

Model Employer Management of a Case of Stock Market Gambling

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The Central purposes of this paper are to both illustrate a case of pathological in the stock market, as this has received almost no attention in the mental health field, and to describe one positive model for management of problem gambling by an employer. The first author is a recovering stock market gambler. He grew up as the oldest of four children in an educated, orthodox Jewish, upper middle socioeconomic family. Throughout his adolescence and young adulthood he applied himself diligently to educational achievement. By the time he was 28, he had received a Ph.D. in education (with a highly acclaimed dissertation), had become an ordained rabbi, and earned a law degree.

The recovering gambler began investing in the stock market at the age of 26. The progression of the gambling problem over time was similar to that of other pathological gamblers in that his gambling increased in time spent and amount of money lost as he chased his losses. Having been very successful in his intellectual pursuits, he confidently and single mindedly pursued an ever elusive success in the stock market. As with gamblers in other forms of gambling, gambling in the stock market eventually created serious negative life consequences. The promise of one or more highly successful careers was blocked over the years by preoccupation with options trading. Since he perceived himself as an “investor” and did not gamble in any of the other recognized ways of gambling (e.g., sports), denial about his gambling problem was maintained.

Losses increased substantially over time such that after 32 years of gambling in stocks and options detailed IRS records indicate that his cumulative losses equaled \$671,249.27. Due to distraction and lack of motivation , he left or was asked to leave three jobs and at the age of 57 had lost his life savings, his inheritance, and had filed for bankruptcy.

EMPLOYER MANAGEMENT OF THE PROBLEM

In 1991, he experienced the double pressure of not being able to meet payments on over \$100,000 in accumulated gambling debts and disruption in his marriage created by his wife’s hurt and anger about the gambling. Under duress, he began attending Gamblers Anonymous meetings. While Gamblers Anonymous emphasized stopping gambling, he was only interested in learning how to “invest” in a more effective fashion by controlling his excesses. Because of this mind set, it is not surprising that his abstinence from gambling only lasted then months.

During this period, he had a relatively high level law position in the public sector. Two years after his gambling resumed, his employer noticed inappropriate absences during the work day. After a tip by a brokerage firm employee, further investigation determined that he was spending considerable time at a brokerage firm. With impending serious job consequences and renewed marital stress, the gambler returned to Gamblers Anonymous and sought therapeutic help from a psychologist who specialized in treating problem gamblers (the second author). The recovering gambler was soon summoned to a disciplinary hearing to which he was permitted to bring his attorney and therapist. As a result of this

meeting, three senior managers in the organization became aware that compulsive gambling is a treatable psychological disorder. His employer then agreed to retain him provided that the following six conditions were met:

- He would be suspended from work for two weeks without pay.
- A specific sum of money would be deducted from his paycheck equal to the amount he had been paid during the time he had spent at the brokerage firm.
- He would sign out every time he left the office.
- He would submit proof of regular attendance at Gamblers Anonymous meetings.
- He would submit quarterly statements from his psychologist that he is still in treatment.

He would submit a semi-annual financial report from his attorney detailing his debt repayment and access to money. This was later modified to substitute for his attorney's report his own report on his financial transactions. The employee maintains his only bank account at his employer's credit union. Each week \$200 is electronically transferred from his paycheck to this credit union account. The employee then signs his remaining paycheck over to his wife. Of the \$200 in the credit union account, \$150 is used to pay off both a credit card loan and a home equity loan and \$50 is used by the employee for weekly expenditures. The Employee provides proof of loan payments to his employer. The employer also has the option at any time to access all credit union transactions. There are at least three factors which are responsible for the former stock market gambler's recovery:

- He now attends Gamblers Anonymous meetings with the goal of permanently refraining from gambling and continues in psychotherapy to broaden and strengthen recovery.
- He has collaborated with his employer, his attorney, his therapist and his spouse to develop a system which involves control of money access and management.
- He knows that his employer will rapidly invoke serious negative consequences should there be slippage.

BROKERAGE RESPONSIBILITY IN DEALING WITH THE PROBLEM

A recent study of stock brokers indicates that stock market gambling is an industry problem (Steinberg and Harris, 1994). Stock market investment is advertised as a relatively safe area in which to earn money. Although brokerage firms indicate to customers that certain investments are "speculative", there is resistance to use of the equally accurate term "gambling". There is no information emanating from within the industry that indicates that certain investments are addictive and may become a serious mental health problem. Therefore, it is not surprising that many problem gamblers in the stock market are in denial about their problem.

Based upon the first author's experience gambling in the stock market, the following recommendations are offered to brokerage firms to help prevent stock market gambling:

- In opening the more speculative types of accounts, firms should require the same type of detailed financial statements that banks require when a mortgage application is made. If this procedure had been utilized with the first author, it would have been discovered that the author's funds were primarily derived from credit card loans with an absence of other sources of disposable funds.
- Brokerage firms should require that the financial data referred to above should be updated annually. Further, updated information should also be required when a customer is identified as a frequent high volume losing trader.

- Brokerage firms should provide training in problem gambling awareness to employees. In the case of the first author, individual action by a brokerage firm employee at a firm at which he was not a customer was helpful in the chain of events which led to an effective intervention. The employee had noted that he had been spending an inordinate amount of time in the firm's office monitoring price activity and anonymously informed the first author's employer.
- Brokerage firms should make information available about problem gambling to clients. There is a possibility that such information could have been helpful in breaking through the denial of the first author. Two brokerage firms had written letters to the first author indicating that they had identified him as a high volume trader. One firm stated that such trading can be considered speculation, while the other firm pointed out that he had sustained over \$86,000 in losses within a five week period. Both firms requested that he sign and return the letter to indicate that he understands the risks of options trading. In order to aid him in identifying those risks, they included the standard disclosure pamphlet entitled "Characteristics and Risks of Standardized Options" (American Stock Exchange 1994). This 94 page booklet describes the types of options and options strategies that are available and the extent to which these are risky. There is not the slightest hint in this highly detailed document that the brokerage customer may become addicted to options trading. To be effective in reaching problem gamblers, the letter and options booklet should contain a warning of the potential for the development of a serious mental health problem, with a list of signs and symptoms of the disorder and a help line telephone number. This is not only appropriate but necessary in apprising index options traders and other investors of risks.

REFERENCES

American Stock Exchange (1994). Characteristics and Risks of Standardized Options.

Steinberg, M. and Harris J. (1994). Perceptions of Connecticut stock brokers concerning problem gambling in the stock market and extent of brokerage firm responsibility for prevention. Ninth International Conference on Gambling and Risk Taking, Las Vegas, Nevada.