

**Perceptions of Connecticut Stock Brokers Concerning
Problem Gambling in the Stock Market and Extent
of Brokerage Firm Responsibility for Prevention**

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It has long been found in clinical practice that gambling occurs among Clients of brokerage firms as well as among those who partake of traditional forms of gambling. While research has investigated problem gambling in the latter areas of gambling (e.g., Griffiths, 1993), the authors are unaware of any systematic effort, the authors undertook to survey stock brokers concerning their perceptions of problem gambling in the stock market/financial markets. In the body of this paper, all brokerage firm investment is referred to as “stock market” activity.

METHOD

A survey related to problem gambling in the stock market was created for stock brokers. Thirty-seven brokerage firms that deal in both speculative and more conservative forms of investment were selected. One thousand Connecticut stock brokers who were employed by these firms were randomly selected and the survey was mailed to their home addresses. Whenever a mailed survey was “returned to sender” by the post office indicating that it did not reach the person to whom it was intended, a replacement survey was mailed to a newly selected stock broker. A total of 1176 surveys were mailed in order to reach the goal of 1000 surveys that were not returned to sender.

A definition of problem gambling in the stock market/financial markets was provided at the beginning of the survey to insure that all respondents had a common definition. The behavior in the definition which follows refers to a moderate to severe problem level.

”Definition of problem gambling in the financial markets / stock market:

- Repeated speculative risk-taking, resulting in significant financial losses in relation to the person’s level of assets.
- The behavior may appear erratic and inconsistent and/or excessively frequent.”

Copies of the cover letter and survey appear in Appendix I.

RESULTS

Seventy completed surveys were returned. Fifty-seven of the 70 respondents indicated that they are now or were in the past employed as stock brokers. The 13 remaining respondents indicated they had never been employed as a stock broker. The latter group was composed of insurance, financial management and other business occupations. Only the 57 surveys of self identified stock brokers were included in the tabulated results.

Although the respondents do not constitute a large sample, the results may be taken as useful indicators of the views of stock brokers since respondents were selected randomly, represent a wide diversity of views and reflect the actual gender distribution in the field, i.e., women represent approximately 10% of all stock brokers in the field and 11.8% of the stock brokers who responded to the survey were women.

In question 3, respondents were asked to indicate the areas of the stock market in which problem gamblers are active. Of the eleven areas of investment listed, all areas were identified as possible avenues for problem gambling (Table A). Options and futures contracts were the primary areas identified (60%-65%) followed by penny stocks, stocks and excessive use of margin (40%-49%). Even such "safe" areas of investment as treasure securities, bonds and mutual funds were perceived by 10% to 14% of brokers as areas in which problem gamblers are active.

TABLE A

Areas of the financial markets/stock market in which respondents perceived problem gamblers to be active. Percent of respondents selecting each area.

42 Stocks 60 Futures contracts
12 Bonds 61 Options on futures contracts
14 Mutual funds 26 Short selling of stocks
21 Precious metals 49 Penny stocks/Pink sheet
10 U.S. Treasury securities 40 Excessive use of margin in stocks, options, bonds, & treasure securities
65 Stock and Index options 2 Initial Public Offerings (IPO's)

In response to question 4, brokers estimated that 2% of investors in the stock market have a gambling problem in the stock market. From the results to question 5, it is clear that stock brokers, when addressing all forms of gambling in Connecticut, perceive the gambling problem to be severe - approximately 15%. In comparing the answers to questions 4 and 5, it appears to be a fair assumption that brokers included stock market gambling as one of the forms of gambling referred to in question 5. It may then be concluded that stock market gambling is perceived to be 13.3% (2/15) of all problem gamblers in Connecticut. This percent (13.3) is somewhat less than the percent of problem gambling estimated by some experts in the problem gambling field. For example, Robert Custer, M.D.(1988), reported that approximately 20% of the problem gamblers he evaluated and/or treated were stock market gamblers.

The results to question 6 (Table B) indicate that brokers are perceived to have a much greater gambling problem in the stock market (10%) as compared to investors in the stock market (2% - question 4).

TABLE B

Estimates by respondents of the percent of stock brokers who have a gambling problem in various forms of gambling. median percent of respondents.

10 Financial market/stock market 1 Bingo
5 Other business investments, e.g., real estate, etc 5 Lottery/Lotto

5 Casino table games 5 Horse or dog racing
5 Casino slot machines 7 Sports betting
2 Jai Alai 5 Other

Further support for the view that brokers have a higher percent of problem gambling than the general population is evident in the results to question 7 where 9.8% of the brokers who responded to the survey indicated they had a gambling problem. Thus, approximately 10% (question 6) of brokers in general are perceived by the broker respondents to have a gambling problem in the stock market and approximately 10% (question 7) of the respondents admit to having a gambling problem. Problem gambling appears to be an “occupational hazard” for brokers as alcohol abuse is for bartenders.

About 1 out of every 3 (35.1%) respondents to question 8 believe that brokerage firms neither encourage nor discourage problem gambling. Almost half (49.1%) of the respondents report that firms discourage problem gambling. Only 1 in 30 (3.5%) report that firms encourage problem gambling. Approximately 1 in 8 (12.3%) respondents believe that firms both encourage and discourage problem gambling. When dividing all the data into separate encourage and discourage groups, the results are that approximately 6 out of every 10 (61.4%) believe that firms discourage problem gambling while only about 1 in 6 (15.8%) believe that firms encourage problem gambling.

The predominant view that brokerage firms discourage problem gambling is represented by the following summary of the most relevant comments offered by respondents:

- Most large firms emphasize long term investment and avoid speculative trading.
- Clients must have a clear credit record and adequate finances.
- The risks of speculation are explained
- Accounts are monitored for excessive activity and clients are contacted when this occurs and some clients may be terminated.
- Brokers may be disciplined for excessive activity (churning) in client accounts. Firms fear legal action by clients.

Those brokers who believe that the policies and practices of brokerage firms encourage problem gambling are represented by the following views:

- Anyone can trade if they have money.
- The brokerage business is risky and brokers are urged to take risks.
- Offering short term investments encourages gambling because most such investments are random and subject to gambling.
- Brokerage firms encourage brokers to make transactions.
- While churning is discouraged, it sometimes is ignored or tolerated too long since the broker and the firm are making money.

Question 9 addresses whether or not the brokers perceive a need to adopt policies and practices to discourage or limit problem gambling.

Almost two out of three (63.5%) brokers perceive no need for change in policies or practices. They emphasized the following:

- Sufficient rules and monitoring exist.
- Most firms already discourage excess activities due to litigation and adverse press coverage.
- It is not the responsibility of firms to cure mental deficiencies.

More than one out of three (36.5%) brokers indicated that a need exists for change. The Comments offered by these brokers focused on the following:

- Need for better enforcement of existing regulations, e.g., better compliance monitoring; managers should review activity in accounts for consistency with investor goals and risk tolerance.
- Firms should work hard to keep gambling out of the industry.
- Limit the number of speculative transactions.
- Eliminate activities that are pure gambling, e.g., index options.
- The problem is greater for discount houses than full service firms as the former allow clients to do as they please.
- Offer help to those who show signs of problem gambling.

- Closely monitor or eliminate brokers' personal accounts: activity (especially losses) in their own accounts can reduce objectivity in working with client accounts.

The predominant view (59.6%) expressed by respondents to question 10 is that the more speculative areas of the stock market (e.g., options and futures) are very similar to gambling in a casino. The main points made by these brokers follow:

- In both, risks are taken to make a big score.
- Losses are chased in both.
- There is volatile action in both.
- The motive to outsmart the casino and Wall Street is the same.
- As compared to the casino, stock market action involves faster wins and losses, involves longer odds (options and futures), involves higher stakes (no \$10 bets), and results in a longer lasting high because successes require more mental ability.

Those brokers who did not believe that stock market speculation and casino gambling are similar made the following points:

- The stock market involves technical analysis and is not just luck as in a casino.
- Odds are against you in the casino but not the stock market.
- Casinos are assured a win but brokers lose money when their accounts lose money.
- A commission is paid up front in the stock market but not the casino.
- Advice is given in the stock market but not the casino.
- Gambling encouraged in the casino but discouraged in options.
- Can get out in the stock market but not at the casino table.
- Unlike casinos, brokerage firms stop problem accounts.

Question 11 asked respondents about whether or not they believe that a pamphlet about problem gambling should be made available to all investors in the stock market. Approximately 70% disagreed with providing a pamphlet and about 30% agreed. Those who disagreed did so on the following grounds:

- Brokers discuss risks with clients and enough literature is already available regarding risks.
- gamblers would ignore the pamphlet.
- Instead of a pamphlet brokers should be instructed in recognizing the problem and screening out gamblers.
- Since pamphlets are not required at gambling facilities, brokerage firms should not be singled out.
- The gambling problem in the stock market is insignificantly small.

- Brokerage firms don't try to control behavior or give advice outside our industry.
- Adults are responsible for their own actions.
- Firms are not responsible for curing mental problems.
- The information would give a negative image to the whole industry.

Those who agreed with the idea of a pamphlet on problem gambling stated:

- Problem gamblers need all the help they can get.
 - Obsession with anything can be self destructive.
 - It would let them know we are watching.
 - It would avoid the saddest cases.
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- It could at least help family members even if the problem gambler is in denial.
 - It would prove our industry is public service oriented.

Question 12 stated that the gaming industry was beginning to provide funds to support education, research and treatment programs for problem gamblers and their families and asked whether brokerage firms also had this responsibility. Approximately 83% said no and approximately 17% said yes.

Those respondents who said no emphasized the following:

- The gaming and brokerage businesses are not similar.
- Problem gambling is only a small problem in the brokerage industry.
- The brokerage industry doesn't entice or encourage problem gambling as does the gaming industry.
- Our regulations prevent a losing situation from getting out of hand.
- While a bookie doesn't require money up front, in our industry the Client must have assets before s/he can make a bet.
- The broker is financially responsible if the client can't pay his losses.
- Firms should not have financial responsibility until tobacco companies pay for medical and death benefits of smokers.
- Our responsibility exists only when our employees have this problem.

Those brokers that agreed with providing funds stated the following:

- Those who gamble in the stock market and other areas of gambling are mostly the same population.
- The amount of funds provided should be less than the gaming industry since the problem is similar in the stock market.
- Brokerage firms can inadvertently cause and perpetuate problem gambling.
- It is everyone's responsibility to support treatment for gambling and other mental health problems.
- Financial support would elevate the industry to a higher plateau.

DISCUSSION

The predominant view among the stock brokers surveyed was that most firms, brokers and clients are primarily focused on long term investments. However, the results (question 3) indicate that an area of the stock market may be utilized for gambling if the client and the broker are so motivated. Even blue chip stocks and bonds can be gambling vehicles, e.g., heavily traded or margined. The respondents clearly identified the stock market as an area of problem gambling for both clients and brokers (questions 4, 6, 7).

From many of the comments throughout the survey, it appears that brokers have much to learn about problem gambling and the ways that speculative investments are essentially the same as casino or other forms of pure gambling. In fact, approximately 60% of the respondents agreed that the more speculative areas of the stock market are no different than gambling in a casino (question 10).

Problem gambling by clients occurs in both traditional firms and discount houses. Brokers in traditional firms who are problem gamblers or unethical attempt to increase commissions by encouraging high volume trading by clients (often problem gamblers). On the other hand, discount brokerage firms present a different problem for problem gambling clients in that there is minimum potential for brokers to monitor problem trading behavior by clients.

Approximately 61 % of the brokers surveyed believe that brokerage firms discourage problem gamblers, and almost 16% believe that firms encourage problem gamblers (question 8). The former group expressed confidence in the desire and ability of Compliance departments and managers to monitor accounts of both clients and brokers to minimize inappropriate trading. The perception is that more firms are prepared to discipline brokers or close their accounts if brokers are not responsive to warnings.

Among the group of brokers that believe that problem gambling is encouraged there is a sense that it is a contradiction in goals to both encourage a significant amount of trading and to attempt to protect clients from economic suicide. Similarly, brokerage firms want to discourage broker churning but also want to encourage the most productive brokers to maximize commissions. The encouragement of broker commissions by firms and the attempt to contain broker excesses is perceived to be an intrinsic contradiction. The bottom line is that firms do not wish to alienate brokers by close scrutiny, warning and discipline. Broker trading is also perceived as a problem. The opposing goals exist here as well since firms wish to discourage excessive trading by brokers in their own accounts but like the commissions generated by this trading.

Motivation of brokerage firms to closely monitor accounts has increased due to an increased number of legal actions against brokers and their firms. (Securities Arbitration Commentator, 1993). Legal action falls primarily into two categories:

- a. Investors are increasingly suing brokers (and their firms) because brokers manipulated or misappropriated client funds. The current study provides evidence that brokers have a higher rate of problem gambling than investors in the stock market and the general population. Other research has demonstrated that problem gamblers frequently misuse funds entrusted to them. Therefore, it is reasonable to expect that many of the brokers the industry has labeled as "bad" or "rogue" brokers are recognized problem gamblers who were desperate for funds to support a gambling addiction.
- b. Investors who are problem gamblers are increasingly suing brokers and their traditional firms because they believe they were encouraged to continue trading despite ample evidence that the investors were committing financial suicide. This is a new application of the Dram Shop ruling relating to alcohol.

More than one third (36%) of the brokers indicated that changes in policies and procedures are necessary to discourage or limit problem gambling (question 9). The suggested foci of these efforts is on improved monitoring of client accounts;

eliminating speculative transactions; and offering help to those who show signs of problem gambling. Thirty percent (question 11) of the brokers endorsed making a pamphlet on problem gambling available to all investors and 17% (question 12) of the brokers endorsed the view that brokerage firms have a responsibility to provide funds for education, research and treatment of problem gambling. While not the majority, there is a significant voice among brokers which speaks for both greatly reducing opportunities for pure gambling in the stock market and for taking steps to educate brokers and clients about problem gambling and even to contributing funds to combat the problem. These are progressive views in an industry which is still basically in denial about the gambling problem.

Given that public and private segments of the gambling industry have been slow to recognize problem gambling as a serious mental health and social problem, it is not surprising that there is resistance to recognizing the problem within the stock market. It has been only relatively recently that the gambling industry has begun to acknowledge the extent of the problem and begun to allocate some financial resources to help deal with it (Steinberg, 1994).

The combination of two related factors creates an unrecognized substantial risk to securities market equilibrium:

- a. Increasing opportunities offered by brokerage firms for gambling/speculation/high risk trading (e.g., derivatives).
- b. Existence of significant problem gambling among both investors and brokers.

Examples abound in newspaper accounts within the last decade of individuals in key financial positions in large organizations whose problem gambling in the stock market/financial markets has had disastrous effects on these organizations and reverberated across the world of finance. Given the destabilizing effects on major institutions of the immense amounts of money lost in stock market speculation by problem gamblers, it is incumbent upon brokerage firms and the organizations that have authority over these firms to increase efforts to discourage problem gamblers and to eliminate the ways in which problem gambling is encouraged.

RECOMMENDATIONS

In order to minimize the problems discussed in this paper, it is recommended that brokerage firms and the bodies that oversee them should do the following:

- a. Accept the existence of problem gambling as a serious problem among a segment of investors and brokers.
- b. Include information about the risks of problem gambling in the standard disclosure documents that are made available to all investors.
- c. When a customer is identified as a high volume losing trader by a brokerage firm and a compliance letter is sent requesting that the customer acknowledge the risk s/he is taking, the trader should be apprised of the possibility that such trading behavior often indicates a gambling problem. A flyer should also be enclosed describing the signs and symptoms of problem gambling and where assistance is available.
- d. Develop training programs for brokers, managers, compliance departments, Employee Assistance Programs, etc. to both help develop greater awareness and to create intervention possibilities directed to investors and brokerage firm employees who manifest signs of problem gambling.
- e. Significantly limit opportunities for speculative trading in the stock market/financial markets.

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