

Journal Information

Journal ID (publisher-id): jgi

ISSN: 1910-7595

Publisher: Centre for Addiction and Mental Health

Article Information

© 1999-2001 The Centre for Addiction and Mental Health

Publication date: June 2011

First Page: 113 Last Page: 129

Publisher Id: jgi.2011.25.9

DOI: 10.4309/jgi.2011.25.9

The addictiveness of online brokerage services: A first person account

David [aff1](#)Nigel E. Turner¹

¹Centre for Addiction and Mental Health, Toronto, Ontario, Canada. Email: Nigel_Turner@camh.net

Abstract

In the story below, David describes the personal challenges he has faced in controlling his on-line stock market investing. Following David's account, Nigel Turner presents some general observations that tie David's story to the research literature on problem gambling. The viewpoints in David and Nigel's sections reflect the ideas and opinions of their respective author —although this account is collaborative, both authors worked independently and take credit only for their contribution¹.

David

I am a recovering compulsive gambler who placed his last online trade on June 12, 2009.

I have struggled with online stock trading for 10 years, and during that time, experienced a terrible journey. On this journey, I walked a path leading toward self-destructiveness and inner distress, and lost almost everything. I believe that as a miracle from God, I eventually found a path to recovery that involved faith, counseling, group therapy, and family support. I say *recovery* because of my newly acquired awareness of

gambling triggers and the underlying psychological causes that serve to distort conceptions about risk. In reality, however, one is never *cured* of a compulsive gambling ailment. Continual willpower and therapy help to combat triggers and ultimately provide the self-control necessary to build a happier life. However, as with all progressive behavior disorders, this disease typically flares back with unrelenting vengeance.

The story of my gambling problem begins in December 1999. I had bought a personal computer a couple of years prior and with the internet growing in popularity, I developed a natural curiosity for online discount brokerages. The stock markets were reaching untold heights, fueled by the “dot.com era” and analyst hype. Prior to December 1999, my wife and I had amassed savings of about \$10,000 through bank-managed bond investments. At that time, and with significant financial help from my wife's family, we had purchased a house and secured mortgage of \$150,000 through YZ Bank². Life was pretty good until I began exploring self-managed investments using an online brokerage. I gravitated to YZ Bank's services, since YZ was the holder of my mortgage. Being a proud YZ client, I quickly went through the application process and completed a short questionnaire about my investment profile and risk tolerance. There were no other tests around the extent of my investment sophistication and certainly none around my propensity for addictions or gambling. At the time, I was driven by my cockiness and firm belief of earning greater returns than my bank-managed bond investments.

After liquidating my safe bond investments, I made an initial deposit into my trading account of \$10,000. I patiently waited a couple months before placing my first trade, which was for 100 shares of the YZ Bank at \$35 on Feb 17, 2000. Again, I was a proud client and thought: “What better way to execute my lust for online trading”. Perhaps with no coincidence, I executed my last sell trade in June 12, 2009 selling YZ at \$51, making a capital gain of \$1,600. I wish the story could end happily there. The darker side of my on-line brokerage

experience entailed racking up capital losses of around \$300,000, with roughly \$275,000 from borrowed money facilitated through online banking services and a line of credit. I find it hard to understand how a service could facilitate this level of indebtedness for a middle-class client. I spent the better part of 10 years struggling with my ailment, constantly trying to concoct investment approaches and spreadsheet modeling to win back my money and fulfill my dream to strike it big. In reality, I was never a qualified investor and suffered from a compulsive gambling ailment.

My youth

As a youth, I lived in two households due to the divorce of my parents. During childhood, I was constantly picked on because of my personality and single parent upbringing. For some reason, I was somewhat slower and not as mentally acute as my peers. I believe this was due to some form of undiagnosed attention deficit disorder (ADD) or learning disability. During my teenager years, I suffered from social anxiety and self-esteem issues. I had few friends and mostly kept to myself. I had conflict issues with my stepmother and did not feel wanted or respected by my father and stepmother. At age 17, I finally decided to move with my mother and stepfather to New Brunswick where I was able to start anew. I got along well with my mother and stepfather at that time, although later in adulthood I found myself in constant conflict with my maternal mother. Being new to this small town, I found popularity among my peers, but this further magnified my social anxiety problems. I would mask the anxiety issue by engaging in unusual behaviors, such as walking over parked cars, breaking windows, and climbing on roof tops. During my high school years, I would drink at least once per weekend and would engage in behaviors such as drinking on school premises, skipping classes, and vandalism. Upon entering university at age 19, I continued to engage in some of these behaviors. Fortunately, I was never charged, but at age 20, I had to pay an insurance company \$1,200 for breaking a shop merchant's window.

I methodically paid this debt with earnings from three part-time jobs.

I eventually broke away from these behaviors, but was dragged down by alcohol during my first year of university, and almost failed. I also had trouble communicating with the opposite sex and had difficulty with friendships. My insecurities would appear when I was involved in close relationships, and I would typically do something to offend the other person. I would use alcohol to unleash my hidden personality of arrogant assertiveness. At about age 20, I had my first serious relationship. It felt good and I tried feverishly to change my ways. I worked hard in my business degree program. When this relationship ended I was greatly hurt, but this was a catalyst that pushed me through the third and fourth years of my degree. In my final year of university I had a solid B+ average, even while taking on some of the more challenging business courses.

Upon graduating from university, I found work in a large company. I found working amongst peers in the professional world difficult, and my soft personality was easy prey for those who choose to pick on me. Through continuous hard work, I gained the respect of my bosses and peers. As I look back on this, I was beginning to find acceptance, but was unsure how to handle that feeling. As such, at age 24, I decided to shake my life up and quit my job to move to the West Coast. I found employment quickly, and later met my current wife, who was away from her home country on a temporary work visa. We lived together for several years and eventually married. During our common-law relationship, we managed to save over \$10,000 in safe investments. I owe her a lot for putting up with my odd ways and seeing me through my gambling struggles with online investment trading.

My lost decade

I call the period from December 1999 to June 2009 my “lost decade”. Sadly, it should have been the happiest period of my life. I lived in nice homes and raised three healthy sons with my beautiful wife. During this time, I

was at the prime in my professional career, growing with large companies and eagerly trying to develop and learn more. My employment earnings were not enormous, but steadily grew from \$40,000 in 1999 to \$130,000 by 2008. As my bank debt mounted from stock losses, my compulsiveness with the stock market grew alongside my desire to excel within my career. One addiction grew into the other. I became a workaholic and withdrew more and more from home life. With my intense career focus and unrelenting stock losses, I showed little affection for my wife and family. I now realize that I might have been over working to numb the pain from my gambling addiction and trying to avoid the bitter truth from entering my home life. After 10 years of pushing hard in my career and striving for promotions, I eventually burned out. With my final phase of gambling in 2008—betting \$327,000 on Nortel (all through bank debt)—my work performance suffered and stamina wavered. I was eventually terminated from my job after 6 successful years of having an above average performance rating and two promotions. It was dreadful going to work each day struggling with the stress of my losses. As my work focus deteriorated, I used every spare moment to check the internet for the latest stock market news. Now, after these 10 years, I am left with a massive bank debt, and without a job in the worst recession since World War II. The good news—I am getting great therapy through an organization called ADAPT in Toronto, and know God will see me through my financial ruin.

Looking back, my gambling problem began in May 2000, when I accelerated my online trading activity with a 100 share purchase and sale of Telus for \$39 and \$41.50 respectively, netting \$190 in twelve days (after \$60 in trade commissions). One month later, I did the same trade with 200 shares – buying at \$37.40 and selling \$41.50, this time netting \$350 after commissions. I managed similar gains with Bell Canada, buying at \$38.10 and later selling for \$41.00. With this taste of winning, the addiction unfolded.

I began listening to people about more speculative stocks on the Vancouver venture exchange and made a

\$7,300 bet for 2,000 shares of Meridex. Several months earlier, this stock hit a high of \$12.00. A work colleague's father—an investment broker—said that he “heard it was going up.” Subsequently, I made another \$6,370 bet for 4,000 shares of a venture exchange stock called Midasco Gold. These two stocks steadily decreased during the summer of 2000 as the “tech bubble” deflated. After my equity dried up I was unable to fund my trading account, but still felt compelled to continue buying these risky venture exchange stocks at reduced values.

On July 17, I applied and my account was easily upgraded to margin trading (borrowing against equity³). The bank made it very easy, and even filled out the application for me to have my account upgraded to margin trading. I just had to sign. In October, I was later able to increase my bank line-of-credit from \$10,000 to \$38,500. Unfortunately, as the bank was increasing my borrowing capacity, there were no checks on my trading account or even warning on my account's heavy weight in highly speculative stocks. In fact, the bank's account service agreement states that there is risk associated with borrowing money to finance securities. I would submit that the current regulation governing client risk disclosure is inadequate, particularly when one's personal residence and health are at stake. In fact, the service agreement does not elaborate on the definition of *risk*. I believe greater accommodations are required to create client awareness on mental disabilities causing problem gambling and extreme risk taking. Examples of such accommodations include: simple testing at the time of application; webinars on the potential connection between online trading and other forms of gambling; and electronic alerts for clients exhibiting reckless online trading behavior and compulsive borrowing.

Once armed with my bloated line-of-credit, on November 9, 2000 I placed a bet for 15,000 shares of Meridex at \$1.80 (totaling \$27,000). One trigger for this erratic behavior was a trivial argument I had with one of my parents and a resulting threat about being cut from the family will. In fact, the will had always hung over my head and I now realize it as a mechanism for control. On my

first son's birthday, five days after the Meridex bet, the stock decreased by 60%. I was devastated and have lived a hidden life of shame ever since. I even personally met with the Meridex CEO, but was only told about prospects and nothing of the company's bleak outlook. I spent most of that November and December buying and selling the stock, trying to average down. I kept sinking more and more debt into a losing cause. Later, after further exploration of the company's financial statements, I discovered they had close to zero sales. Shortly after Christmas of 2000, I learned that my wife was pregnant again. This should have been the joy of my life, but it wasn't. I kept thinking about how to raise two children with the massive debt I was accumulating. Now that the online trading addiction had seized control of my life, I was unable to experience joy or happiness.

In March 2001, I sold Meridex at \$0.21, losing over \$25,000. I also cleared myself of Midasco Gold, selling at \$0.53 and losing \$4,000. In May 2001, I would dabble into Nortel and make \$1,000 off 500 shares. I was not so lucky in June 2001 with Nortel, placing a larger bet by buying 2,000 shares in several lots at \$16, only to lose \$6,000 two weeks later. These were terrible days for me, being constantly fixed to my computer in the evenings and taking peeks during the day at work. In July 2001, my grandparents traveled a great distance to come visit. I had just placed a new bet for 1,500 shares of Nortel at \$12.95 (totaling \$19,418, all borrowed money). The visit was difficult since I could not enjoy myself, harboring a constant desire to seek updates on how the markets were performing. Two days later on my birthday, I sold Nortel at \$14 and made \$1,537. It was a nice feeling to finally win and that probably helped me rationalize my actions.

Almost akin to a roulette player, I changed my bet to JDS Uniphase later in July 2001 and spun the proverbial wheel, only to lose \$2,507 in two days. In my distorted thoughts, I clearly had to change the game—it seemed that every time I placed a *buy* bet, the market went down. So, I requested an upgrade on my trading account to enable *short selling* and was approved on September 6,

2001. Short selling, for the purposes of this story, is in some ways a more advanced and risky form of stock market trading⁴. By this point, I was already indebted with the YZ Bank by over \$35,000, lost over \$15,000 of my own equity, and spent thousands in commissions. In retrospect, I believe that short selling should be restricted to expert traders. However, no checks were done on my account, and I am baffled as to why my application was approved. I believe I must have had some sort of preferential status with the kind of money I was borrowing. My first short sell trade was for 400 shares of Research in Motion (RIM) at \$23.50 on September 11, 2001, right before the terrorist attacks on New York's World Trade Centre. To my amazement, the stock dropped to \$19 because of a panic within the equity markets. With great remorse, I was not thinking about the many people who had lost their lives, but only about myself and the potential winnings. Because of greed, I did not close the short sell and buy RIM back, because I thought the stock would go even lower. But it did not go lower, and RIM quickly rebounded. I nearly lost money on the transaction. I remember blogging to badger the stock on a website called Stockhouse.com in an attempt to undermine its price. I tried shorting other stocks but quickly gave up because of the difficulties in timing the market. Later in September 2001, I went back to an old habit and placed a buy bet for 20,000 shares of Meridex (trading at \$0.11) only to sell 19,500 shares at \$0.06 a month later, losing half my money. After a 10:1 reverse split, I still own 50 shares of Meridex today, worth about \$0.01 and undoubtedly on the verge of nonexistence.

By November 2001, through some spiritual coaching from a relative, I reached out to God to save myself from the misery of the internet and my betting compulsion. I felt disconnected with my family and in my social interactions. I was unable to concentrate and had the markets in mind constantly. I developed an addiction to compulsively research stocks, reading and writing blogs in the hope to predict or influence the stock. I would get up early to see how the Asian and European exchanges fared. Following the spiritual advice that was to given to

me, I put my trust in Jesus and strived for faith. It worked. I focused on paying my debt and ignored the markets completely for nearly a full year, until September 2002.

In September 2002, Nortel's share price crumbled to \$1.45, largely spurred by the saturated market for telecom gear and emerging competition. I felt an urge and purchased 4,000 shares for \$5,811 (all borrowed money). Five days later the stock dropped to less than \$0.70. I was devastated but swore I would hold my position and not chase the loss. In fact, I held Nortel until April 4, 2004 and saw it appreciate to almost \$12 at one point, which would have been a gain of over \$40,000. With my unrelenting greed to see higher returns, I did not sell at \$12. In April 2004, after the accounting scandal news broke under the leadership of Frank Dunn, Nortel's CEO at the time, I was persuaded by a friend to sell at \$7.81 and secured a \$25,000 gain. In the same month, I could not control my urge and had to bet the gain on something else. So, later in April 2004, I went back to JDS Uniphase, betting \$48,725 for 9,000 shares at \$5.41. Like Nortel, JDU was also a high flying stock that once hit a high of \$1,620 per share. The fantasy of winning ran rampant in my mind, and I convinced myself that there was more upside potential, given several prior years of JDU's downward spiral. Within a week, JDU dropped by \$1.00 and I decided to hold, losing \$9,000. Eight months later, on November 4, 2004, I decided to cut my losses and sell JDU at \$3.81 netting a loss of \$14,425. I stayed positive, reminded myself of the unrelenting torture I experienced from the stock markets, and decided to leave online trading for good.

A brief pause in the action, and relapse

In 2005, after receiving a promotion, I was transferred by my employer to a job outside the country. For three years I ignored the markets and lost the impulse. I focused on my job and was largely successful. After returning from my assignment in 2007, I had almost completely eliminated my gambling sins. I experienced a material gain on my personal residence of about \$300,000 and

moved into a larger home. I decided to renew my mortgage of about \$200,000, again with the YZ Bank, and because of my substantial equity the bank gave me a \$300,000 secured line of credit intended for renovations and other similar expenses. Having this kind of borrowing capacity was a dangerous blessing.

My life was pretty stable and financially secure by the end of 2007. In January 2008, my interest became renewed in Nortel. The therapy sessions I have since taken give me insight into the triggers that caused my unusual behavior with online trading. At this point in my life, I was recently promoted to a new and stressful job, and I found solace dreaming of a big financial win. I was also taking on debt for home renovations and dreamt of an easy windfall to pay this back. Being more confident and financially secure, I experienced a twisted thought process around making money from Nortel's stock. At the time, Nortel was trading near all time low and I felt it would sharply rebound. My folly was founded on my prior experience of winning with Nortel, and I honestly thought it would happen again. I bought 2,100 shares for \$28,674 on margin because I felt the stock was battered down to historically low levels, at \$13.65 (after a reverse split⁵). As the stock progressively dropped in February to \$10.93, I bought 2,900 more shares for \$31,691. Given the continued favourable announcements from the Nortel Investor relations group, I felt these bets were safe. In fact, in the first quarter of 2008, Nortel's investor relations posted over 30 favourable announcements on Yahoo Finance (a website) about business wins around the world, which served as a gambling trigger for me. When Nortel announced their 2007 results for the fourth quarter in March, the stock crumbled and descended downward to around \$6.50. During the month of March, I averaged down, and bought another 7,000 shares for \$56,055 over several days (\$8.01 per share). At this point, I had lost \$37,981. At around the same time, I took a trip over March Break with my boys to see my mother. During the whole visit I was haunted by these losses and could not enjoy myself, constantly looking at the internet for new information on Nortel. On the return trip, I kept thinking

about doubling down on my Nortel bet and rationalized this idea to myself as a sound investment plan. Toward the end of March, I made a series of bets totaling 6,000 shares for \$40,729 (\$6.78 per share). In April, Nortel stock began to improve, reaffirming my earlier decision, especially after learning that Mike Zafirovski (Nortel's CEO) made a \$524,000 share purchase on March 24th. Also, during the fourth quarter earnings release, Nortel spoke positively of its business performance and conveyed a favourable outlook for 2008 and beyond. In April, I again made a series of bets totaling 6,000 shares for \$46,780 (\$7.80 per share). By April, I had 20,000 shares of Nortel with a book value of \$183,989 (\$9.20 per share) all from borrowed money through online access to debt and trading margin. As I reflect, these trades were also enabled by preferential brokerage fees of \$10/trade (as reduction from \$30/trade) and prime rate interest on the borrowed money.

Nortel share value recovered over May and June 2008, and at one point reached \$10.50 per share, which netted me a paper gain of \$25,000. I was too greedy and obsessed to take my winnings and leave this proverbial online brokerage casino. Instead, I decided to hold and hoped for higher gains. In July the company announced poor results but still reaffirmed its strong outlook for the balance of the year. As such, over a series of bets, I bought another 11,000 shares for \$77,200. My faith continued in Nortel and I had confidence in their guidance. In August, as Nortel began sliding downward, I kept betting and purchased another 6,000 shares for \$37,929. In early September, Nortel stock slipped to \$5.35 and margin was close to being called. The stock was going down, and I wondered, "Does someone know something that the market does not know?" With two clicks I made a transfer from my line-of-credit. I made two more bets for 4,000 shares, valued at \$21,520. Then two days later, after Nortel announced a worsening outlook for 2008 on September 17, the stock crashed to \$3.22. My margin⁶ was called, and to fuel my habit I was forced to make transfers from my line-of-credit (which totaled \$95,000). My third son's first birthday was 11

days later, and I had to retreat back into a hidden life of shame and deceit with my family.

Hitting bottom and seeking recovery

My equity was enough to mask the financial impact for quite some time. Online trading is with you 24–7. Typically, I would watch the markets, read trade blogs and review blogs, and read articles. The losses hurt, and made me numb. I found it difficult to focus at work and fulfill the leadership role I was being paid for. I was constantly distracted at work, watching the markets and placing trades, hoping to catch a rebound and upward trend. After six straight years of above-average performance and three job transfers, my hidden life caught up with me. The Chief Financial Officer (my boss) took me out to dinner and asked whether there was anything bothering me or impacting me personally. I was put on a performance improvement plan and had three months to enhance performance or face termination.

Nonetheless, I could not resist the low prices for Nortel stock, and so returned to betting on Nortel with a modest 2,000 shares for \$4,680. I was nervous but believed the stock would rebound since the company came across as confident. As quoted from Mike Zafirovski on September 17, 2008: “Great companies survive, and then thrive based on their ability to adjust to changing market conditions. We will move with speed to do what is right for customers and shareholders alike” ([CisionWire, 2008](#)). In October, I bought 11,000 more shares for \$24,612. When Nortel began to reach dismal lows I had over \$300,000 at risk, funded with debt; I was crushed and grew more and more numb. I continued to trade, hoping for the rebound. I tried to remain focused at work, but my performance disappointed my employer. Meanwhile, I was still hearing confidence from Nortel's CEO Mike Zafirovski about the company's viability as a going concern, and no bond debt was due until 2011. Plus, given Nortel's prominent status as Canada's largest research and development (R&D) spender, I fell for many rumors around possible government support. Although

the stock was plummeting in November 2008, I purchased another 3,000 shares for \$2,740. In the midst of this market turmoil in November, I was terminated from my job and celebrated my first son's ninth birthday a day later. My mind was ruined and I was unable to focus or enjoy the moment. For the nine months prior, I had been suffering from a chronic sleep illness and taking medication. I was a mess, and now jobless.

In December, I continued the addiction with another purchase of 2,000 shares for \$1,389, or \$0.69 per share. Based on the news and announcements I did not see anything that would lead me to believe Nortel would cease as a going concern. Mind you, there were many negative blogs and other social media suggesting Nortel was heading for bankruptcy and that management was concealing the truth. How true this was. But akin with a slot machine player mentality, I could not leave the machine. I was possessed with the need to keep pumping money until payout. I had to keep betting in fear that if I was to sell, the stock would go up. I made my last Nortel bet on January 6, 2009 for 4,000 shares at \$0.32. Eight days later, the company announced bankruptcy and the stock deteriorated to almost nothing. I had lost over \$220,000 on Nortel, all borrowed from the YZ Bank. At this point, I was immune to pain and was happy the news was finally out. They say in gambling, "the house always wins". In my case with online brokerages, I am still scratching my head trying to identify the "house."

I would say I hit bottom once Nortel announced bankruptcy in January 2009. I lost \$188,000 when my margin was called in September and then another \$36,000 from September to January. If it was not for counseling, I would have borrowed and lost more money through online trading. I believe hitting bottom is the turning point for recovery for many problem gamblers. Recovery for me involved dealing with losses and making amends within my personal life. Being unemployed allowed me to spend more time with my family and repair years of damage. Finally being honest with my wife around the losses and my disease was difficult, but a required component of my new foundation.

I have many upcoming financial amends to make, because I will eventually be forced to sell my home and uproot my family.

In the past year, I have been honest with my wife and she has since tried to find employment. My treatment taught me to be honest with my family and to explore feelings. It was very difficult to admit a mistake that put my whole family at risk. For 10 years I was able to hide my habit, but after losing my job, the financial losses were too great to hide. Generally our relationship has improved over the last 1 ½ years as we both try to recover from this awful financial mess and massive debt. Over several months in 2010, I did not have enough cash for food and relied on the Salvation Army Food bank. My children have suffered as well, since we had to make many household cutbacks. I see more strength in my children as they try to cope and live more modestly. My hope is to ensure my children feel emotionally secure and never enter this hidden mental curse of self-destructiveness.

How do you finally know you have a problem and reach out for help? Typically folks will reach out at the point of complete destruction and utter hopelessness. For me, I accidentally stumbled on a help resource for problem gamblers—given my sleep issues and anxiety levels, I was seeking psychological services, and following my job termination, I stumbled on hope after meeting a gambling counselor. I went through screens and was diagnosed as compulsive gambler. From here I was involved in monthly counseling one-on-one sessions, weekly group therapy, and a one-week day treatment program. I have learned that whether you are slot user, sports bettor, card player, or online stock trader, we are all made of the same fabric and share many psychological commonalities. I have been recovering since January, 2009 and now am aware of my gambling triggers. Admittedly, I still have difficulties dealing with the heavy losses and also had to seek medication for depression. Given the magnitude of the debt owed to my bank, I can only pay the monthly interest of about \$2,000—a tough situation since my monthly employment insurance (EI)

payments are \$1,616. However, I know I will persevere and will strive to find goodness from this terrible situation and hopefully influence change within the online brokerage world to prevent this from happening to other families and individuals with this disability.

What have I learned from my experience?

- First, until you know whether you are prone to compulsions or other addictions, think twice before signing up with an online brokerage. Spare yourself the pain of watching your investments every day, and of tediously asking the “what-if” question and lamenting your prior trading actions.
- Keep your money in safe vehicles that pay steady dividends or guaranteed interest. Stay away from speculative stocks with flamboyant CEOs. Never listen to the opinions of people about stocks. Also, use caution when listening to investment analysts.
- If you feel mentally withdrawn from social and family situations because of your preoccupation with online stock betting or you find yourself borrowing to chase losses, seek help immediately. At this point, your brain chemistry may be altering and distorting your ability to make sound decisions about managing risk.
- There are strong parallels between online brokerage services and other forms of gambling. One does not have to play cards or use slot machines to become a problem gambler. If you think you are suffering from a gambling issue, seek counseling to help build awareness of the root causes and triggers for your actions. The lure of money can drive reckless behavior and extreme borrowing.
- If you are experiencing work or personal pressures, you may resort to gambling to escape day-to-day reality. Watch for this and seek help.
- If you often dream and believe you can win the lottery, you may be prone to other forms of

gambling. Even today, I think somehow a major windfall will come from chance.

- If you dream about timing or predicting the stock market through spreadsheet modeling or reading blogs and other news, tread carefully, as this might be an illusion.
- If you think you have ADD (attention deficit disorder), social anxiety disorder, or a compulsive disorder, you may be prone to problem gambling.
- If you have experienced other addictions with drugs or alcohol, you may be more prone to gambling. I personally had an issue with alcohol in my youth, as well as other risky behavior.
- If you have experienced a tough childhood with peers or parents, you may be more prone to gambling. My parents divorced when I was five and both remarried. As result, I never felt part of any one family. Also, my mother was controlling and tough on my self-esteem. My father and step mother also created self-esteem challenges growing up and often ridiculed me. As a result, folks typically in this situation have a tough time with feelings and may even find it tough with interpersonal relationships. Gambling provides an escape and sense of feeling ... you need to watch for this.
- In the end, spending time with your family and friends matters most. Also, ensure you are taking care of yourself through exercise, continued educational development, and hobbies (other than gambling).
- For me and many others, seeking spiritual guidance and having faith in God are important components of one's success in problem gambling treatment.
- If you are a recovering gambler, be cognizant of a reoccurrence of your problem. It may reappear with greater magnitude, since more money is required to get the same adrenaline rush. I call this "unrelenting vengeance".

Anecdotal evidence suggests that some online traders are impacted by a problem gambling

disorder. As mentioned earlier, my mission is to create goodness from my situation and hopefully help others. Thank you.

Commentary

By Nigel E. Turner

David contacted me during the summer of 2009 for information about gambling problems. After a lengthy discussion about his experience, David said that he wanted to write his story and asked for advice. I suggested that his story was well-suited for the *First Person Account* section of the *Journal of Gambling Issues (JGI)*. David is somewhat different from most of the problem or pathological gamblers I talk to because his problem relates to stock market investment rather than slot machines or casino games. I feel David's story gives *JGI* readers insight into a type of problem gambler that does not often interact with treatment services. David asked me to help him write his story, and I felt I could contribute by adding a few comments that link his story to the problem gambling literature.

Stock market gambling problems are interesting for a number of reasons. The line between investment and gambling is fuzzy. There is no clear point at which one can state that a particular investment is a gamble and when it is a wise investment. [Abraham \(2009\)](#); see also [Investopedia Staff, 2009](#)) highlights some key differences between investing and gambling. Stocks may go up or down in value, but rarely lose all their value. In contrast, a lost bet is worth nothing. A stock that is purchased is a partial ownership of a company ([Investopedia Staff, 2009](#)). Such investments allow companies to produce products or services and are a key component of the wealth of the economy. The value of stocks for companies that are earning a profit increases over time and those companies pay out dividends so that investors can earn a profit in the long term. In contrast, all commercial gambles have a long term negative expected return (a house edge).

In addition, an investor engages in risk management by

choosing a diverse portfolio of stocks ([Abraham, 2009](#)). Some gamblers will also apply this to gambling, by hedging their bets (e.g., covering several numbers at the same time, buying multiple tickets, taking an insurance bet in Blackjack). However, because of the negative expected return, hedging bets in gambling typically just speeds up losing. In contrast, a diverse portfolio of stock reduces the chance of losing. Another difference is that an investor also can write off stock losses against future capital gains to avoid taxes on those gains. Recent events have shown that even very large companies with a proven track record such as General Motors can drop to nearly nothing. Nonetheless, it is important to remember that a careful investment plan in a diversified portfolio that manages risk appropriately can be a good basis for building wealth. [Abraham \(2009\)](#) is correct in arguing that investing is not a form of gambling; however, some people do gamble with investments. David was clearly gambling with stocks. Moreover, as shown in David's story, a person with a gambling problem who plays the stock market is unlikely to be able to use sound investment strategies.

According to [Turner, Wiebe, Falkowski-Ham, Kelly, and Skinner \(2005\)](#) nearly half (48.4%) of the adult population in Ontario invest in some kind of long term investment, and only 4.8% engage in speculative investments. Of the 18 forms of gambling examined in their study, speculative investment was ranked 16th in terms of prevalence. Only private bets on dominoes and mahjong were less frequently endorsed. Males were nearly twice as likely to engage in this form of gambling compared to females. Only 27.2% of the population surveyed considered long term investments to be a form of gambling, but 60.5% of the population considered speculative investments to be a form of gambling. Most people who invest make relatively safe investments through mutual funds or well-established companies, or investment in a diversified portfolio that includes both established companies and more speculative investments. Even high risk investments only become a form of gambling when the bulk of a person's portfolio

consists of a small number of risky investments.

When one opens an account with an investment firm, the firm is required by law to ask the investor about their risk tolerance. However, according to David he was not warned about the dangers of gambling on the market. In addition, the margin application process was very easy. All David had to do, as they say, was sign. The application process is one area where there is an opportunity to create more education and screening to prevent market investment from turning into gambling. However, according to David, little was done to prevent him from gambling excessively. My own experience of investing includes having a broker talk me into buying 1500 shares in a penny stock company (Infolink Technologies) which rose briefly before plunging in value and eventually being delisted⁷ a few years later. At one point after the stock value plummeted, I considered pushing more money into the stock just as David did on several occasions, on the belief that my purchase itself might stimulate renewed interest in the stock. The idea of downward averaging or buying a stock that has fallen in price is similar to chasing, but is actually a common strategy used by investors. Unlike chasing in other forms of gambling, this approach is not necessarily irrational. If the market is generally down but the fundamentals of a company are strong (e.g., earnings, dividends, book value, and cash flow [see [Investopedia, 2009](#)]), this strategy can take advantage of a short term dip in the share prices. In addition, a very large investment might encourage other investors to buy that stock, stimulating a rebound in the price. Indeed one of the best strategies for investing—value investing—also involves investing in companies whose stock prices are undervalued (e.g., the price has gone down). But value investing is different in that the focus is on the value of the stock (e.g., its price to earning ratio and its future prospects), rather than just the stock price. However, [Budai \(2009\)](#) points out that downward averaging “often places far too much reliance on the performance of one company and certainly compromises the benefits of diversification.” He goes on to say that “acquiring additional shares of a company,

particularly where the reason for the decline is not clearly evident, may be considerably more risky than purchasing a new stock and creating a more diversified portfolio.” Most of the disasters in David's investing career seem to be centered on downward averaging into companies whose stock values were plummeting. Fortunately, when confronted with a similar situation I did not waste any additional money on Infolink. My decision not to follow this plan was in part based on assessing the profit and total market capitalization of the company. Nonetheless, because of this experience, I understand the thought process that can lead one to keep chasing a stock (though on a much smaller scale) and the rationalization to justify a decision.

In his personal account of his own gambling career, Arnie [Wexler \(2002\)](#) lists investment gambling as one of his problematic forms of gambling. On the other hand, statistics from the Ontario Problem Gambling Helpline suggest that only a small number of callers (< 1%) listed investment gambling as a major area of concern ([Counter & Davey, 2006](#), April; Anne Counter, personal communication Oct., 24, 2006). In addition, treatment centres typically do not see many stock-market related gambling problems. Recently, I posted a request for information about investment-related problem gambling on a listserv for problem gambling professions—the percentage of treatment-seeking gamblers who report investment-related problem gambling varied widely, from 20% in Hong Kong, to less than 1% at some treatment centers in the central US. The number of investment gamblers may depend on the location of the service. One treatment professional from Brooklyn, NY reported that 15% to 20% of his clients are engaged in investment gambling and noted that this was related to the proximity of the New York Stock Exchange. On the other hand, [Stinchfield, Winters, and Dittel \(2008\)](#) reported that only 4% of the clients in Minnesota engaged in speculative investments and only 1% engaged in it monthly or more often. However, it is not clear if the low numbers of clients with investment-related gambling problems is a result of the rarity of this form of problem gambling, or

rather that the people who suffer from this type of problem gambling do not identify it as a form of gambling and therefore do not seek gambling treatment. Stock market gamblers may end up in another setting, perhaps bankruptcy protection. Further research is needed on the life course of different types of gamblers to flesh out a more complete picture.

There are a number of interesting aspects of David's story that are relevant to the field of gambling studies:

- Like many gamblers, David started off making small safe bets and progressed gradually to larger and more risky bets after some initial success.
- He experienced a number of small early wins. These successes lead to larger and more speculative investments. This is consistent with the experiences of many other problem gamblers who report early wins (see [Turner, Littman-Sharp, & Zangeneh, 2006](#)).
- There is clear evidence of chasing his losses, but stock market chasing is different from other forms of chasing. In particular the stock losses were often only paper losses so it was possible that the stock would rebound. His chasing involved investing even more money into the same stock in the hope that when it rebounded, he would score an even bigger hit. Indeed this did happen several times to him, strongly reinforcing this strategy. Although downward averaging is considered a poor strategy because it limits diversity ([Budai, 2009](#)), unlike chasing in an EGM (electronic gaming machine), this form of chasing is not *necessarily* irrational.
- One thing that comes out clearly in David's story is that there is little in the way of regulation to prevent problem gambling through investments. Brokers are limited in terms of the size of the margin their customers are allowed to borrow, but nothing stops the investor from borrowing money to transfer into their brokerage account. In addition, David was approved for shorting stocks even though he had no experience in selling shorts. Shorting a stock is

sometimes called playing the “dark side” of the market because the investor tries to profit if a stock goes down in value, and also because it can be quite risky.

- David draws a link between stock market gambling and slot machines. He says “akin with a slot machine player mentality, I could not leave the machine. I was possessed with the need to keep pumping money until payout.” The slot player often believes they are due to win from a particular machine, something that often results in a cognitive entrapment (cf. [Rogers, 1998](#)) that keeps them at the machine. David described a similar situation with the stocks. He kept pumping money into the same stocks. He had to cling to the hope that that stock was going to rise again. If he was to cut his losses and cashed out of the stock, he would have to admit to himself that the investment had been a bad choice. By throwing money into the stock, he could continue to rationalize his actions.
- Like other gamblers ([Turner et al., 2006](#)), David shows a number of the cognitive distortions that are common to problem gamblers, including selective memory, the gambler's fallacy, rationalization, and a narrowing of attention as he focused on particular stocks (e.g., Nortel).
- Another interesting aspect of his story is the manner in which the market was apparently manipulated by the owners of the company, who have been accused of lying to their investors. David appears to be the victim of misinformation, but to some extent this was because he specifically focused on the information he wanted to hear. I also find it interesting that he also admits at one point to making an unsuccessful attempt at creating misinformation himself.
- In common with many other problem gamblers, David reports having experienced family-related stress in his youth. In addition, he describes himself as having an attention deficit disorder and social anxiety. He also describes himself as engaging in impulsive and delinquent behavior and abusing

alcohol. His description of a feeling of numbness after losing is also reminiscent of reports of dissociation during gambling ([Jacobs, 1986](#)). These characteristics draw additional parallels between David's case and other problem gamblers (cf. [Blaszczynski, & Nower, 2002](#); [Turner et al., 2006](#)).

- An improvement in his career and a change of work location helped him temporarily regain self control for three years. Away from the action he was able to get on with his life and was successful with his career and with his family. This illustrates that a gambler's career is not a steady downward progression. It also shows that recovery can be facilitated not just by negative events, but also by positive events such as an improvement in one's career (cf. [Koski-Jännes, & Turner, 1999](#)); however, in David's case, this recovery was only temporary.
- The availability of money was a clear trigger. When he had a “\$300,000 secured line of credit for renovations”, he returned to the market. There is a clear message in this story to anyone who is worried about losing control over gambling or has a history of losing control. They should limit their access to such credit vehicles.
- David says “I am still scratching my head trying to identify the “house.” The house in investment gambling really has two parts. First, the brokerage firm itself always wins if the market goes up or down because they take a commission from every trade (buy or sell). In long term investments, brokerage fees only take a small chunk out of the investor's profit, but for frequent short term trades, the fees add up and can take a large bite out of any gains. Second, the brokerage firm or bank also earns interest from any borrowed money.
- David was clearly absorbed in the “action”. This absorption includes the act of purchasing the stock, but also includes watching the values change from day to day. In addition, he appears to have spent a lot of time searching for information on these companies. Unfortunately, he did not use the best available sources.

- David's story contains very precise detail about his investments and trades in this paper. One key difference between trading and slot games is that the trader has to keep track of every trade in order to file income taxes related to capital gains or losses. In conversation with an addiction treatment professional, I was told that this level of detail was a sign that David was engaging in an unhealthy level of rumination, and that this was not necessarily a positive sign in terms of relapse potential. It was also pointed out that he had “certainly been advised by treatment providers not to ruminate on such details”. However, this may be related to his profession (i.e., accounting) and the specific nature of investment activity (e.g., maintaining files for tax purposes).
- What is particularly interesting about his precise memory of his costs and losses is that it challenges the argument that increasing a gambler's awareness of losses will result in a reduction in problem gambling. However, given the large number of differences between investment gambling and other forms of gambling, it is not clear if these results generalize.
- It is ironic that David is a professional accountant and cannot manage his own finances. David's story challenges any notion that people who suffer from gambling problems lack intelligence or are uninformed. However, information about the risks of this form of gambling might have prevented his problems.
- David is deeply committed to the 12-step approach to addiction treatment, and this appears to be very effective for him. The 12-step approach, however, is not the only approach available to those who find themselves trapped by a gambling disorder. Many treatment agencies use an eclectic approach that may include the 12-step approach, but also might focus more on identifying and correcting cognitive errors (cognitive therapy), an examination of learning conditions (behavioral therapy), or a more detailed examination of the emotional aspects of

the disorder (emotion focused therapy).

In summary, there are a number of interesting features of his story that illustrate similarities between risky investments and other forms of gambling, but there are also some key differences between risky investments and other forms of gambling.

Post script

David is current working as an accountant. He is still burdened with a large debt, but has so far stayed away from further gambling. He admits to still following certain stocks daily, but has not made any investments in part because he has no money or debt capacity. He plans to bring this us up with his counselor.

Notes

¹Nigel Turner, PhD, is a researcher specializing in problem gambling at the Centre for Addiction and Mental Health (CAMH). Support to CAMH for salary of scientists and infrastructure has been provided by the Ontario Ministry of Health and Long Term Care (OMHLTC). The views expressed are those of the authors and do not necessarily reflect those of OMHLTC, CAMH or the University of Toronto.

²“YZ Bank” is a pseudonym for a popular Canadian banking institution.

³Margin trading means the investor can borrow money from their broker in order to buy stocks. The broker would have a minimum equity requirement of say 30% of the total value of the account that would have to be paid in cash. If the total value of the account was worth \$100,000, a maximum amount borrowed would be \$70,000.

⁴In conventional stock market trading, one purchases a stock in the hopes that in the future the same stock can be sold at a higher price. Short selling, on the other

hand, involves selling the stock first, in the hopes that it can be bought back in the future at a lower price. To complete this “reverse trade”, a short seller will typically borrow the stock that he or she wants to sell from a third-party (e.g., a brokerage), under the condition that they will buy back and replace the brokerage with the same amount of stock in the future. If the stock price drops in the interim, the short seller will earn money, because the cost of the replacement stock will be less than the value of the stock that was originally borrowed from the brokerage. Short selling is a way to make money in a falling market; however, it can be considered a risky practice, because if the stock increases in price, the short seller can theoretically lose an unlimited amount of money.

⁵Although this price appears to be high compared to the previous price of \$7.81 that the stock was sold for previously, the stock had underwent a reverse split in the meantime, so this price actually represents a considerable drop in value. In a stock split, single shares are divided into multiple shares. This is often done when a company's stock value is getting too expensive for small investors, and is generally a good indication that the company is doing well. A reverse split occurs when the stock value drops sharply and indicates a desperate move to raise the stock's value to make it more attractive to investors. In the case of Nortel, on Dec 1 2006, the company effected a 1 for 10 reverse split that reduced the number of outstanding shares from 4.3 billion to about 505 million.

⁶A brokerage firm must maintain a minimum margin requirement in equity, such as 30% of the total value of the account. For example, suppose that an investor had an account worth 100,000, of which \$50,000 (50% equity) was purchased with money borrowed from the broker (purchased on margin). If the stock dropped in value to 60,000 (equity of 16.7%), the broker would have to issue a margin call for \$8000 to bring the minimum

equity back up to 30%.

⁷My rationalization of this investment at the time was that as a gambling researcher I needed to understand the relationship between gambling and the stock market to get a complete picture of gambling in modern society. Although Infolink technologies turned out to be a bad investment, I did learn first hand about high risk stocks, and about market-specific terms such as market capitalization, price to earning ratio, delisting, and loss carry back.

References

- Abraham, S.. (2009). Comparing investing and gambling. *The Globe and Mail*. Retrieved at: www.theglobeandmail.com/globe-investor/investment-ideas/investor-education/comparing-investing-and-gambling/article1329153/.
- Blaszczynski, A.. Nower, L.. (2002). A pathways model of problem and pathological gambling. *Addiction*, 97, 487–499.
- Budai, A.. (2009). *Strategies will help you survive bear market*. Retrieved at: <http://www.canstock.com/article2.php>
- CisionWire. (2008). *Nortel Networks External Press Release: Nortel Announces Preliminary View of Third Quarter and Revised Full Year Outlook*. Retrieved at: <http://www.cisionwire.com/ext/nortel-networks/nortel-announces-preliminary-view-of-the-third-quarter-and-revisedfull-year>.
- Counter, A.. Davey, B.. (2006, April). *What is the Ontario Problem Gambling Helpline (OPGH)?* Paper presented at the 2006 conference of the Responsible Gambling Council (Ontario), Toronto. Retrieved at: www.rgco.org/articles/anne_counter_brad_davey_discovery_2006.pdf.
- Investopedia (2009). *Stock-Picking Strategies: Value Investing*. Retrieved at: www.investopedia.com/university/stockpicking/stockpicking3.asp.
- Jacobs, D.F.. (1986). A general theory of addictions: A new theoretical model. *Journal of Gambling Behavior*, 2, 15–31.
- Koski-Jännes, A.. Turner, N.E.. (1999). Factors influencing recovery from different addictions. *Addictive Behaviors*, 7, 469–492.
- Rogers, P.. (1998). The cognitive psychology of lottery gambling: A theoretical review. *Journal of Gambling Studies*, 14, 111–134.
- McGuigan, B.. (2009). *What is a margin call?* Retrieved at: <http://www.wisegeek.com/what-is-a-margin-call.htm>
- Stinchfield, R.. Winters, K. C.. Dittel, C.. (2008). *Evaluation of State-supported Pathological Gambling Treatment in Minnesota*. Saint Paul, MN: Compulsive Gambling Program, Mental Health

Division, Minnesota Department of Human Services.

Turner, N.. Littman-Sharp, N.. Zangeneh, M.. (2006). The experience of gambling and its role in problem gambling. *International Gambling Studies*, 6, 237–266.

Turner, N.E.. Preston, D.L.. Saunders, C.. McAvoy, S.. Umesh, J.. (2009). The relationship of problem gambling to criminal behaviour in a sample of Canadian male federal offenders. *Journal of Gambling Studies*, 25,153–169.

Turner, N.E.. Wiebe, J.. Falkowski-Ham, A.. Kelly, J.. Skinner, W.. (2005). Public awareness of responsible gambling and gambling behaviours in Ontario. *International Gambling Studies*, 5(1), 95–112.

Urbanoski, K. A.. Rush, B. R.. (2006). Characteristics of people seeking treatment for problem gambling in Ontario: Trends from 1998–2002. *Journal of Gambling Issues*, 16.

Wexler, A.. (2002). Arnie Wexler's Story. *Journal of Gambling Issues*, 7.

Article Categories:

- first person account

[Related Article\(s\):](#)