Excessive trading, a gambling disorder in its own right? A case study on a French disordered gamblers cohort

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HIGHLIGHTS
• Excessive trading may be driven by an addictive process.
• 8 patients seeking treatment in our gambling disorder unit were excessive traders.
• Diagnostic criteria for gambling disorder are applicable to excessive trading.
• Our excessive traders were all male high sensation-seekers.
• Trading and gambling share structural characteristics.

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ABSTRACT

Introduction: Trading and gambling appear to share some similarities. Indeed, traders can get professionally involved in high-risk types of trading as if it were gambling. This research explores whether excessive trading can be conceptualized as a subset of gambling disorders.

Objective: To better acknowledge the existence of an addictive-like trading behavior and to discuss its phenomenological similarities with gambling disorders.

Methods: The data of 8 excessive traders out of a cohort of 221 outpatients seeking treatment in our Problem Gambling unit were analyzed.

Results: Our case series revealed important similarities with gambling disorders in terms of diagnosis, trajectory and comorbidities. Like many disordered gamblers, excessive traders of this study experienced a number of small early wins, chased their losses, and ended up losing control over the money they invested. All of them invested in very risky stocks associated with short-term trading leading to potential large gains, but also with very significant losses. The structure itself of the two activities (gambling and trading) is very close.

Conclusion: Our results tended to support the idea of an addictive-like trading behavior as a subset of gambling disorders. Investing is not a form of gambling, but some people gamble with investments. Several observations and recommendations can be made: (i) conduct researches; (ii) build and validate specific assessment tools; (iii) develop strategies for prevention and treatment; and (iv) conduct more rigorous studies to clarify what we named an addictive-like trading behavior.

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1. Introduction

The recent stock market crash of 2011 has highlighted the dangers of financial losses. US residents pointed out an important decline in self-reported well-being after the recent stock market crash (Deaton, 2011), along with increased depression symptoms and poor mental health (McInerney, Mellor, & Nicholas, 2013). Although the impact of the stock market on the population’s well-being is well-documented,
its impact on people who might become overinvolved in it has not yet been studied thoroughly. Nowadays nothing really demonstrates the evidence of a “trading disorder”, much less its possible negative consequences. Trading has not yet been categorized as a gambling activity either. Is it possible that some traders who trade in a more risky way (commodity exchange, Fortune 500 stocks, emerging markets, junk bonds, currencies, precious metals, etc.) develop a pattern of trading comparable to the gambling pattern of some problem gamblers? Especially when faced with unexpected situations?

Trading is a widespread and risky practice involving financial losses. According to the Federal Reserve Board’s Survey of Consumer Finances, in 2004, 49% of all US families hold stock in traded companies (either directly or indirectly), compared to 40% in 1995 (Jadlow & Mowen, 2010). In France, for example, French investors hold 26% of the stock index. Among them, the typical independent investor in 2013 is a 59-year-old man with significant financial wealth and from a high socio-professional category. Their investment decisions are particularly self-made; surprisingly only 33% seek advice from their banker or their advisor before investing. They prefer to seek information by themselves before making their choice and placing their order (Dell’Oro, 2013).

Important changes in the investment method in the stock market were observed over the last 10 years, partly explained by the Internet development (Bogan, 2008). Anyone can open up an account on the Internet and invest in any international marketplace. The way investments are made on the stock market is particularly attractive to educated young people who are interested in new forms of online games (Griffiths et al., 2009). Moreover, some authors state that stock market investment (SMI) is one of the most socially acceptable “types of gambling”, just like lottery, bingo, and sports betting (Oliveira & Silva, 2001). A study on American students also demonstrated that the practice of trading was as frequent and sometimes as excessive as gambling games (Engwall, Hunter, & Steinberg, 2003). Indeed, trading could be considered similar to gambling in some cases. The 4 criteria of gambling are present: money betting, irreversible betting, a binary win or lose outcome, which depends entirely or partly on chance. Even if chance is only a part of trading outcome, certain conditions under which these transactions are carried out may cause a disadvantageous state of affairs. Among these conditions, the acceleration of information dissemination leads market operators to increase reactivity in a shorter period of time. This usually happens when the market has to react very quickly to some panic-inducing news, changing expectations. Without adequate time to treat such considerable amounts of information (which is sometimes contradictory), financial actors rely on automatisms, which often pushes them to increase risk-taking. Some traders could then be faced with the consequences of their emotions associated with chance, like casino players (Schmidt, 2010).

Differences between gambling and trading or SMI are discussed by several authors. Graham and Dodd identified three requirements for an investment to be considered as such, which gambling does not fulfill: gambling often depends more on chance than on analysis, the bet can be entirely lost, and a well-placed bet can result in an excessive payback (Graham & Dodd, 1940). Others distinctions are perceived by Murcko (2007): for him, investing is a continuous process while gambling is an immediate event or series of events. It should be stressed at this point that trading and SMI are not the same. “Trading” refers to a short term (seconds, minutes) to middle term (weeks) horizon, and is essentially based on technical analysis (graphs and stock transaction statistics). “SMI” refers to a middle to long-term horizon (months, years), and is based on fundamental analysis (micro and macroeconomic analysis). Day trading is the practice of individual traders who buy and sell the same company stock within a single day. It is particularly at risk of leading to excessive trading and therefore loss of money. Participants (N = 3870, mostly men, aged 23 on average) in a virtual investment simulation study were also invited to complete an online survey (Markiewicz & Weber, 2013). Among the 633 participants who accepted, almost 50% made a one day trading transaction at least once during the 13-day final period of the investment game. The authors found that gambling risk propensity predicted day trading, with day trading activity rising with investors’ gambling risk propensity. Day traders’ behavior was more likely driven by a stimulation or a sensation-seeking motive rather than by an instrumental motive.

Jadlow and Mowen (2010) investigated similarities and differences between the personality traits of gamblers and stock investors. They found that material needs, competitiveness, superstition, financial conservatism, and numeracy proficiency were predictive of a tendency to do both activities. But three personality traits were different between them: present-time orientation was positively related to gambling but negatively related to SMI, emotional instability was negatively related to SMI but positively related to gambling, and impulsiveness was related to gambling while it was not significantly related to SMI (Jadlow & Mowen, 2010).

The problem with the distinctions between gambling and trading is that supposedly disciplined traders frequently act like gamblers. To address this issue, we carried out a systematic review among 3 electronic databases (PubMed, Science Direct and Psycinfo), in accordance with the Preferred Reporting Items for Systematic reviews and Meta-Analyses (PRISMA) guidelines (Moher et al., 2009). The research terms used were a combination of MESH terms and keywords and included “addiction”, “dependence”, “excessive”, “gambling” or “pathological gambling” and “stock market”, “stock exchange”, “stock market investment” or “trading” in the title, abstract, or keywords. The systematic review (Fig. 1, Table 1) showed that some traders were comparable to pathological gamblers in terms of clinical personality profiles and the severity of the loss of control (Markovic, Nikolač, Tripkovic, Golubovic & Custovic 2012; Granero et al. (2012); Piperopoulos). Like many pathological gamblers, they experienced a number of small early wins, chased their losses, lost control over the money they invested and had similar cognitive distortions including selective memory, gambler fallacy or rationalization (Turner, 2011). However, they seemed to be better socially adapted than pathological gamblers, with less personal and family damage linked to their activity. They had a higher educational level, and were more cooperative (Granero et al., 2012).

Traders who display behaviors comparable to pathological gamblers are most likely driven by different mechanisms, with a probable addictive process contributing to some of their maladaptive behaviors. Given the similarities between trading and gambling, we made the assumption that developing an addictive-like trading behavior with the characteristics of a gambling disorder was possible. Our work aimed at presenting the phenomenological similarities between gambling disorders and a maladaptive and excessive way of trading.

2. Materials and methods

2.1. Sample and procedure

In 2009, our department, which is specialized in gambling disorder management, built a cohort (EVALJEU, registered under the number PROG/10/90) that included any new patient starting a treatment for this particular reason. Patients were assessed at baseline and every year, even when they did not receive treatment in our department anymore, and as long as they accepted the research procedure. The local Research Ethics Committee approved of this study and all subjects provided with informed written consent.

From time to time, patients who declared early-on suffering from “trading addiction” (sic) made an appointment and were then included in the EVALJEU cohort. Even if they did not fulfill the inclusion criteria – that is being a disordered gambler – they were offered to participate in the same research procedure in order to better capture the phenomenology of their disorder.

For the aim of this work, we decided to concentrate on these patients. Based on the EVALJEU cohort that included then 221 outpatients,

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