Simplified **by Cowrywise**

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Betting on the Future

An In-Depth Analysis of Gambling vs. Investing

cowrywise

Executive Summary

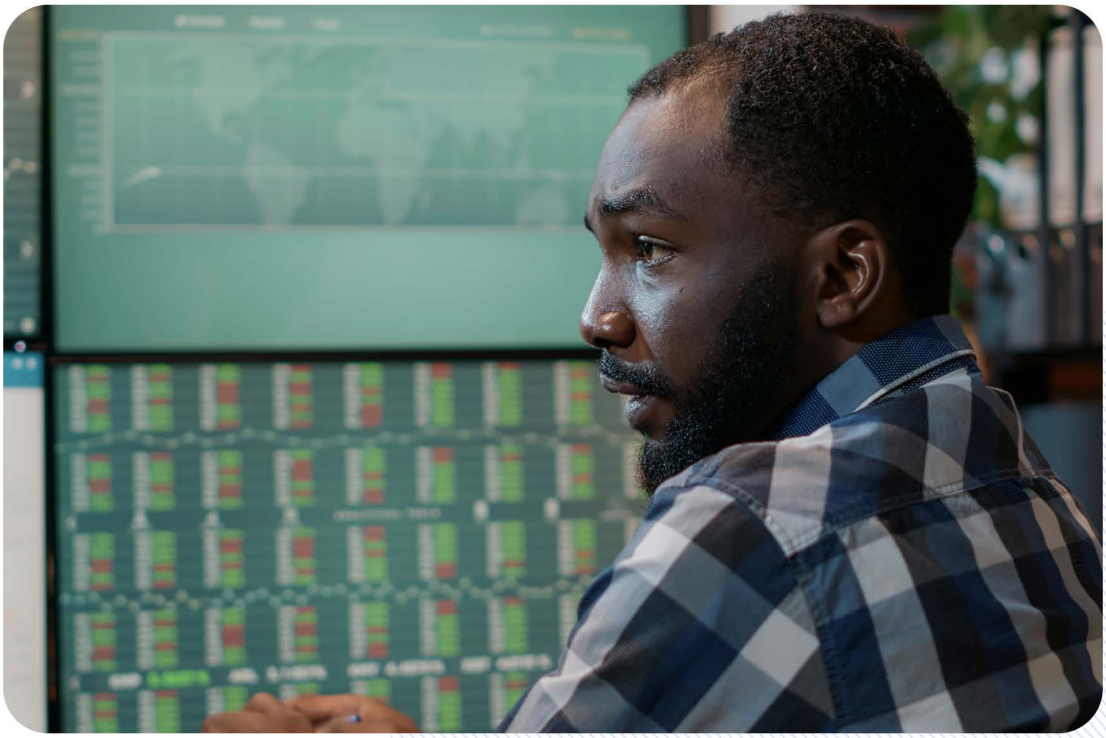
The Nigerian gambling industry, like a shadowy figure in the night, looms large yet remains elusive. While its presence is undeniable, quantifying its size and discerning its impact remains a Herculean task.

To understand this elusive industry, we sent out a survey in which about 3000 people responded. From the survey, it is clear that people have an understanding that gambling might not be a brilliant idea yet many still dabble in it. The reason for this is a question that many have pondered with varying results due to several factors ranging from motivation to the time horizon of participants.

In this report, we take a look at some of these reasons, explain elusive concepts like the house edge and proffer a sustainable alternative to gambling.

Gambling versus Investing: *A Deep Dive*

The line between gambling and investing can often appear blurry as both activities involve an element of uncertainty, monetary stakes, and the potential for gains or losses. However, the distinctions between the two are crucial, as they dictate not only financial outcomes but also the mindset and strategies employed by those who partake in these endeavours. In this piece, we examine the contrast between gambling and investing by exploring their fundamental principles, psychological influences, and strategic tactics.



We delve into risk analysis and the probability of losses in gambling, as well as short-term focus and instant gratification, to equip readers with information to enable them to make informed choices regarding their financial endeavours. But before then let us look at the history of gambling in Nigeria.

Historical Context

Gambling in Nigeria has its roots in the pre-colonial era, with activities involving chance, like dice games and pool betting, being prevalent sources of amusement.

Pools betting which involved prediction of the outcomes of matches or races however soon became the most popular form of gambling in Nigeria after being introduced in the 1920s. Though it was initially targeted at expatriates living in Nigeria, it soon became popular among Nigerians as well. This strong growth and interest led to the creation of the Nigerian Football Pools Association (NFPA) in the 1950s. The NFPA was responsible for collecting pool entries and distributing the proceeds to the winners.

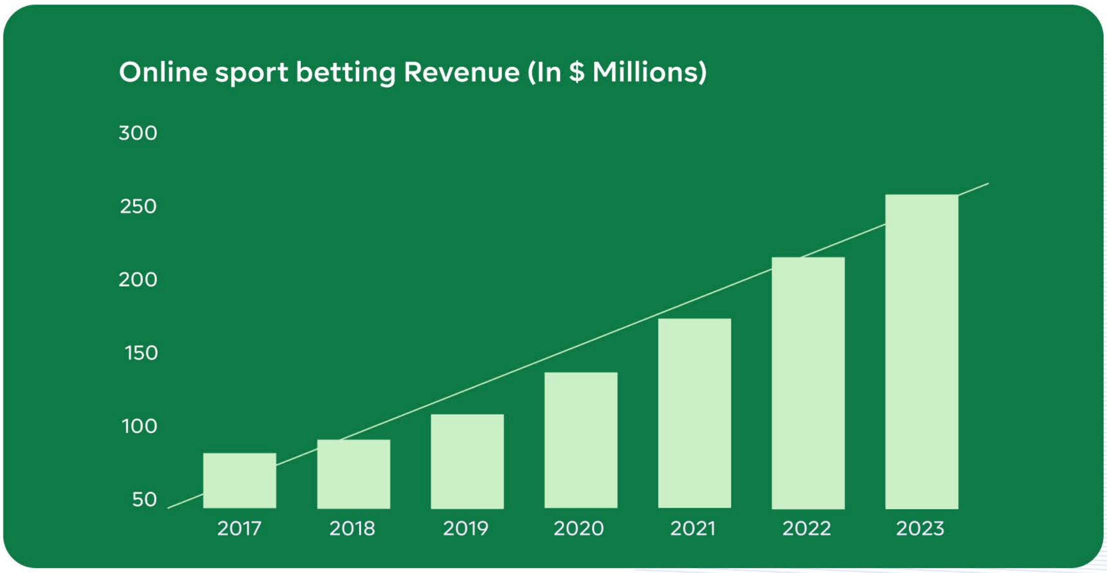
Throughout the 1960s and 1970s, pool betting maintained its popularity, while the NFPA remained influential within Nigerian social circles and possibly even forestalled the rise of a new form of sports betting in Nigeria. However, the betting scene underwent significant changes in the 1990s with the emergence of sports lottery. Like pool betting, sports lottery entailed betting on the outcomes of sports events, especially football matches.

Despite similarities to pool betting, sports lottery differed in that it was operated by private firms, offering larger payouts.

After a decade of iterations, Baba Kessington and his premier lotto quickly became a household name within the period, and arguably laid the groundwork for the digital revolution that was to come, catapulting sports betting into the digital age and making it accessible to millions of Nigerians online.

Current Industry Landscape

Since the commencement of the National Lottery Regulatory Commission in 2005, the betting industry has witnessed strong growth, with the number of sports betting permit holders growing to 59 currently from only Nairabet in 2009. According to Statista Market Insights, the total revenue of the online sports betting industry grew from $85 million in 2017 to $257 million in 2023 (A compounded annual growth rate of 17%).



"Betting is a terrible way to build wealth, it is addictive and makes you lazy"

- Anonymous respondent

From an industry structure standpoint, the Nigerian gambling industry shares some similarities with monopolistic competition. Characterised by numerous sportsbooks and betting platforms operating in the market, each offering slightly different odds, promotions, and user experiences.

While the basic product (betting on sports events) is similar across platforms, there are variations in odds, betting options, bonuses, and user interfaces, creating product differentiation. Larger, well-established firms like NairaBet and BetNaija have a significant market share and wield some market power, particularly in terms of setting odds and attracting customers through branding and marketing efforts. Still, there is no clear-cut leader like in the Nigerian cement industry.

And this explains the heavy reliance on advertisements to influence customer behaviour. The industry however has some relatively high barriers to entry, like the N30 million capital requirement for market participants as well as the payment for permit fees which cost about N100 million and is valid for 5 years.

The High Stakes Game: *Delving into the Differences Between Gambling and Intelligent Investing*

Gambling and investing, share intriguing similarities rooted in the fundamental concepts of risk and reward. Both involve allocating resources with the hope of gaining a positive return, both share elements of risk, have uncertain outcomes and require strategic decision-making. Despite these similarities, the principles at the core of these two seemingly similar acts are essentially different. These different core principles range from motivation, time horizon, risk mitigation, and the degree of outcome dependency on chance.

It is not sustainable, the odds are stacked against you, It is extremely high risk and the results are too random to base income on

- Anonymous respondent

Let's take a deep dive into these principles.

Motivation: Whether at a casino, on a sports booking website, or in a poker game, individuals engaging in gambling activities are almost always seeking excitement, cheap thrills from the potential of a quick win or succumbing to social pressure. For many, the allure lies in the prospect of a quick windfall combined with the unpredictability of outcomes and the associated adrenaline rush. And though cheap thrills by themselves are not dangerous, it has the potential to become very addictive. Investing, on the other hand, is typically motivated by a desire for long-term financial growth, wealth accumulation/protection, financial freedom or even the intellectual challenge that it entails.

Time and chance: Anyone who has rolled a dice before knows that the results of the action are majorly determined by events that elude any form of prediction and control. This phenomenon can also be witnessed in slot machines and lottery draws.

Though you might be tempted to think that there is some skill to certain gambling outcomes particularly in sports betting, you can for example analyse a club's current run of form and historical performance against its current opponent. The reality is that luck remains a key component. The unpredictability of human nature (players, opponents and even referees can have off days), team dynamics and tactical variability for example ensure that no amount of skill can guarantee success. The erratic nature of gambling could explain why 89% of gamblers end up losing their money according to an analysis by Wall Street Journal. From our localised survey, the numbers are not so different. 70% of people who claimed to gamble said they have lost money from gambling, while 79% said they do not think it is a reliable way to accumulate wealth (95% for those who do not gamble). For the overall survey;

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88% of respondents said they do not think gambling is a reliable way to accumulate wealth.

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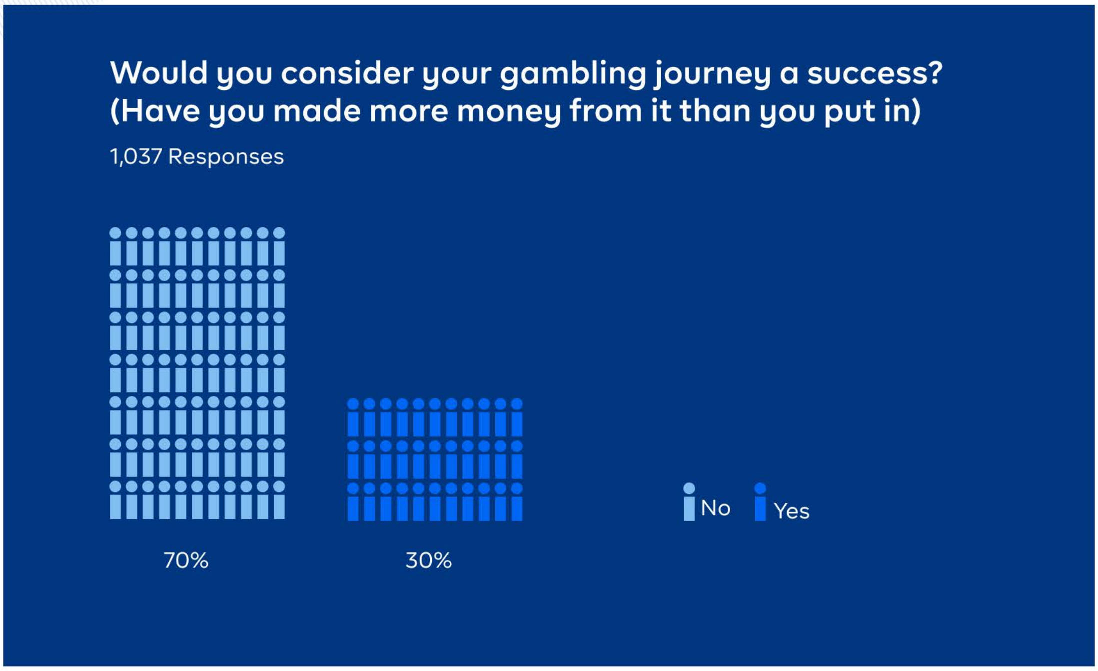

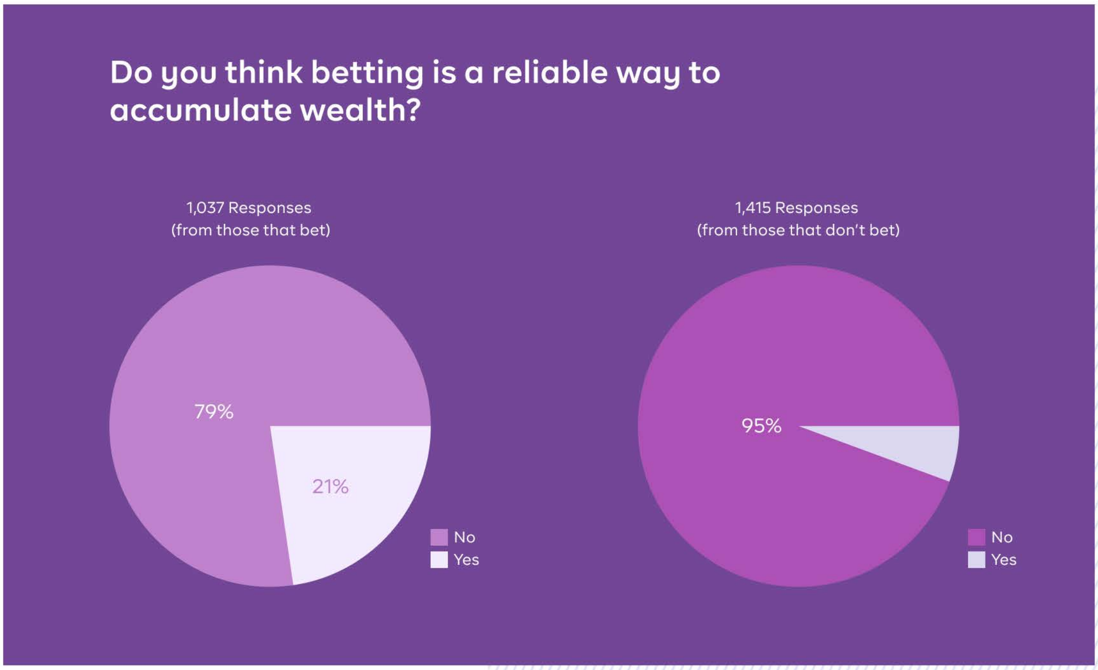

Click here to access the survey result

In contrast, investing involves a more calculated and strategic approach. While there is still an element of uncertainty in investing, the outcomes are not solely dependent on chance.

Time Horizon: When compared to investing, the outcome of a gamble is usually known quickly. This immediacy can be appealing to individuals seeking quick thrills and rewards without the need for a long waiting period. And though cheap thrills are in themselves not necessarily a bad thing, they tend to be very addictive as gamblers get hooked to the dopamine rush from the potential winning from bets the same way drug chasers chase the immediate high from a harmful substance despite the harmful long-term consequences. On the other hand, a long-term focus on wealth creation is a core tenet of investing as investors understand that the journey toward financial prosperity is a marathon, not a sprint. This is because investments tend to be very volatile in the short term. Patience, discipline, and strategic asset allocation combined with the power of compounding become potent tools for wealth accumulation in the long term. As returns generate more returns, the snowball effect contributes to the gradual accumulation of wealth.

This compounding magic is best realized over extended periods, rewarding those who patiently allow their investments to grow with time.

"The stock market is a device for transferring money from the impatient to the patient." - Warren Buffett

Risk perception mitigation and management (Qui bono): The perception of risk differs between gambling and investing. In gambling, participants may embrace risk for the thrill it provides while the house has active risk mitigation in place to ensure the gambler doesn't rip them off, whereas investors aim to manage and mitigate risk to safeguard their financial future.

In investing, there are many ways to protect your investment from downside risks such as diversification, stop-loss orders, hedging, and options contracts among others. These protection mechanisms are availed to investors to protect them from losses as the entire investment industry is by design based on symbiotic trust. To put it simply, it is in the best interest of the issuing house to sell you an investment that you profit from your investment, as people tend to stay away from investments that do not yield returns.

> **The loss in gambling is always more than the profit the truth of the matter is you'll lose more times than you'll win**
>
> - Anonymous respondent

For example, in fixed-income investing, companies that have a record of not paying their debt are unlikely to be able to raise money from the fixed-income market.

The same goes with equity investing as stocks that don't do well will have problems raising equity capital. This is unlike the zero-sum business model of gambling, where the house profits only when players incur losses. The dealing house in a gamble usually has mechanisms in place which ensure that the average/expected outcome of any bet is that the gambler loses money. This phenomenon is called the house edge, and it ensures that the probability of losing on a gamble always exceeds the probability of gains.

Though there are exceptional cases where agents acted in ways that are not in the best interest of investors in pursuit of short-term gains (think Enron, Oceanic Bank et al), that is not the general idea with investing as the odds are literally in your favour in the long term as over long periods, financial markets have generally exhibited an upward trend despite short-term fluctuations and market downturns.

The House and its edge

You must have heard the saying “The house always wins” which is an encapsulation of the pervasive concept known as the house edge in the realm of gambling. This phrase captures the statistical truth that casinos, by design, hold a consistent advantage over players, especially in the long run. The House Edge is defined as the casino’s expected profit expressed as a percentage of the player's original bet. It is the average profit the house stands to make on every bet or the amount the house will hold on to after all bets have been settled and paid out. Simply put, the rules of the game make it such that the odds are stacked against bettors without them even knowing it.

To illustrate how the house edge works, let's take a look at the dimensions and set-up of a roulette wheel. Many people love playing roulette because they think they have a 50/50 chance to win, after all, there are only two possible colours: red or black. But this isn't the case for an American roulette wheel, two green colours are bringing the total roulette wheels to 38 different numbers with 18 red and 18 black.

House Edge = (Number of pockets with Zeroes/total number of Pockets) x 100

> **It can ruin your life, I am a witness. It distracts you from your focus on hardwork and makes you lazy**
>
> - Anonymous respondent

The house edge in this case is simply 2 divided by 38 or 5.26% and this means that for every N100 bet that is placed, in a worst-case scenario, the house is likely to walk away with N5.26. For every N1 million that's bet at the roulette tables in a casino, the management expects to pocket a profit of at least N52,600.

The other approximately N947,400 is returned to the bettors. In sports/football betting, this concept is best illustrated by analyzing the point spread in any game. We first arrive at the implied probability which is the inverse of the odd. For this analysis, I will be using the Lazio-Roma game played on January 10, 2024. The odds for a home team to win a draw and an away team to win are 3.50, 2.24, and 3.10. These odds have an implied probability of 28.6%, 44.6% and 32.3% which brings to a total of 105.6%.

House Edge Formula

The House Edge (Y) is calculated using the following equation:

(100/Home Win Odds) + (100/Draw odds) + (100/Away Win odds) – 100%

The house edge in this example is 5.6%.

You might be tempted to interpret this to mean that you can expect to sit with N100,000 and gamble for a while and the odds are that they will only lose about N5,600, but this is not the case. This is because compounding also has the same effect on gambling that it has on investing.

To put it simply, the house edge means that if you play long enough, the house will almost always get all your money.

Using the 5.6% from above, after one game, your average expected return is 94.4% of your initial investment. After ten games, you are expected to have 57.1%. After 100 games, the expected return on your initial N100,000 capital would be N360 or 0.4% (essentially nothing). Compare this with investing N100,000 in equity of a fixed income or equity mutual fund, it is highly unlikely that after 100 iterations you will have lost all of your money.

Football savings goal; An excellent alternative

Sunk cost is a major reason why a lot of gamblers refuse to abandon their betting addiction. Imagine Mr Timi, a financial analyst who has lost close to N200,000 to gambling. He is very likely to continue to continue with the hopes of recovering his lost money.

As we have however mentioned earlier, the chances of that happening are very slim. Compare this with Kayode who supports Manchester City, and decides to save N3,0000 for every goal they score. In the current season, Mancity has averaged 2.27 goals per game. At the current run rate, they would have scored a total of 86 goals and Kayode would have saved a total of N258,780. After 5 years, this habit would have made him a millionaire as he would be worth N1.42 million.

How does the Football Savings Goals work?

We created a savings circle for 8 popular teams, so you get to save together with other fans of your team. These teams are Chelsea, Liverpool, Arsenal, Manchester United, Manchester City, Barcelona, Real Madrid and PSG.

You can save a minimum of ₦1,000, for every goal your team scores!

You can also add Triggers for when your favourite player scores!

For these plans, the odds are very sure. Why lose your money to betting when there's a better way to grow it?

So, how can you join your favourite club?

It's easy. Click on your preferred team below, create an account or log in and start saving.

Chelsea

Manchester United

Manchester City

Liverpool

Arsenal

PSG

Real Madrid

Barcelona

Sporting Lagos

Save when your team scores.

Join a football circle, and build wealth with other fans

Click here to get started

https://cwry.se/football-circles

The Premier League continues to captivate a global audience. The passion of fans, whether watching from the stadium or their living rooms, highlights the sport's unifying power. We know that this season will be another rollercoaster of emotions but not just that; it is another time to build wealth supporting the club you love.

In conclusion, the exploration of gambling versus investing reveals a stark contrast in principles and outcomes. While both activities involve risk and the potential for gains or losses, the motivations, time horizons, and risk management strategies differ significantly. Now armed with this information, what happens next is up to you. At Cowrywise, we are hoping that you will make the right choice and start building wealth for your future self.

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