

## Lecture 21

### Gambling vs Educated Betting

- Any investment can be a gamble.
- A house, a stock or anything that's price can fluctuate can be considered gamble.
- If your decision on your purchase is uneducated then it is a gamble.

**Gambling:** Play games of chance for money. The act of gambling money on the outcome of an unpredictable event.

**Educated Betting:** The act of gambling money on the outcome of an event that you perceive a positive expected value.

### What do traders do?

- Educated Betting.
- We are in the business of betting.
- There is no certainty in the outcome of our trades/investments.

The reason it's important to know that you are in the business of betting, is that even though you make the right bets, you will take losses even though those were the right bets to take.

IF YOU LOSE MONEY IT DOESN'T MEAN YOU DID SOMETHING WRONG.  
IF YOU MAKE MONEY IT DOESN'T MEAN YOU DID THE RIGHT THING.

### The Casino vs the Market

The casino is placing bets that have a very small positive expectancy, against its customers. In the long run these bets add up.

Example: In the roulette game you have an expectancy of  $-2.7\%$  and the casino has an expectancy of  $+2.7\%$

When you play in the casino you play against the house. The house has the edge (positive expectancy). Casinos build their games, so that they always have the edge.

In the markets you are not trading against one counterparty. You are trading against other market participants. Thus you can create your own edge by making the right decisions.