling**: In casino gambling, the player is at a mathematical disadvantage. For example, the odds of winning an outside bet in roulette (red/black, high/low, odd/even) are only 47.4%. The longer you stay and gamble the greater your odds of losing money. Day traders who impulsively buy a stock in hopes to sell at a higher price a few minutes later likely do not generate odds any higher than the roulette wheel. While there will be anecdotal stories of individuals who did very well day trading or gambling, most will lose money.

- **Investing**: Investing involves allocating capital to a certain asset class (stocks, bonds, commodities, etc.) with the expectation of a future profit. Investing in a stock represents an ownership stake in that company. Stocks generally perform well when the company does well, and investors can receive a percentage of the firm's profits in the form of dividends. When you invest in a stock index fund or mutual fund, you are essentially buying individual stakes in hundreds or sometimes thousands of companies. With the stock market, the longer you stay invested the greater your odds of making money.

At Winthrop Wealth, we apply a total net worth approach to comprehensive financial planning and investment management. For many of our clients, we oversee close to one hundred percent of their investable assets. We take this responsibility very seriously. As a result, we invest in globally diversified portfolios while accounting for cash flow needs and maintaining a long-term viewpoint. We continue to believe that the combination of a thoroughly constructed financial plan and investment portfolio will ultimately help our clients reach their goals and objectives. We do not gamble or look for ways to make a quick buck – this type of short-term thinking can lead to disastrous results and can derail an otherwise solid financial plan.

The following chart of returns for the S&P 500 from 1928 to now shows the advantage of maintaining a long-term viewpoint when investing in the stock market. Over this period, the S&P 500 has generated a total annualized return of +9.4%. The top half of the chart shows the percentage of positive results for different rolling time periods. The longer you stay invested, the greater the likelihood that you will earn a profit (note – this is the exact opposite of gambling). A 20-year investment in the S&P 500 has never lost money despite some very challenging and volatile periods. The bottom half of the chart shows the range of outcomes for different rolling periods. As the holding period increases, the range of outcomes decreases. This chart reinforces that one of the biggest advantages an investor can have is time. Please see our **Winthrop Wealth Principles for Investing in the Stock Market** for several tips on successful investing.

- **Bottom Line**: Investing and gambling are two separate actions with very different odds of positive returns. Successful investing requires skill and a long-term mindset. Our advice is to invest for your long-term goals and objectives and only gamble with funds you can afford to lose.



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DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. All investing involves risk which you should be prepared to bear.