Investors who 'gamble' in the stock market have same characteristics as lottery players

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The socioeconomic characteristics of people who play state lotteries are similar to investors who pick stocks with a lottery quality--high risk with a small potential for high return, and just like the lottery, returns on average are lower for those who invest this way in the stock market, research from The University of Texas at Austin shows.

In the paper, "Who Gambles in the Stock Market?" Alok Kumar, assistant professor of finance at the McCombs School of Business at The University of Texas at Austin, presents evidence of this counter-productive stock-market behavior after studying the demographics and financial transactions of 70,000 anonymous investors. The research will be published in a forthcoming issue of the *Journal of Finance*.

"We found that people who took risks with lottery-type stock typically earned 2 to 3 percent less than other investors," Kumar said.

Kumar defines lottery-type stocks as those with a share price under $5 and a history of high volatility and extreme positive returns. These stocks are inexpensive and come with a high chance of losing, but they also offer the small potential for a big payoff.

Kumar's research found that people with household income below average for their area are more likely to buy lottery-type stocks, and that they are purchased in areas with high unemployment and during economic downturns. In addition, regions with higher concentrations of Catholics such as in Massachusetts and Rhode Island have a stronger

preference for lottery-type stocks, while those in Protestant regions like areas in the South are less drawn to them—a pattern that also mirrors ticket-purchasing trends in state lotteries by the two groups.

"It is particularly important to be aware of our gambling tendencies now because the urge to gamble is greater during difficult economic times," Kumar said. "Stock market 'gambles' are unlikely to pay off, and those who are close to retirement are likely more vulnerable to this urge because they might feel they only have a short time period to recoup their losses. Unfortunately, this behavior can further worsen their situation and delay recovery."

Source: University of Texas at Austin, McCombs School of Business

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