# IS THERE A DIFFERENCE BETWEEN INVESTING AND GAMBLING? A CHRISTIAN PERSPECTIVE

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***ABSTRACT**: To an economist, investment represents a mutually beneficial transfer of capital that fuels the engine of economic growth and leads to improved standards of living. A gamble tends to be an entertaining, zero-sum, short-term bet. The increasing popularity of a gambling culture along with increasing short-term speculation with derivative financial instruments has blurred the line between investing and gambling. This paper considers a biblical perspective on investment and gambling and seeks to delineate the two.*

## INTRODUCTION

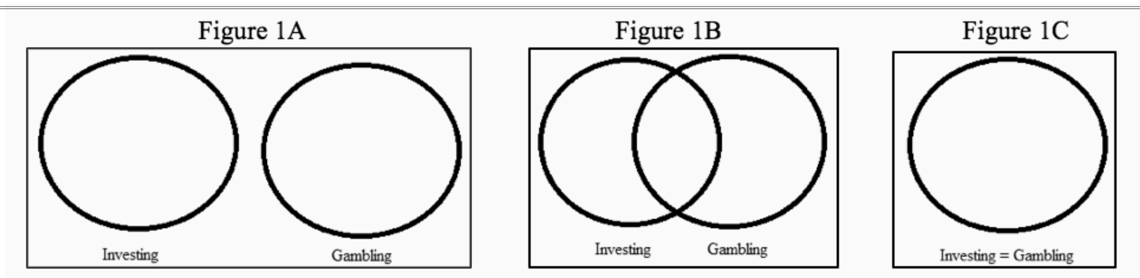
> Romans 12:2 (NIV)[1]
> Do not conform to the pattern of this world, but be transformed by the renewing of your mind. Then you will be able to test and approve what God's will is-his good, pleasing and perfect will.

A colleague recently asked "can you even be in this business (finance) if you have a good conscience?" Popular press articles refer to the "casino world of hedge funds and investment banks" (Lardner, 2015). Sadly, it seems relatively easy to find unhealthy business practices in the field of finance that reduce the potential for capital formation and economic growth (e.g. payday lending, rent to own financing, car title loans, and credit card abuse). In a more positive light, Van Drunen (2014) described finance as "the primary means of matching resources to needs across time" and believes that finance can enable the biblical stewardship mandate (p. 6).

In a legitimate investment; both parties stand to gain and the act of investing serves as a growth agent for the economy. In a gamble, wealth is transferred from one party to the other. Gambling may be entertaining, but it does not serve as a direct means of capital formation and economic growth. Where exactly to draw the line between investing and gambling can be difficult. One of the most well-known popular pundits on investing is Peter Lynch who stated that "an investment is simply a gamble in which you've managed to tilt the odds in your favor" (1989, p. 74).

Portfolio theory and rational investment theory has been dominated by the Markowitz (1952a) mean-variance framework based on risk aversion. According to this line of thinking, investing is considered wise and gambling is considered foolish. However, Friedman and Savage (1948), Markowitz (1952b), Kahneman and Tversky (1979), and Shefrin and Statman (2000) have noted that risk seeking and risk aversion share roles in our behavior. Thus, whether wise or foolish, people do gamble.

In this paper, the author will focus on the question: Is there a difference between investing and gambling? This paper will compare and contrast risk & reward, long-term & short-term, and economic growth and zero-sum game. This paper seeks to determine if investing and gambling are completely independent activities (Figure 1A), different activities with a degree of overlap (Figure 1B), or if investing and gambling are the same thing (Figure 1C).



## INVESTMENT

Luke 14:28-30
Suppose one of you wants to build a tower. Won't you first sit down and estimate the cost to see if you have enough money to complete it? [29] For if you lay the foundation and are not able to finish it, everyone who sees it will ridicule you, [30] saying, "This person began to build and wasn't able to finish."

Graham and Dodd (1940) define an investment as "one which, upon thorough analysis, promises safety of principal and a satisfactory return" (p. 63). Investing involves a positive expected return that ideally leaves all parties to the investment better off. An investment takes time. Investing is like a crockpot relative to a microwave, a marathon relative to a sprint, the tortoise relative to the hare (Ramsey, 2011). An investment is typically conducted for the long-term or in the spirit of the writings of Gotthardt (2015) an investment can last for eternity.

In the Dictionary of International Investment & Finance Terms, Clark (2001) defines investment as "the purchase of something that is expected to increase in value" and includes "bonds, commodities, futures, options, shares, stocks, unit trusts and warrants" and notes that to "an economist, however, investment covers spending that results in economic growth" (p. 130). The most typical forms of investment are stocks, bonds and real estate. Historically, these type of investments have provided their owners a positive return and have led to increased economic well-being for the overall society. Stout (1995) notes that "liquid and efficient secondary markets, in turn, are thought to provide a social benefit by encouraging investors to purchase newly-issued corporate equity, promoting capital formation and directing that new capital into the most productive investments" (p. 65). In a legitimate investment both parties stand to gain and the act of investing serves as a growth agent for the economy. Does the Bible provide any examples of this type of economic growth? The next section will seek to answer this question through an examination of the parable of the talents (Matthew 25:14-30) and the parable of the ten minas (Luke 19:11-27).

### The Story about Investment

Matthew 25:20
The man who had received five bags of gold brought the other five. "Master," he said, "you entrusted me with five bags of gold. See, I have gained five more."

Beed and Beed (2014) note that many exegetes do not interpret the parable of the talents "as providing normative guidance for wealth creation or economic activity" (p. 80). Certainly, the sole purpose of the parables is not to provide guidance on investing. However, the Message translation of the Bible uses the title "The Story About Investment" for both of the parable of the talents in Matthew 25:14-30 and the parable of the minas in Luke 19:11-27. It is reasonable to use these parables to seek insight in determining God's will regarding managing risk and investments. Table 1 below shows the title and selected passages for both the parable of the talents and the parable of the ten minas using four different translation approaches: word-for-word (King James Version, KJV), balance between word-for-word and thought-for-thought (New International Version, NIV), thought-for-thought (New Living Translation, NLT), and paraphrase (The Message, MSG).

The parable of the talents and the parable of the ten minas have a lot of similarities. Both parables have two servants that put money to work (Matthew 25:6, Luke 19:13). Both parables have the third servant characterize the master as a hard man (Matthew 25:24, Luke 19:20) and have the master characterize the third servant as wicked (Matthew 25:26, Luke 19:22). Both parables mention that the talent/mina should have at least earned interest (Matthew 25:27, Luke 19:23). Both parables have the talent/mina taken from third servant and given to the first servant (Matthew 25:28, Luke 19:24). Finally, both parables include a statement about those who have will be given more and those who have little will have theirs taken away (Matthew 25:29, Luke 19:26).

There are some notable differences between the two parables. In Matthew the master is a man where in Luke the master is a man of noble birth. In Luke the master goes on a venture to receive a kingdom (19:12) where the master in Matthew simply goes on a journey (25:14). Matthew 25:15 specifically mentions that the amount of talents entrusted to each of three servants care is "according to his ability"; whereas, in Luke the ten servants receive one mina each. The "talent" in Matthew is much larger in size than a "mina" in Luke. It is worth noting, as Brisson (2002) points out, that the original Greek term for talent is a measure of weight used in commercial activity and is not synonymous with abilities or gifts in and of itself. The magnitude of the return is much larger in Luke (i.e. ten times and five times) compared to the return in Matthew (i.e. twice as much) and the reward in Luke is more specific (i.e. ten cities, five cities) than the reward in Matthew (i.e. much). Unique to Luke's parable is the delegation sent in opposition to the master's mission (19:14) and the punishment of those who opposed the master (19:27). Unique to Matthew's parable is the invitation for the first two servants to "share your master's happiness!" (v. 21, 23).

Both the parable of the talents and minas tell a story of magnificent growth similar to the parable of the sower (Matthew 13:1-23, Luke 8:1-15, Mark 4:1-20) and contain a warning against those who try to hide what they have been entrusted with similar to the story of salt and light (Matthew 5:13-16) and the story of a lamp on a stand (Mark 4:21-25, Luke 8:16-18, 11:33). Gotthardt (2015) summarized the distilled essence of these parables as:

- We have been entrusted with money and material possessions.
- We should be intentional about God's plan for investing them.
- We will have to give an account for our management.
- We will be rewarded or suffer loss based on our faithfulness (or lack thereof). (p. 21-22)

**The Story about Investment: Alternative Interpretations**

> Luke 19:24
> Then he said to those standing by, "Take his mina away from him and give it to the one who has ten minas."

Rohrbaugh (1993) uses a cultural anthropology approach to consider the parable of the talents from the perspective of first century Palestinian peasant and the notion of "limited good" to conclude that the parable of the talents is a critique of the master not of the third slave. Evans (2005) writes "it is hard to imagine how an agrarian audience, for the most part peasants, could have heard this parable and understood the master in a favorable sense" (p. 331). According to Storie & Brett (2009) the parable of the talents "was generally interpreted as a critique of the profit motive, rather than an endorsement of it" up until the time of Constantine (p. 6). Storie & Brett state that many interpretations of the parable of the talents and the parable of the ten minas "assume things that neither Luke nor Matthew say: that the masters represent Jesus or God" (p. 6). Further, Storie & Brett provide a few contemporary 'underclass readings' that "are in sympathy with pre-Constantinian interpretations which, available evidence suggests, praised the non-compliant slave" (p. 7). Storie & Brett encourage the church with an 'economic conscience' to question statements like 'Your pound has made five more' and ask "what human realities do such statements camouflage? Are we reaping what we didn't sow?" (p. 9).

Table 1: Translations for the Parable of the Talents and the Parable of the Ten Minas

| | KJV | NIV | NLT | MSG |
|---|---|---|---|---|
| Title for Matthew 25:14-30 | no title | The Parable of the Bags of Gold | Parable of the Three Servants | The Story About Investment |
| Verses 25:19-21 | [19] After a long time the lord of those servants cometh, and reckoneth with them. [20] And so he that had received five talents came and brought other five talents, saying, Lord, thou deliveredst unto me five talents: behold, I have gained beside them five talents more. [21] His lord said unto him, Well done, thou good and faithful servant: thou hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord. | [19] "After a long time the master of those servants returned and settled accounts with them. [20] The man who had received five bags of gold brought the other five. 'Master,' he said, 'you entrusted me with five bags of gold. See, I have gained five more.' [21] "His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!' | [19] "After a long time their master returned from his trip and called them to give an account of how they had used his money. [20] The servant to whom he had entrusted the five bags of silver came forward with five more and said, 'Master, you gave me five bags of silver to invest, and I have earned five more.' [21] "The master was full of praise. 'Well done, my good and faithful servant. You have been faithful in handling this small amount, so now I will give you many more responsibilities. Let's celebrate together!' | After a long absence, the master of those three servants came back and settled up with them. The one given five thousand dollars showed him how he had doubled his investment. His master commended him: 'Good work! You did your job well. From now on be my partner.' |
| Title for Luke 19:11-27 | no title | The Parable of the Ten Minas | Parable of the Ten Servants | The Story About Investment |
| Luke 19:15-17 | [15] And it came to pass, that when he was returned, having received the kingdom, then he commanded these servants to be called unto him, to whom he had given the money, that he might know how much every man had gained by trading. [16] Then came the first, saying, Lord, thy pound hath gained ten pounds. [17] And he said unto him, Well, thou good servant: because thou hast been faithful in a very little, have thou authority over ten cities. | [15] "He was made king, however, and returned home. Then he sent for the servants to whom he had given the money, in order to find out what they had gained with it. [16] "The first one came and said, 'Sir, your mina has earned ten more.' [17] "'Well done, my good servant!' his master replied. 'Because you have been trustworthy in a very small matter, take charge of ten cities.' | [15] "After he was crowned king, he returned and called in the servants to whom he had given the money. He wanted to find out what their profits were. [16] The first servant reported, 'Master, I invested your money and made ten times the original amount!' [17] "'Well done!' the king exclaimed. 'You are a good servant. You have been faithful with the little I entrusted to you, so you will be governor of ten cities as your reward.' | [15] "When he came back bringing the authorization of his rule, he called those ten servants to whom he had given the money to find out how they had done. [16] "The first said, 'Master, I doubled your money.' [17] "He said, 'Good servant! Great work! Because you've been trustworthy in this small job, I'm making you governor of ten towns.' |

Reid (2010) compares several parables in Matthew which show both a harsh, vindictive and punishing God and also a God of boundless graciousness and forgiveness. Reid (2010) notes that the characterization of the third servant as "wicked" and "lazy" (v. 26) and "worthless" (v 30) and his punishment of being thrown "into the outer darkness, where there will be weeping and gnashing of teeth" (v.30) present "a vastly different image from the boundless, ever-gracious God described in the sermon on the mount (5:44-48)" (p. 385). If the master in the parable is not a metaphor for God, but simply a human figure, then the third slave could be considered a "laudable whistle-blower" who is only "wicked and lazy in the eyes of a greedy, acquisitive master and in the eyes of the fellow slaves who have been co-opted by the system" (p. 386). The punishment of the third slave can be viewed as a "sober reminder of what can happen to those who oppose the rich and powerful" and the parable "offers a warning to the rich to stop exploiting the poor" (p. 386).

Braun (2012) considers the parable of the talents to be a parable of caution against wealth and consumption. Braun believes that the Lukan narrative sequence (after the unique-to-Luke story of Zacchaeus) and Luke's critique of wealth (12:33, 3:13, 3:15, 6:35) "call into question the practices of the nobleman and the first two slaves" (p. 446). Braun believes that given the economic system of the times, a return of 1000% and 500% would have been seen as exploitive.

Ukpong (2012) considers the third servant in the parable of the talents as a role model for Christians in that he openly criticizes the master and refuses to take part in a system that exploits the poor. Ukpong questions "how was it possible for the first two servants to make such an exceptional profit? How does one justify the harsh punishment of the third servant who committed no offence whereas in the preceding parable (Matthew 24:49-50) the unfaithful servant is punished for an offence he had committed?" (p. 191). Ukpong focuses on the exceptional profit of the first two servants and the means necessary to achieve those returns.

Miranda (2015) recognizes the problems that must be considered when interpreting the parable of the talents. Miranda notes that Jesus condemns money in Matthew 6:24 and then appears to use money acquisition as a model for the kingdom in the parable of the talents. Miranda questions how Jesus can say the last will be first (Matthew 19:30, 20:16, Luke 13:30, Mark 10:11) and also say that those who have nothing, even what they have will be taken away (Matthew 13:13, 25:29, Luke 8:18, 19:16, Mark 4:25)? Miranda identifies that "profit-making was generally considered evil and immoral in the ancient world" (p. 11). However, Miranda concludes that the standout message of the parable is that "profit arising from productivity is to be rewarded, while opportunity costs arising from lack of enterprise will inevitably be penalized" (p. 12). Further, the "creation of value to 'feed more sheep' (including those from where the master reaps where he has not sown and gathers where he scattered no seed) might have a redeeming effect on the economic ills that riddle society" (p. 12).

**Economic Growth**

> Deuteronomy 8:18
> But remember the Lord your God, for it is he who gives you the ability to produce wealth, and so confirms his covenant, which he swore to your ancestors, as it is today.

The covenant context of Deuteronomy 8:18 provides a reiteration of God's promise to bless, increase, and multiply his people when the people follow God's commands. In this context it is important to note that the people must obey their sovereign God in order to be blessed. It is not by one's own hands that wealth is created. An abundant life and a close relationship with God go hand in hand.

Most of the alternative interpretations of the parable of the talents/minas fail to consider the possibility of real economic growth. These authors assume implicitly or explicitly that the gains produced by the first two servants must have come through exploitation. While it may have been hard for a peasant in biblical times to view these parables on a stand-alone basis with a growth perspective, it must be noted that people in biblical times were living in a special time and would be witness to and aware of many miraculous events. Jesus fed five thousand people with five loaves (Matthew 14:13-21, Mark 6:30-44, Luke 9:10-17, John 6:1-15). Jesus fed four thousand people with seven loaves (Matthew 15:29-39, Mark 8:1-13).

The people of biblical times were exposed to the possibility of exponential growth and miracles. Isaac received a hundredfold increase in his crops from the Lord's blessing (Genesis 26:2). The parable of the sower appears in all three synoptic gospels (Matthew 13:1-23, Mark 4:1-20, Luke 8:1-15) and speaks of seed planted in good soil growing and producing a hundredfold increase. The main point of the parable of the mustard seed, which also appears in all three synoptic gospels (Matthew 13:31-35, Mark 12:30-34, Luke 13:18-21), is one of magnificent growth. Thus, in light of Jesus' teachings, a doubling of talents or a 1000% return on minas should not necessarily be considered unusual when the investment is managed on behalf of God. The Bible may have been written during a period of time when the idea of limited good was pervasive, but the Bible continues to be read today and stories of amplification and abundant returns can provide the inspiration for people to help make the world a better place.

**Stewardship**

> Psalm 24:1
> The earth is the LORD's, and everything in it,
> the world, and all who live in it

John Visser, the 2015 Chewning Award winner, noted that studying the Bible reveals a "stewardship motif" (Visser, 2015). Stewardship entails the careful and responsible management or entrusted resources to serve the best interests of the master. Jesus cautions that to "everyone who has been given much, much will be demanded; and from the one who has been entrusted with much, much more will be asked" (Luke 12:48). However, faithful stewardship will be rewarded and those who have done well will be given more (Matthew 13:12, Matthew 25:29, Mark 4:25, Luke 8:18 and Luke 19:26).

One of the more prominent investment instruments where stewardship is involved are shares of common stock. The common stock shareholders are the owners of the corporation, however, the management of the corporation makes the day-to-day decisions in the operation of the corporation. The primary goal for many publicly traded corporations is shareholder wealth maximization.[2] Bainbridge (1993) considers the shareholder maximization norm and concedes the "no one can serve two masters at the same time" (Matthew 6:24; p. 1427), but concludes that the basic governing rule of corporations (that shareholder interests come first) has produced "an economy that is dominated by public corporations, which in turn has produced the highest standard of living of any society in the history of the world" (p. 1446).

Mills (1996) notes that Western Christians have "relinquished the stewardship of our savings to intermediaries, such as fund managers and banks" (p. 2). Mills (1996) believes that the tax system's encouragement of debt increases the risk of ownership stakes and causes individuals to diversify and thus dilutes "their 'stewardship' interest in any one firm" (p. 3). Further, the limited liability nature of publically traded stock ownership and market liquidity make it "difficult for shareholders to discharge their stewardship responsibilities" (p. 3).

The concept of stewardship can be a distinguishing feature when comparing an investment with a gamble. Ideally, owners of publicly traded corporations have a long-term perspective and take an active role in the oversight of the firm's management. In a perfect world, shareowners would vote their proxies, attend annual meetings and write shareowner proposals.

Most evidence suggests that we are trending away from long-term ownership. Bogle (2012) notes that institutional (pension funds, mutual funds, insurance companies, endowment funds) ownership of U.S. stock has risen from 8% in 1945 to 70% in 2011 while the average holding period for a typical stock in a mutual fund portfolio has fallen from 5.9 years to 1 year (p. 41). Bogle characterizes these changes as a movement from "own-a-stock" to a "rent-a-stock." Another way to think of these changes is a movement from investing to gambling.

Though it seems that the owners of common stock may be abdicating a stewardship perspective, the opportunity still exists for a conscientious owner to take an active role. Generally speaking, responsible investing involves screening, shareholder advocacy and community development investing. Individual investors can do this themselves and even in the case where the oversight has been delegated to an investment fund there are several examples of funds that aspire to follow a stewardship method of investing (e.g. Calvert, Everence, Guidestone, New Covenant). Through proper stewardship, it is possible for investments to fulfill their role as a vehicle for long-term mutual benefit for all involved parties and lead to improved economic well-being throughout society.

**Risk**

> Ecclesiastes 11:2
> Invest in seven ventures, yes, in eight; you do not know what disaster may come upon the land.

The Bible provides guidance for sowing and reaping: a man reaps what he sows (Galatians 6:7-9) and whoever sows generously will also reap generously (2 Corinthians 9:6-8). However, when choosing where to sow and what to sow, there is risk and uncertainty. There are several passages in the Bible related to uncertainty about the future (Ecclesiastes 6:12; 8:7; 10:14; Proverbs 24:22; 27:23-27). Risk cannot be eliminated. Risk is present for both prudent investments and pure gambles.

As Christians we are called to let our light shine and take risks, not hide our light under a bowl/bushel (Matthew 5:13-15, Mark 4:21-25, Luke 8:16-18, Luke 11:33-36). It is important to work hard and be industrious in many areas of opportunity. Indecisiveness and fear will not allow for the work of God to be completed. Brooks (1996) uses the parable of the talents as an example of financial risk taking and challenges "the Christian financial advising community to reconsider its high level of risk aversion" (p. 24). Hillson (1999) considers risk management from a biblical perspective and concludes that a person of faith should "manage risk proactively as far as possible, then trust God for the rest" (p. 12).

Glasson (1983) notes that Ecclesiastes 11:1-6 has been referred to as a "call to venture" where "there is no place for indecision and lack of enterprise" (p. 44). Risk cannot be eliminated, but it can be managed. The concept of diversification (investing in many ventures) as a means to reduce risk is a standard recommendation for investment. Glasson summarizes four takeaways from Ecclesiastes 11:1-6 each starting with "Your never know what…

- may happen in unlikely places
- may happen at odd times and even in unfavorable seasons
- may emerge 'after many days'
- God is doing through your service" (p. 45).

## GAMBLING

> 1 Timothy 6:10
> For the love of money is a root of all kinds of evil. Some people, eager for money, have wandered from the faith and pierced themselves with many griefs.

In contrast to a long-term investment, a gamble typically involves a short-term bet that creates risk and is a zero-sum game. Some believe that gambling is an individual right and people should have the freedom to do what they want (McGowan & Brown, 1994). On the other hand, some believe that gambling preys on the poor and/or those who become addicted and contributes to crime and should be abolished (Borna & Lowry, 1997). Pratte (2002) notes that gambling is not explicitly prohibited in the Bible, but believes that gambling is immoral. Kunhibava (2011) concludes that the combination of the concept of stewardship, the influence of Christianity in common law, the similarities within Christianity and Islam, and the ethical condemnation of gambling have worked in unison to cause conventional finance and Islamic finance[3] to have similar objections to gambling and speculation.

There are a wide variety of perspectives within Christianity regarding gambling. Many protestant denominations consider gambling a sin. For example, The United Methodist Church states that gambling is "a menace to society, deadly to the best interests of moral, social, economic, and spiritual life, destructive of good government and good stewardship" (The Book of Resolutions of the United Methodist Church 2012, paragraph 163). On the other hand, Catholics generally take the view that gambling is amoral. The Catechism of the Catholic Church states that games of chance "are not in themselves contrary to justice" (1997, paragraph 2413 of Part III). From the Catholic perspective, gambling does not become a problem until it is taken to an extreme and becomes addictive.

The distinction between gambling and investing can be blurry. Some academic disciplines make no distinction between investing and gambling. Granero, Tarrega, Fernandez-Aranda, Aymami, Gomez-Penz, Moragas, Custal, Orekhova, Savvidou, Menchon, and

Jimenez-Murcia (2011) consider stock market investment as "one of the most socially acceptable types of gambling" (p. 666). They find that patients who have conducted "speculative investing in stocks, futures and/or commodities" have a comparable general clinical profile, psychopathology and personality with traditional pathologic gamblers (p. 668). Even when purchasing traditional investments like stocks and bonds it is possible to buy securities in publicly traded companies whose underlying business is in the gaming industry (e.g. tickers ISLE, LVS) or in the payday loan industry (e.g. tickers CSH, FCFS). In addition to the role of stewardship, there are two distinguishing features between investing and gambling: zero-sum game and the length of time that value is at risk. The concept of a zero-sum game will be considered first.

**Zero-Sum Game**

> Gordon Gekko: It's not a question of enough, pal. It's a zero-sum game, somebody wins, somebody loses. Money itself isn't lost or made, it's simply transferred from one perception to another (Pressman & Stone, 1987).

The difference between a positive-sum game and a zero-sum game is the primary distinguishing feature between investing and gambling. Investing has the potential to be a positive-sum game. Consider the case of a corporate bond issue. The bond purchaser is giving up the use of money today with the intent of receiving more money in the future in the form of coupon payments and the return of the par value. If all of the payments are received then the bond purchaser earns a return on her investment, a win. From the bond issuer's perspective, the borrower has the opportunity to take those current funds and put them to productive use such that revenues generated in the future are large enough to pay back the promised payments to the bond buyer and produce an excess return or profit, a win. Thus, ideally, corporate bonds are an investment instrument that allow both parties (the buyer and the issuer) to benefit; a win-win.

A gamble, on the other hand, typically produces a clear winner and a clear loser. A gamble is a transfer of money from one party to the other party; a win-lose. Gambling is at best a zero-sum game. Additionally, most gambles create artificial risk based on the transaction itself that would not exist in the absence of the gamble (i.e. the creation of risk that did not previously exist) (Borna & Lowry, 1987). In a pure gamble, a player has no control over the outcome (e.g. slot machine). In some forms of gambling, the player's ability and familiarity with the game can influence their chance of success, but have no impact on the occurrence of future events (e.g. the role of the die in backgammon).

The historical fact that the average return on typical investment instruments is a positive-sum game does not mean that investing is without risk. Both investing and gambling incur risk. The chance that you are the loser to the gamble is the clear risk of a gamble. To consider the risk of an investment, consider some alternative scenarios. There is a chance that the bond issuer in the example above is unable to use the current funds as productively as the issuer planned and is able to pay back the promised funds to the bond purchaser, but is not able to produce a profit; a win-tie. Likewise, it could be the case that the bond issuer is not able to produce enough funds in the future to even make the promised payments to the bond holder; a lose-lose.

In an investment, risk is present. A win-win is not guaranteed, but a win-win is possible. In a gamble, risk is present. A win-win is not possible. A win-lose is the most likely outcome. A lose-lose outcome is also possible in a gamble in the case where the losing party reneges on the bet.

**Short-Term vs. Long-Term**

> Psalm 33:11
> But the plans of the LORD stand firm forever, the purposes of his heart through all generations.

A full Biblical consideration of time is beyond the scope of this paper. However, Christians recognize that storing up treasure in heaven is more important than storing up treasure on earth (Matthew 6:19-20). In this sense, Christians will generally consider eternity as the appropriate time frame when evaluating an investment.

The length of time that value is at risk is a general distinguishing feature between investing and gambling. Gambles are typically short-term bets. Some gambles have longer terms, but gambles are generally short term. Investments are typically long term. In the case of stock in a publically traded corporation or the purchase of a perpetual bond, an investment could theoretically last forever. Jadlow and Mowen (2010) find that investors have a future-time orientation whereas gamblers have a present-time orientation.

There are certainly investments with short-term maturities (e.g. a 90-day Treasury bill). However, for an investment, as the time to maturity decreases, the risk associated with the investment tends to decrease (i.e. there is a smaller maturity risk premium). With an all or nothing bet, risk does not generally decrease when the event date for the bet is closer in time. The risk of the all or nothing payout of a bet trumps whether the bet was made on an event that takes place in one hour or in one year.

In most cases, the time that value is at risk can help to identify the difference between an investment and a gamble. The longer the horizon, the more likely an investment is being conducted. The shorter the horizon, the more likely a gamble is being conducted. It is possible to gamble with traditional investment instruments. When someone purchases a share of stock and has no interest in economic growth or stewardship and intends to sell the stock within a few seconds, minutes, or hours (i.e. day trading), certainly this cannot be considered investing. If short term stock prices follow a random walk, short term gains would be based on luck. However, when conducting short-term trades on shares of stock, the trader does not generally face the all or nothing possibilities associated with gambling. Thus, some types of actions do not fall into what would be considered investing in a pure sense, nor do they fall into what would be considered gambling in a pure sense. The area of overlap, which will be referred to as speculation, will be considered next.

## SPECULATION

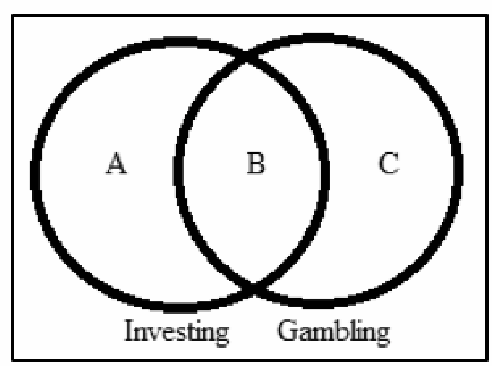
> "The line between gambling and investing is artificial and thin. The soundest investment has the defining trait of a bet (you losing all of your money in hopes of making a bit more), and the wildest speculation has the salient characteristic of an investment (you might get your money back with interest). Maybe the best definition of 'investing' is 'gambling with the odds in your favor'" (Lewis, 2010, p. 257).

Benjamin Graham (2003) warned of the blurring of the lines between investing and speculation in 1949 with these words:

> The distinction between investment and speculation in common stocks has always been a useful one and its disappearance is a cause for concern. We have often said that Wall Street as an institution would be well advised to reinstate this distinction and to emphasize it in all dealings with the public. Otherwise the stock exchanges may someday be blamed for heavy speculative losses, which those who suffered them had not been properly warned against (p. 20).

Consider Figure 2 below. Figure 2 elaborates the depiction of Figure 1B with three separate areas identified. Area A represents pure investment: actions that could lead to a win-win for both parties and are typically long term in nature. Area C represents pure gambling: actions that are zero-sum games and are typically short term in nature. Area B is the overlap between investing and gambling. Area B is considered speculation. Area B is considered risky short-term transactions conducted with traditional investment instruments.

Figure 2




### Financial Markets

> "It is generally agreed that casinos should, in the public interest, be inaccessible and expensive. And perhaps the same is true of stock exchanges" (Keynes, 1936, p. 159).

Secondary markets, where existing shares trade, provide the benefits of liquidity and price discovery.

It is pretty easy to find out the exact price per share of any given stock at any given moment. It is hard to imagine that all of the daily trading volume is due to long term buy and hold investors. Thus, most of the market trading volume liquidity is provided by speculators. Speculators can be considered to be traders with a short-term view. Constant trading helps determine the value of financial instruments. Thus, it is hard to argue that speculators do nothing (Angel & McCabe, 2010). However, the problems with speculation and excessive speculation are analogous to the problems with interest and usury. Interest can further economic growth whereas usurious predatory lending is unethical. Speculation can provide liquidity and price discovery whereas excessive speculation can distort prices and exacerbate bubbles.

In commodities and financial futures "speculation is clearly distinguished from transactions undertaking in the normal course of trading (physical buying or selling) or hedging." (Clark, 2001, p. 232). Similar to the insurance business, a futures market hedger is willing to accept a price lower than the expected value when selling, and higher than the expected value when buying, in order to transfer price risk to the speculator. In effect, speculators are serving as intermediaries willing to bear price risk. A well-diversified speculator can reasonably expect to earn a profit from receiving favorable prices for assuming the risk and possibly from informational arbitrage with superior information from research and analysis and continual presence in the market.

Speculators do provide benefits to financial markets, although problems with speculation pop up from time to time. Examples of bad bets are plentiful (e.g. Orange County in California, Long-Term Capital Management, Barings Bank, AIG). The repeated lesson from the study of financial markets is that it is very difficult to predict rare exogenous shocks (e.g. earthquakes, Russian bond default, U.S. housing market collapse). To the extent that speculation intensifies price swings for the good and bad is potentially the fatal flaw of unfettered financial markets. Short term gambling with financial markets creates problems beyond just the winner and loser of the bet; but, runs the risk of collapsing financial markets that lead to growth and prosperity in the real economy. The next section looks more specifically at financial market instruments that seem to create and/or increase risk.

**Derivative Investments**

> "If a random bolt of lightning hits you when you're standing in the middle of the field, that feels like a random event. But if your business is to stand in random fields during lightning storms, then you should anticipate, perhaps a little more robustly, the risks you're taking on." (Peter Fisher in Nova Online, 2000)

Capital markets provide a mechanism to efficiently allocate capital across the economy. Liquidity provided by secondary markets lowers the cost of capital for debt and equity and enables the efficient allocation from where capital is to where it is best utilized. Derivatives are not designed to play a similar role. In the same way that gambling can draw resources away from the real economy, trading in derivatives may draw capital away from more productive uses.

A derivative is a contract that derives its value based on an underlying security. An interest rate swap derives its value from interest rates. Equity options derive their value from stock prices. Generally, derivative returns amplify the return relative to the underlying asset. When a derivative is coupled with a position in the underlying asset, then risk can be reduced; "hedged." When a derivative is used on a stand-alone basis, "naked", returns are amplified. The amplification can work in either a positive or a negative direction (e.g. stock down 10%, option down 100%).

Trading in derivatives can be seen as riskier than gambling since the outcomes are not fully known. Lynch (2011) argues that purely speculative derivatives (derivative contracts where neither party is hedging a pre-existing risk, i.e. naked options) do not create wealth. Naked options simply transfer wealth and are less than zero-sum transactions when including transactions and opportunity costs. Naked options create risk where none existed. The loss potential from selling a naked call is potentially infinite. Trading in naked options is analogous to gambling because naked options have a clear winner and a clear loser and the time frame of the bet is limited with a specific ending date.

Stout (2009) argues for a return to the old common law where in order for a derivative contract to be legally enforceable, one of the parties of the contract had to be using the contract to hedge a preexisting economic risk. This concept is similar to the way that insurance companies only write policies for parties who have insurable interest. When a speculator trades with another speculator, the contract was nothing more than a legally unenforceable wager. The existence of a hedge led private exchanges to keep speculation within reasonable limits and to control conditions. These rules did not eliminate speculation; but, parties needed to be careful about their counterparties. The legalization of over-the-counter interest rate swaps in the 1990s was followed by swaps fueled bankruptcies in Orange County, California in 1994; Barings Bank in 1995 and Long Term Capital Management in 1999. When speculators trade with other speculators they increase aggregate risk. Stout (1995) suggests that we "do not know whether the trillion-dollar derivatives market provides socially valuable insurance and arbitrage opportunities—or constitutes the world's largest and most dangerous casino" (p. 68).

**Trading as Entertainment and the Legalization of Gambling**

> "While the 'gambling as entertainment, investing as business' dichotomy may have been clear in the past, the line is being blurred" (Murcko, 2015, p. 6)

A lot of people enjoy gambling. It also turns out that a lot of people enjoy trading in financial markets. Markiewicz & Weber (2013) find that day traders in the stock market enjoy the activity and treat it to some degree as gambling rather than investing. Dorn & Sengmueller (2009) and Jadlow and Mowen (2010) find that those who enjoy trading and those who enjoy gambling trade more. Murcko (2015) studied recreational investors, professional investors, recreational gamblers and professional gamblers and found more similarities between the two recreational groups and between the two professional groups than between the two investing groups and between the two gambling groups. Murcko (2015) concluded that it "might not be such a stretch to call professional gamblers 'investors' and recreational investors 'gamblers'" (p. 9). Active and/or excessive trading lowers portfolio performance, however, due to the nonpecuniary benefits, the active trader may not have reduced welfare.

Dorn & Sengmueller (2009) find that including entertainment attributes as additional explanatory variables in a "cross-sectional regression of portfolio turnover on objective investor attributes such as gender, age, education, employment, income, and wealth, more than double the fraction of the total variation of portfolio turnover that can be explained" (p. 592). Kumar (2009) finds that the propensity to gamble and investment decisions are correlated and reports that state lotteries and lottery-type stocks (high volatility and skewness with a low price) attract very similar socioeconomic clienteles. Kumar expresses concern that "as gambling attains wider acceptability in society and the level of gambling activities increases, the level of speculative trading in financial markets could rise. These social shifts could be associated with higher levels of trading, higher volatility, and lower average returns" (p. 1931).

Nicoll (2013) writes that the border between finance and gambling is becoming blurred and the intersection between the two is now a part of everyday life. Rogers (2009) notes that gambling "is being socially legitimized by virtue of its governmental sanction. A one-time social evil is being transformed into acceptable social policy" (p. 8). McGowan & Brown (1994) credit the growth in the amount and variety of state-sponsored and state-sanctioned gambling opportunities to the "ethics of tolerance" and the belief that individuals should be able to conduct any act that doesn't negatively affect others. Young (2010) notes the growing prevalence and cultural acceptance of casinos, lotteries and gambling and concludes that "the extent to which the state has become involved in gambling is nothing short of remarkable" (p. 7).

Lynch (2011) wrote that "it may only be a matter of time before a sports derivative is recognized by a derivatives exchange or before a court applies derivative law to a sports bet instead of state gambling law" (p. 96). The first sports based hedge fund collapsed within 5 years (Manfred, 2015); but, other sports hedge funds have sprung up (e.g. Priomha Capital, http://priomha.com/). The state of Nevada recently legalized sports betting investment funds (Purdum, 2015). Conversely, Kohler (2012) believes the direction of change needs to be reversed and that financial bets should be regulated as gambling acts and ultimately that both financial bets and gambling should be banned.

## CONCLUSION

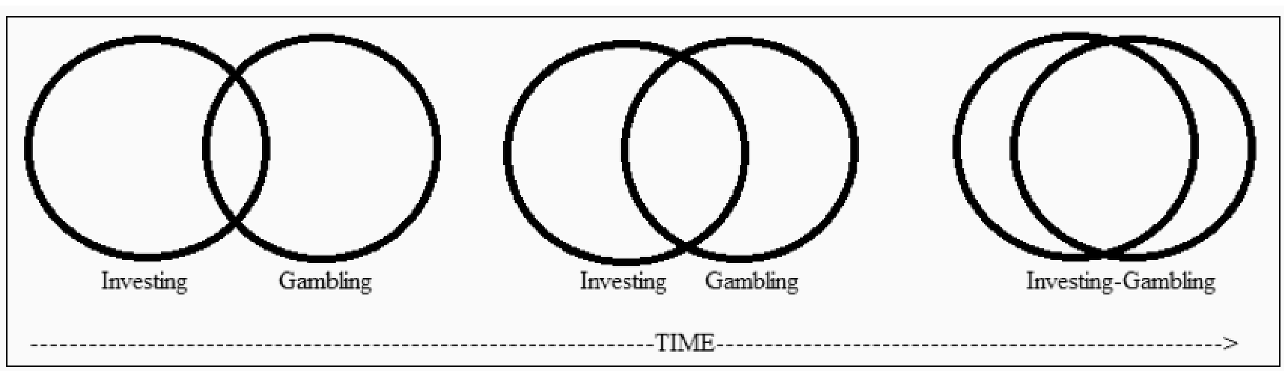
This paper considered the question: Is there a difference between investing and gambling? The answer is yes, but there is an increasing degree of overlap. This paper is unique in that multiple Biblical passages are introduced to provide guidance and insight which along with prayerful consideration, can lead to diversified, long-term, mutually beneficial investments. There is not much in the way of Biblical guidance on gambling. Gambles are typically short-term, zero-sum games that generally show no concern for the counterparty to the gamble.

Itzkowitz (2002) studied the line separating gambling from other forms of financial risk in Victorian England (1837-1901) and found that the lines had been blurred between investing and speculation and between speculation and gambling and thus between investing and gambling. The blurring of the lines continues to this day. As time passes the area of overlap (area B in figure 2) has grown and continues to grow (see Figure 3).

Even though the lines between investing and gambling are becoming increasingly blurry, and the area of speculative overlap continues to grow, it is the contention of this author that investing and gambling are distinct activities. Investing, properly done, is a light shining, long-term, positive-sum game where both parties stand to gain. The act of investing serves as a growth agent for the economy. Gambling is a short-term, zero-sum bet. Gambling is, at best, entertaining and, at worst, destructive.

The 2009 financial crisis can be seen as a predictable outgrowth of the cumulative aggregate risk that had been increasing for decades. As the markets for gambling and speculation continue to increase and gain social acceptance and the risks people take get larger and larger is it only a matter of time before the love of money contributes to the collapse of Western civilization?

Figure 3



## ENDNOTES

[1]Biblical citations are from the New International Version (NIV) unless noted otherwise.

[2]Many corporations consider multiple stakeholders (e.g. Johnson & Johnson's credo: http://www.jnj.com/sites/default/files/pdf/jnj_ourcredo_english_us_8.5x11_cmyk.pdf) and the goal of shareholder wealth maximization does not mean that other stakeholders are abused.

[3]Kunhibava (2011) summarizes Islamic finance as "the conduct of banking and finance in accordance with the principles of Sharia. Sharia is Islamic law and the basic requirements of Sharia are that banking and finance must not contain elements of inter alia, riba (interest) gharar (excessive uncertainty), maisir (something attained through no effort), quimar (gambling) and jahala (ignorance)" (p. 1).

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