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EXCLUSIVE SPECIAL REPORT

An exclusive white-paper report on medical professionals and their investing compulsions by one of the nation's leading psychologists, gambling addiction and trauma specialists.

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POSITION: Academic Dean: www.CertifiedMedicalPlanner.com an online certification program with fiduciary trademark logo that teaches financial professionals about contemporary health economics, physician focused financial planning, medical business management and related topics of organizational modernity.

TOPIC: The Addictive Investing Personality of Medical Professionals and Related Compulsions

EXERPT: "*Hard-working physicians and other medical practitioners confronted with the problems associated with managed care and healthcare reform may very well choose to direct a portion of their energies to "playing the market." It is legal and ethical and offers the opportunity of quickly increasing one's personal wealth – or NOT.*

Functioning virtually alone prevents others from questioning their actions. While not directly equivalent, this action is akin to the drinker who drinks alone so that no one really knows just how much is consumed- a recipe for financial and emotional disaster."

SPECIAL REPORT

An Executive Post Exclusive

Addictive Investing and Related Compulsions

A Special Personality Concern of Physicians

By Eugene Schmuckler; PhD, MBA, CTS

Hard-working physicians and other medical practitioners confronted with the problems associated with managed care and healthcare reform may very well choose to direct a portion of their energies to "playing the market." It is legal and ethical and offers the opportunity of quickly increasing one's personal wealth.

In fact, professional money managers, as well as individual investors who dominate day trading these days, have an extremely short term of orientation, according to H. Bradlee Perry, retired CEO of the David L Babson money management firm. "Stocks were generally considered speculative in the late 1940's, and their primary attraction was high dividend yields of 6.5 percent to 7 percent on the best blue chip stocks. Rarely did any investment account have more than half of its principal in equities.

Today, the holding period for all the publicly held shares of Amazon.com and Yahoo, as well as most other Internet stocks, is just about eight days. For Dell Computer it's four months, for Microsoft it's six months, for Cisco Systems it's nine months, and for Wal-Mart it is 18 months. Even for blue chips that epitomize long-term investing, such as Mobile-Exxon, GE and Johnson & Johnson, the entire huge stock capitalizations are turning over in a mere 30 to 33 months."

The Internet has provided the mechanism by which investors can seemingly accomplish the goal of instant wealth through instantaneous day trading. With the surge in online brokerage accounts and PC-based individual trading, the phenomenon of the day trader has the ingredients for a new kind of addiction.

Experts agree that all stock-market speculation is potentially addictive, especially for those with a tendency for gambling. Edward Looney, executive director of the Trenton, New Jersey based Council on Compulsive Gambling (CCG) reports that the number of individuals calling with trading-associated problems is doubling annually. In the mid 1980s, when the council was formed, the number of people calling the council's hotline (800-gambler) with stock-market gambling problems was approximately 1.5 percent of all calls received. In 1998 that number grew to 3 percent and it is projected to rise to 6 percent by 2001.

Dr. Robert Custer, an expert on compulsive gambling, reports that stock market gamblers represent over 20 percent of the gamblers that he has diagnosed.

Day traders seek the high or the rush they get by the "action." They buy and hold stocks for only a matter of hours or minutes, gambling that the stock will go up (or down for short sellers) a few points in a short period of time. Some day traders have quit their regular jobs or have interrupted their medical careers so they can be at home to monitor the market and place their orders at just the right time. Many of their purchases are associated with the volatile Internet stocks that can move as much as 20 or more points in a single trading session. Stock market gamblers (not all of whom are day traders) will also tend to go after the highly speculative "penny stock" options and commodity markets.

Mark Cook, a 22-year veteran of day trading, describes the day-trader as a cross between an extrovert and introvert with both characteristics in balance. The introvert aspect is depicted by the disciplined workaholic with a reclusive concentration. The extrovert aspect is depicted by an aggressive, competitive, self-motivated individual striving to be the best in a selective profession.

Mr. Cook describes himself as "having an insane personality that is intermittently interrupted by craziness." The rationale that he uses is that he perceives day trading to be the last bastion of pure capitalism. "It gives the same opportunity to a hillbilly farm boy in bib overalls living in East Sparta, Ohio, as it does to an Ivy League university graduate in a tailor-made suit on Wall Street." In fact many individuals are drawn to online trading in order to shed the watchful eyes of brokers and to gain a measure of financial independence, helped by a wealth of news and information available free. The ease and availability of online trading makes it a big lure for risk seekers.

For those who do not have access to their own computers, or who seek camaraderie, day trading offices have opened. This can be supplemented by the use of online brokers. Day trading businesses also offer the active online trader better technology and faster execution of trades than is possible with personal equipment. Add to this the reinforcement one receives from fellow day traders when a "big score" is achieved. Of course, losses are always kept confidential.

A feature common to most stock market gamblers is that they trade their stocks online, do their own research, and seldom if ever speak with a broker about their stock selections. This is a rapidly expanding segment of trading accounts. In 1997 there were 4.1 million online trading accounts; in 1998 there were 7.5 million; and in 1999 there were 9 million. As we end 2007 this number was about 16 million.

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Entering the Day Trader World

In spite of all that has been written about the issue day traders are a limited number (it is estimated that there are fewer than 10,000 day traders), not the millions that are already trading online. However, although a large firm such as Broadway Trading of New York City has only about 800 customers using its services, it did account for an estimated one percent of all volume on the NASDAQ electronic stock exchange during the peak mania of the Y2K market boom. Not ten blocks away from Broadway Consulting is Harbor Securities.

Then there is RML Trading in Bellevue Washington and Pacific Day Trading, in San Jose, California. In New Jersey, All-Tech Investment Group, founded by Harvey Houtkin, is considered the granddaddy of them all, having been in the business since 1988.

Friends who relate tales of how much money has been made seduce many beginners to day trading. Unfortunately, many beginners don't get enough training and don't know when to cut their losses or take their profits. The ease and availability of online trading make it a big lure for risk seekers.

The average cost for a course in day trading information, rules, and etiquette from the above companies is $1,500 to $2,500. A typical class teaches how to trade stocks such as Amazon.com by using price movements in the Standard & Poors' 500 Index as leading indicators. This index, which is traded on the Chicago Mercantile Exchange, is the world's most widely traded investment index. It is used by big institutional money managers around the globe (from mutual fund managers, to bankers and pension fund managers), which means its movement tends to drag the rest of the market along with it, at least for a few minutes.

Some day traders simply track a coterie of about 50 technology stocks that are the same companies that enable them to day trade in the first place. Examples of these companies are Cisco, Dell, Microsoft, Yahoo, and Sun Microsystems.

Most day traders are young males who have quit their day jobs. Most of them start every day not owning any stock, then buy and sell all day and end the trading day again without any stock—just a lot of cash.

Dr. Patricia Farrell, a licensed clinical psychologist, states that day traders are especially susceptible to compulsive behaviors and addictive personalities. Mark Brando, registered principal for Milestone Financial, a day trading firm in Glendale, California states, "People that get addicted to trading employ the same destructive habits as a gambler. It's impossible to tell if a particular trade comes from a problem gambler or a legitimate trader.

But if we see someone taking larger and larger risks, it's a sure sign of a problem." Compounding this is the fact that few day traders buckle down to doing the kind of homework that more selective trading demands. It is not worth the bother as some day traders will hold stocks for less than a minute before selling.

A Developing Addiction

The addiction to gambling can occur whenever one has complete access 24 hours a day to a compulsive process, whether it is gambling, sex, drugs, or stocks, according to Dr. Michael Fargaher, who is co-director for the Metropolitan State College of Denver's Center for Addiction Studies. Stock markets are converting to 24-hour access. Cable modems, T1 lines, DSL connections, WiFi and WI Max now all offer rapid access to the Internet.

Some of the preferred areas of stock market gambling that attract the interest of compulsive gamblers include options, commodities, penny stocks, index investing, new stock offerings, certain types of bonds, and contracts for government securities. There is a relatively small group of investment gamblers who think of themselves as cautious long-term investors and who prefer the blue chip varieties. What they fail to take into consideration is that even stocks that are seemingly blue chips can precipitously drop in value.

Regardless of the investment choice, the compulsive investment gambler enjoys the anticipation of following the daily activity surrounding these investments. Newspapers, hourly radio and television reports, streaming computer banners, and hundreds of periodicals and magazines add excitement. The name of the game is action. Investment goals are unclear, with many participating simply for the feeling it affords them as they experience the highs and lows and struggles surrounding the play.

As documented by Bradley Skolnik, North American Securities Administrators Association's president and Indiana Securities Commissioner, most day traders loose money. "Online brokerage is new and cutting edge and we're enjoying the best stock market in generations. The message of most advertisements is 'just do it,' and you'll do well. The fact is that research and common sense suggest the more you trade, the less well you'll do."

Traders are in it for labile emotions, so investment suitability rarely enters the picture, according to Stuart Kaswell, general counsel of the Securities Industry Association in Washington, D.C. The kind of approach that has yet to be used by day trading firms is a statement such as: "Equities look good this year. We favor technology stocks. We have a research report on our web page that looks at the semi-conductor industry." Those kinds of things have never been considered because they do not involve a specific recommendation of a specific stock.

However, if a firm makes a specific recommendation to a medical professional or other investor—whether over the telephone, fax machine, face-to-face, or over the Internet—suitability rules should apply. Steven Caruso, of Maddox, Koeller, Harget & Caruso of New York City, says that "The online firms obviously claim that they do not have a suitability responsibility because they do not want the liability for making a mistake as far as determining whether the investor was suitable or buying any security. I think that ultimately more firms are going to be required to make a suitability determination on every trade".

Finally, according to Patrick DiChiro, vice president of corporate communications at E Trade (www.etrade.com) in Menlo Park, California, "We don't provide advice or recommendations on stocks, so we are not required to check on the suitability for investors. It's an issue that was raised by the SEC, (but) the real issue is investor education, which is why we provide information and tools on our web site so that our customers are able to make informed decisions themselves. We think that's what you need to do today."

Many experts opine that the E Trade Group and similar online services, merely entice web surfers and day traders to sign up as clients, by offering real time quotes, news from Reuters, or the PR Newswire, as well as research information on individual companies, all for free.

Yet virtually all this information is also freely available from other web sites such as Hoover's company information (www.hoover.com), CNN's web site (www.cnnfn.com), Wit Capital's web site (www.witcapital.com), Daily Stocks (www.dailystocks.com), Microsoft Investor Network (www.investor.msn.com) and Telescan (www.telescan.com). When redundancy is eliminated, except perhaps for sites such as Free Edgar (www.freeedgar.com), a lot of what is left over is plainly inaccurate, but the compulsive investors still spends untold hours searching for the holy grail of investment information to outsmart the (perceived) competition.

The Pitfalls of Day Trading

When this activity starts to impact on relationships with spouse, family or employer or when it causes financial problems, the individual has crossed the line from "investing" to "gambling." As with any addiction, the compulsive investor contends that he does not have a problem. In the course of progressing to the desperation phase of investment gambling, the investor may turn to illegal activity. Many investors have resorted to embezzlement after borrowing from their banks, family members, fellow employees, and friends. The progression of the illness continues as the investor tries to recapture losses by gambling more frequently or with larger amounts.

Online trading has pitfalls besides the obvious potential to lose hard-earned money. Not only can it become addictive but also the cyber-world can become a substitute for work and family. The online trader may come to feel that he or she is unable to be away from the monitor for 10 minutes without taking a chance on missing a hot stock. If the quote feed goes down, the anxiety level goes up. When a bad trade is made (and they are made), the urge to double up or over-trade becomes likely in an attempt to make it back all at once. These are symptoms of compulsive gambling and are easy traps to fall into, especially if one is making money at the time.

The cost of online trading can also be deceiving if all one looks at is the account balance. Despite the fact that at americanexpress.com/trade, you can buy and sell stocks and no-load mutual funds at no cost if your account balance is more than $100,000, the company will still make money on your cash balances, margin interest, personal loans, or brokerage advice. Quote services and taxes have to be deducted, not to mention the lost earning power of a job plus what one's capital might have earned had it been sitting in a mutual fund.

Jeff Schatz, writing for the *Motley Fool* newsletter adds that the pitfalls suggested above pale in comparison to the biggest obstacle to trading success—emotions. To Schatz, "Emotions are a terrible thing and will undermine would-be sound trades. The adage 'buy low, sell high' is much wiser than it may seem, as most do not and can not accomplish it because of their emotions. Few have the discipline to enter a stock before it is rising or when it is dropping, yet in many cases that is the only way to buy low. Fewer have the ability to sell high, as they are either shaken out by sudden drops and miss the real run or hold on until the stock has fallen out of favor. Other popular idioms like 'sell when others are buying,' 'don't fight the tape,' and the like are equally profound if you examine your own trading habits."

Day Trading vs. Traditional Investing

Arthur Levitt, former Chairman of the Securities and Exchange Commission, believes that the risks and misconceptions of investing are amplified by online trading. In a speech before the National Press Club, he attempted to impress individuals as to the risks and difficulties involved with day trading. Levitt cited four common misconceptions:

1. Personal computers are directly linked to the markets.

Thanks to computer software named Level II*,* day traders can access similar up-to-the-second information available to market makers on Wall Street. "Although the Internet makes it seem as if you have a direct connection to the securities market, you don't. Lines may clog; systems may break; orders may back up."

2. You can trust the virtue of limit orders.

"Price quotes are for a limited number of shares; so only the first few investors will receive the currently quoted price. By the time you get to the front of the line, the price of the stock could be very different."

3. An order is canceled when you hit “cancel” on your computer.

The fact is that an order is canceled only when the market gets the cancellation. You may receive an electronic confirmation, but that only means that your request to cancel was received, not that your order was actually canceled.”

4. The initial margin is all you will need to pay.

“If you plan to borrow money to buy a stock, you also need to know the terms of the loan your broker gave you. This is called margin. In volatile markets, investors who put up an initial margin payment for a stock may find themselves required to provide additional cash if the price of the stock falls.

Mark Cook prepared a set of daily trading rules to which he subscribes; among them are the following:

1. Do not trade the last hour of the day in the Standard & Poors’ futures market.

“The probabilities of a successful trade diminish in this time frame due to the impulsive and reckless buying and selling by institutions just because they didn’t get their trading done earlier.”

2. If you don’t like the trade that you are holding, get out.

“A day trader must become very mechanical, almost robotic. Many people who have come to the office to observe my trading style have commented that I appear almost emotionless. I believe to show emotion is to show fear. When your hand is shaking so much you can’t pick up the phone, the market senses a victim is about to be slain and goes out for blood. This rule has evolved out of this fear factor.”

3. After two hours of trading, ask yourself, “Do I feel good about my trading today?”

Once two hours have passed in the trading day, you should have made at least two, or perhaps more, trades but enough to evaluate what you have done. If you can answer ‘yes’ to the question, continue trading. If your answer is ‘no,’ stop trading. You can’t bring happiness to a ‘blue’ day by trading. Your emotions won’t allow it, and a big losing day is likely to be the result.”

4. All cylinders of the engine must be running efficiently.

“Keep in mind, as your trading day progresses, what money you have made or lost. It is much like knowing the score of a basketball game when you are the coach. Day trading is a job, and your paycheck is determined by your ability. You can only maximize your ability if you have all the information you need to make trading decisions. If your phone, quote machine or any other mechanical function of your daily routine is out of whack, stop trading. Frustration is the best friend of a losing day. The more frustrated you are, the less efficient your trading decisions will be, lowering the probability of a winning day. Don’t fight a losing battle; there will be other day trading opportunities.”

5. Have complete faith in your indicators.

“This is must for success. Many times your indicators give a buy or sell signal, and you don’t follow it because you just don’t have the confidence the signal is right this time.
Successful day traders believe in their indicators but also are aware that nothing is 100 percent foolproof.”

6. To become a day trader, observe those who are successful.

“Any information you can procure on the trading philosophies, mechanics, and techniques of the professionals is well worth your while. Now, if learning from those who have experience - cuts down your learning curve time - isn’t it worth it?

7. Day trading is a long-term commitment.

“I fervently believe that it takes several years to become a true professional. Each year you should become more consistent in your profits and enjoy more confidence in your indicators. My final daily rule means taking every trade and dissecting it. This will provide a road map for success by showing you where you have been, which mistakes you can learn from, and which situations to avoid.”

What Is a Compulsive Gambler?

How then, can the medical professional tell if he or she is a compulsive gambler? Here is a diagnostic questionnaire prepared by Gamblers Anonymous, designed to screen for the identification of problem gambling and compulsive gambling:

1. Have you ever had to lie to people important to you about how much you gambled?
2. Have you ever felt the need to bet more and more money?
3. Did you ever lose time from work or school due to gambling?
4. Has gambling ever made your home life unhappy?
5. Has gambling affected your reputation?
6. Have you ever felt remorse after gambling?
7. Did you ever gamble to get money with which to pay debts or otherwise solve financial difficulties?
8. Did gambling cause a decrease in your ambition or efficiency?
9. After losing did you feel you must return as soon as possible and win back your losses?
10. After a win did you have a strong urge to return and win more?
11. Do you often gamble until your last dollar was spent?
12. Have you ever borrowed to finance your gambling?
13. Have you ever sold anything to finance gambling?
14. Were you reluctant to use “gambling money” for normal expenditures?
15. Did gambling ever make you careless of the welfare of yourself and your family?
16. Did you ever gamble longer than you had planned?
17. Have you ever gambled to escape worry or trouble?
18. Have you ever committed, or considered committing, an illegal act to finance gambling?
19. Did gambling cause you to have difficulty in sleeping?
20. Do arguments, disappointments, or frustrations create within you an urge to gamble?
21. Did you ever have an urge to celebrate any good fortune by a few hours of gambling?
22. Have you ever considered self-destruction as a result of your gambling?

(Note: Most compulsive gamblers will answer yes to at least seven of these questions).

The above questionnaire focuses on the broad issue of gambling.
The following is a questionnaire tailored to the day trader:

1. Are you trading in the stock market with money you may need during the next year?
2. Are you risking more money than you intended to?
3. Have you ever lied to someone regarding your online trading?
4. Are you risking retirement savings to try to get back your losses?
5. Has anyone ever told you that spend too much time online?
6. Is the way you are investing affecting other areas of your life (marriage, practice, pursuits, etc.)?
7. If you lost money trading in the market, would that materially change your life?
8. Are you investing frequently (day trading) for the excitement and the way it makes you feel?
9. Have you become secretive about your online trading?
10. Do you feel sad or depressed when you are not trading in the market?

(*Note*: If you answer to any of these questions you may be moving from investing to gambling).

The Desperation Phase

The cost of compulsive gambling is high for the individual medical or lay professional, the family and society at large. Compulsive gamblers, in the desperation phase of their gambling, exhibit high suicidal ideation, as in the case of Mark O Barton, the murderous day trader in Atlanta several years ago.

His idea actually became a final act of desperation. Less dramatic is a marked increase in subtle illegal activity. These acts include fraud, embezzlement, CPT upcoding, medical overutilization, excessive full-risk HMO contracting, and other "white collar crimes." Higher healthcare and social costs in police, judiciary (civil and criminal), and corrections result from compulsive gambling. The impact on family members is devastating. Compulsive gamblers cause havoc and pain to all family members. The spouses and other family members also go through progressive deterioration in their lives. In this desperation phase, dysfunctional families are left with a legacy of anger, resentment, isolation, and in many instances, outright hate.

Assessment

Internet day trading, like the Internet sector itself, has become something of a investment bubble of late, suggesting something lighter than air that can pop and disappear in an instant. History is filled with examples, from the tulip mania of 1630 Holland and the British South Sea Bubble of the 1700's to the Florida land boom of the roaring twenties and the Great Crash of 1929; to $875 an ounce for gold in the 1980s and/or higher today to the collapse of Japan's stock and real estate market in early 1990s; the tech crash of 2000 and the sub-prime mortgage mess of 2008. To this list, one might now add day and Internet trading.

The obsession to gain material wealth is sad. Mihaly Csikszentmihalyi, writing in the October 1999 edition of *The American Psychologist,* suggests that material advantages do not readily translate into emotional and social benefits. Friendship, art, literature, natural beauty, religion, and philosophy become less and less interesting. A medical professional who responds only to material rewards becomes blind to any other kind and loses the ability to derive happiness from other sources.

Conclusion:

Your peaceful or angst-ridden thoughts and comments are appreciated at:
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