Investing, Speculating or Gambling: The Role of Small-Scale Investors in Colombo Stock Exchange

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ABSTRACT

William F. Sharpe, the Nobel Prize-winning Stanford University professor with the release of his landmark "Investments" distinguished between investing, speculating, and gambling in stock markets. Investing refers to scarification of certain present value for future value, while speculation means buy or sell in expectation of profiting from market fluctuations. Consequently, investors base their decisions on in-depth fundamental analysis and focus on long-term returns, whereas speculators invest based on price movements and focus on short-term returns. On the contrary, gambling is defined by him as the betting on an uncertain outcome. A rational investor in stock market can actually be all three at the same time: he might have the majority of his portfolio in long-term investments, speculate with a small portion, and take occasional risk of gambling. This research has empirically investigated the preference of small scale retail investors (with portfolio value of ≤Rs. 1,000,000) towards investing, speculating and gambling in Colombo Stock Exchange (CSE). A set of attitudinal statements explaining the underlying phenomenon of each motive were formulated and was included in a structured questionnaire; then pre-tested for validation, and was administered with a sample of small-scale investors (n=270) at CSE branches located in Kandy, Matara and Negambo districts, during June to October 2015. A number of quantitative methods, including Factor Analysis to configure validity and reliability of statements, and Regression were applied to analyze the data using the SPSS Software (Version 17). The results indicate that all three motives (investing, speculating, and gambling) induce small-scale investors

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to utilize the CSE to invest their money, with 'Speculation *motive' was rated as the most important motive in this respect, especially amongst the relatively new investors.*

KEYWORDS: *Colombo Stock Exchange, Gambling,* Investing, *Speculating, Small-scale retail investors*

1. INTRODUCTION

A stock market is a platform for the trading stocks and derivatives of listed public company's at agreed price between buyers and sellers. The Colombo Stock Exchange (CSE), which is established under the Companies Act No. 17 of 1982 and is licensed by the Securities & Exchange Commission of Sri Lanka (SEC), functions as a market operator for stock trading in Sri Lanka. The CSE has 15 full members and 13 Trading Members licensed to trade both equity and debt securities, while eight members are licensed to trade in debt securities only.

There are two types of investors in CSE: individual investors and institutional investors. Individual investors, also called retail investors, are individuals who are investing on their own. Institutional investors are entities such as investment companies, banks, insurance companies, and other financial institutions. Regardless the type, these investors invest their savings through the CSE with the intention of making higher returns. The value of the stock (and in turn, its market price) is principally rest on the performance of the company and other variety of financial and economic factors. Therefore, the market price of a stock is determined by a systematic and fundamental analysis of its related factors. Yet, at present, highly volatile functions with instability patterns are common phenomenon in the CSE (Rathnayaka, *et al*, 2014). This signposts the significant role plays by the speculators and the gamblers at CSE. Mostly, the small-scale retail investors' (with portfolio value of ≤Rs. 1,000,000) concern lies in taking high returns from short-term investment. They mainly engaging in risky financial transactions in an attempt to profit from fluctuations in price movements (i.e. gambling and speculation), rather than attempting to profit from the underlying financial attributes of a stock (i.e. investing).This makes the CSE highly volatile with financial instability.

Statement of the Problem

The intensity of the risk factor in investment can be understood by the popular "Mark Twain Effect". This quotation states that "*October is one of the peculiarly dangerous months to speculate in stock markets. The other are July, January, September, April, November, May, March, June, December, August and February.*" With this quotation, Mark Twain indicates that arbitrary and loosely assessed investment is always risky. Yet, most investors, particularly SSRIs in CSE, are highly irrational in managing risk of their investment, and this leads investors to even demand for stocks that have the potential for large losses. This study attempts to empirically investigate on "how small-scale retail investors (SSRI) behave in CSE and do they prefer to investing, speculating or gambling in Colombo Stock Exchange."

Objectives of the Research

The main objective of this study is to empirically investigate the preference of small scale retail investors towards investing, speculating and gambling in Colombo Stock Exchange. The other objectives are:

1. To sightsee the passion of investors' gambling, speculating and investing preferences in Colombo Stock Exchange in Sri Lanka (CSE)
2. To investigate the relationship between the value of investment portfolio and his/her preference towards gambling, speculation and investment in CSE
3. To measure the correlation between intensity of gambling / speculation and investors demographics

In line with these objectives, it assumes:

H_1: most of the SSRIs in CSE are engaged in gambling and speculation than investing their savings rationally.

H_2: there is a strong negative correlation between stock market gambling / speculation and the value of the investment portfolio.

H_3: stock market gambling and speculation are negatively correlated with investor's average income, age, and education.

2. GAMBLING, SPECULATIVE, AND INVESTING

Whether an activity qualifies as gambling, speculative or investing depends on a number of factors, including the intention of investor, nature of the asset, the expected duration of the holding period, and the amount of leverage. It may sometimes, therefore, be difficult to distinguish between these three concepts. The distinction between investment, speculation and, gambling in common stocks has always been a useful one and its disappearance is a cause for concern. Yet, the literature confirms that, despite the meticulous efforts of some scholars, there is no agreement till date about an accurate definitions on investment, speculation and the gambling.

John Maynard Keynes (1936) with the release of his landmark '*The General Theory of Employment, Interest and Money*', distinguished between two ways of investing in the market - enterprise and speculation. Enterprise refers to investing based on fundamental analysis while speculation is defined by him as the activity of forecasting the psychology of the market. In terms of investor's intention and his or her effort taken a vast difference can be identified between investing and speculation.

Investment

The term 'investing" could be associated with the different activities, but the common target in these activities is to "employ" the money (funds) during the time period seeking to enhance the investor's wealth (Kristina, 2010).Investors base their decisions on fundamental analysis and incorporate in-depth analysis on the stock. They focus on long-term returns and it usually entails low levels of risk (Keynes, 1936). In 1934, Graham and David addressed the issue and offered a mostly accepted definition of "investment" in their classic text book *security analysis*. According to them, an investment operation is "one which, upon thorough analysis promises safety of principal and an adequate return". In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price (http://www. investopedia.com).

Speculation

Together with the investment the term speculation is frequently used. Speculation can be described as investment too, but it is related with the short-term investment horizons and usually involves purchasing the salable securities with the hope that its price will increase rapidly, providing a quick profit (Kristina, 2010).Adams Smith, often thought of as the father of economics, defined speculators as those ready to pursue short-term opportunities for profit. In 1936, John Maynard Keynes defined speculation as "the activity of forecasting the psychology of the market". Speculators invest based on price movements (*fluctuation in prices*) and focus on short-term returns. The nature of speculation results in high levels of risk.

Martin S. Fridson, in his famous book *exactly what do you mean by speculation* (1993), addressed numerous definitions of speculation and discussed some unique aspects of such interpretations. He has divided the definitions of speculation into four categories. The definitions either implied the use of or involved (1) price changes, (2) quick profits, (3) high risk, or (4) some combination all three elements. A more recent source on this subject is the book published by Roncal and Abbo in 2009, entitled *the big gamble: are you investing or speculating*. Most methodical discussions of "speculation" appeared in the book. As per the authors, one of the main motive for speculative in capital market is to secure profit from knowing better than the market what the future will bring forth.

Gambling

Stock market investment has become one of the most common method of gambling. Gambling is defined as staking something on a contingency. It involves risking something of value on an uncertain event in hopes of winning something of greater value (CRC, 2011).However, when trading is considered, gambling takes on a much more complex dynamic than the definition presents. Many traders are gambling without even knowing it - trading in a way or for a reason that is completely dichotomous with success in the markets (Cory, 2016).Investing in the stock market becomes gambling only if investor plunk money into stocks and believe the price will go up. This is similar to the attitude before when people would rush to buy stocks of a company conducting an initial public offering because of the belief that the stock's price would jump on listing date.

Investing, like gambling and speculating, involves some risk. The risk in investment is the uncertainty about how an asset will change in value over time. Higher expected returns on investment usually involve greater risk. The main difference between gambling, speculating and investing is the amount of risk undertaken in the trade. Typically, high-risk trades that are almost akin to gambling fall under the umbrella of speculation, whereas lower-risk investments based on fundamentals and analysis fall into the category of investing(Kristina, 2010). Speculators try to buy low and to sell high, their primary concern is with anticipating and profiting from market fluctuations. But as the fluctuations in the financial markets are and become more and more unpredictable speculations are treated as the investments of highest risk.

3. REVIEW OF LITERATURE

Gambling and Speculation in Stock Markets

In securities exchange markets where that stock prices follow a random walk, gambling and speculating becomes an inherent factor. A person is gambling whenever he or she takes the chance of losing money or belongings, and when winning or losing is decided mostly by chance (Weidner, 2011). Matthew and Subrahmanyam, (1992) examine an adverse selection model of trading in which both informed and uninformed traders are rational, maximizing agents. They identified that market liquidity and price efficiency are non-monotonic in the number of uninformed speculators in the market. Also, they believe that what really matters in a stock market is the state of confidence or what is better known today as investor sentiment, which is the result of the "mass psychology of a large number of individuals."

Lemmon, and Ni, (2008) measured the effects of investor sentimenton speculative trading in stock markets and they found that speculative demand for stocks is positively related to investor sentiment. They proposed that the correlated biases of noise traders affect the trading and prices of securities that are subject to speculation, but do not affect prices of securities in which demand is driven by hedging motives unrelated to sentiment.

Determinants Gambling and Speculation

With speculation, the risk of loss is more than offset by the possibility of a huge gain; otherwise, there would be very little motivation to speculate. While it is often confused with gambling, the key difference is that speculation is generally tantamount to taking a calculated risk and is not dependent on pure chance, whereas gambling depends on totally random outcomes or chance (www.investopedia.com, 2016). Hence, speculation is often based on expectations of a future event, or a sense of how other investors might react to such expectations.

In the perspective of neoclasical economic theories, which assued a rational expectation pursuasion, economists have experienced difficulty in explaining the behaviour of investors at stock makets.This is because, investors based their decision on number of factors, some of which are not explained in economic theories. On the other hand, researchers present evidence that investor attitudes have changed through time, with important consequences for stock markets (Raines and Leathers, 1994; Robert Shiller 2000). This encourage scholars to investigate the important determinants of the stock market investment passion among the new investors.

Regulation of the financial markets is based on the premise that by providing investors with accurate relevant information, they can make informed investment decisions (Thomas, 1992). Further, it is believed that investors can access accurate relevant information by going through the fundamental and technical analysis of the stock market, and there is no need to rely on public information. The foundation of regulation is thus based on the premise that investors, and hence markets, will operate in a rational manner. Yet, most of the researchers believe that stock markets are usually sensitive to the public information than the changes in fundamental and technical factors. Therefore, some investors penetrate the opinions of public information in forecasting stock market price fluctuations. In 2009, Cao and Hui, in their study on *"differences of opinion of public information and speculative trading in stocks and options"* analyzed the effects of opinion of public information and speculative trading volume in stocks and options. The results suggest that options trading is concentrated around information events that are likely to cause disagreements among investors, whereas trading in stocks may be diffusive over many periods.

The *Efficient Capital Market Hypothesis* has bee widely accepted by scholars in all over the world. According to the hypothesis, the market establishes and maintains stock price at a level that bears a rational relatiship to the "true value" of a publicly traded company, because the price reflects the total mix of information available and accounts for the views of the various sectors of the investor community (Thomas, 1992). This might true for the highly efficient markets, where highly rational investors play a significant role. The existance of short-sighted irrational investors create comfortable plaform to profit from short-term price fluctuations in securities market in form of gambling and speculating. Sholars argue that whether an activity qualifies as gamble, speculate or invest depends on a number of factors, including the nature of the asset, the expected duration of the holding period, and the amount of leverage. Probably the best way to make a distinction between investment and speculation is by considering the role of expectations (Saritha, 2015). Investments are usually made with the expectation that a certain stream of income or a certain price which has existed will not change in the future. Speculations, on the other hand, are usually based on the expectation that some change will occur. An expected change is a basis for speculation but not for an investment.

Saritha Pujari (2015), her research on *What is the Difference between Speculation and Investment?* contrasts the behavior characteristics between an investor and a speculator (Table 1).

Another possibility is that the two terms 'speculating' and 'investing' are not sufficient to cover the entire range of activities under consideration. A third term, 'gambling', is often used to straddle the two, specifically to handle activities that would ordinarily be considered investing but are done in a way that make them feel more like speculating.

Investing in securities that trade on financial markets is very different from gambling in important ways. Investing involves "giving money to a business manager in exchange for, at minimum, a claim on some of the future cash flows of the business". This differs from gambling in three ways (CRC, 2011). First, knowledge matters in investment, though it by no means assures monetary gain, nor does it preclude either party from being wasteful or foolish - The outcome in gambling depends only on chance. Second, an asset is purchased in an investment, but there is no underlying product or service exchanged in a gamble. Finally, the intention of the investment is to gain from the transaction, whereas the gambler is certain to lose over time because the odds always favor the "house," the organizers of the game. Some scholars see the distinction between gambling and investing as a distinction between buy-and-hold investing and speculation (Weidner, 2011). Dictionary.com web site differentiates these two concepts as; investment is "to commit money or capital in order to gain a financial return" and gamble is "to bet on an uncertain outcome, as of a contest and take a risk in the hope of gaining an advantage or a benefit".

Murcko Thomas (2011) attempt to differentiate invest from gamble from following five dimensions: a). Investing is saving for specific goals, such as retirement, while gambling is not, b). Investors are risk-averse, while gamblers are risk-seekers, c). Investing is a continuous process; gambling is an immediate event or series of events, d). Investing is the ownership of something tangible; gambling is not, and e). Investing is based on skill and requires the use of a system based on research, while gambling is based on luck and emotions.

TABLE 1: Behavior characteristics between an Investor and a Speculator

	Characteristics of an Investor	Characteristics of an Speculator / Gambler
01	Interested in long-term holding of a security he buys. The minimum holding period is one year.	Usually interested in short-term holdings, holding a security for maybe a couple of days, weeks, or months.
02	Only willing to take up moderate risk. Usually, he buys securities issued by established companies.	Willing to assume high risks. Usually he buys volatile issues (meaning wide price fluctuation) or lower grade securities.
03	Interested in current return in the form of interest income or dividend as well as possibilities of capital appreciation.	Primarily interested in price appreciation. Current income in the form of interest or dividends is considered insignificant.
04	Expects a moderate rate of return in exchange for moderate risk assumed.	Expects a high rate of return in exchange for the risk assumed.
05	Decision to buy is arrived at through careful analysis of the past performance and future prospects of the issuing company and the industry it is in. The analysis may be performed by the investor or by someone he believes in.	Desire to buy is usually based on intuition, rumours, charts, or market analysis which concerns itself with the analysis of the stock market itself.
06	Uses his own money to buy securities.	Usually borrows money from brokerage firms using his securities as collateral. The purpose is to either semi-investors or semi-speculators in different degrees.

Source: Saritha Pujari (2015), What is the Difference between Speculation and Investment?

These literature suggest that some investors base their investment decisions on fundamental analysis and incorporate in-depth analysis on the stock. They focus on long-term returns and it usually entails low levels of risk. On the contrary, speculators invest based on fluctuation in price and focus on short-term returns. The nature of speculation results in high levels of risk, and generally tantamount to taking a calculated risk and is not dependent on pure chance, whereas gambling depends on totally random outcomes or chance. Whether, an investor engage in gambling, speculating or investing in securities market is depend on different factors such as information available, nature of the asset concern, the expected duration of the holding period, and the amount of leverage.

4. MATERIALS AND METHODS

This paper has empirically investigated the preference of small scale retail investors (with portfolio value of ≤Rs. 1,000,000) towards investing, speculating and gambling in Colombo Stock Exchange (CSE) and explored the causes and consequences of gambling and speculations in SCE. Since the multiple sources of evidence essentially provide multiple measures of the same phenomenon in social sciences researches, this research utilized both primary and secondary data sources for eliciting information on the issues investigated.

A set of attitudinal statements explaining the underlying phenomenon of each motive were formulated and was included in a structured questionnaire; then pre-tested for validation, and was administered with a sample of small-scale investors (n=270) at CSE branches located in Kandy, Matara and Negambo districts, during June to October 2015. Multiple sampling techniques were as the sampling procedure in this study. Other than the CSE Jaffna branch, all other CSE branches operates in the country were considered as the sampling framework of the study. The main reason for excluding the Jaffna branch from the population was the language problem. Out of the potential branches of CSE, the above three branches were selected randomly. Then the data was gathered from the small-scale participants, with the investment portfolio equal or less than rupees one million, who attended the awareness workshops organized by CSE,by means of a series of key informant surveys and focus group discussions supported by a structured interview schedule.

The semi-structured questionnaire used to collect data for this study consisted of three sections; Section A, B and C. The development of each section was done independently. Section A of the survey instrument measured investor's demographic variables. Section B of the questionnaire was designed to measure consumer motivates for the investing in CSE and the questions in section C were designed to assess how small-scale investors engage in investing, speculating, and gambling in CSE.A number of quantitative methods, including Factor Analysis to configure validity and reliability of statements, and Regression were applied to analyze the data using the *SPSS* Software (*Version 17*).

5. RESULTS AND DISCUSSION

Section A of the research tool contained 10 questions pertaining to the demographic profile of respondents. Descriptive results from the answers to this section are contained in here. The breakdown illustrated that the male investors were dominated in the sample (n=240: 88.90%). In the age category, 40.7 percent of the total sample represents 36-45 age group, just over 25 per cent fall in the range of 46-55 years old, which is followed by 26-35 age group. Nearly 67 percent of the sample studied up to or were in a process of completing G.C.E. (Advance Level) examination and another 22.2 percent have achieved their G.C.E. (Ordinary Level) education.

Investing in stocks of a company has conventionally been considered the preserve of the privileged society. These respondents were asked to specify their monthly income. Results reveal that the average incomes for all respondents are skewed towards the higher income brackets (Rs. 100,001-150,000),which is followed by Rs. 75,001-100,000 income group. This is an expected outcome, because people invest in CSE are generally known to be a high income earners. When consider the value of the portfolio, 40.7 percent indicated that they were maintain an investment portfolio worth of Rs. 400,001-600,000. Only 7.4 percent accepted that their investment is worth less than Rs. 200,000.

The motives for investing / speculating in CSE were reconstructed based on the findings contained in investor-characteristic matrix of SarithaPujari (2015). Six questions were designed, based on investor / speculator (and gambling) characteristics, on which investor / speculator index (GSI) is created. Results reveal that the internal consistency reliability was confirmed with significant Cronbach's alpha for each variable. Respondents were requested to rank their views on five-point ranking scale as follows.

Results summarized in Table 3 expose that the investors at CSE are engage with a gambling and speculative investment ($\ddot{x}_{GSI} = 2.901$, SD = 0.505). Investor behaviour patterns were further analyzed to sightsee the passion of investors' gambling, speculating and investing preferences in Colombo Stock Exchange in Sri Lanka. Results reveal that only 29.6 percent (n=80) of investors have invested their money, analyzing the fundamentals of stocks, with real intension of earning long term profit and the majority (51.9%, n=140) are engage in speculations in CSE. 18.5 percent of investors are gambling with their money at CSE. These finding support the first hypothesis of this study and therefore, it can be concluded that *most of the SSRIs in CSE are engaged in gambling and speculation than investing their savings rationally.*

TABLE 2: Sample Profile

Sex	No.	%	Age	No.	%	Education	No.	%
Male	240	88.90	18-25	20	7.4	Up to GCE OL	10	3.7
Female	30	11.10	26-35	50	18.5	GCEOL Passed	60	22.2
			36-45	110	40.7	GCE AL	180	66.7
			46-55	70	25.9	Degree	20	7.4
			56<	20	7.4			
SD	0.315		SD	1.018		SD	0.629	
Mean	1.111		Mean	3:074		Mean	2.777	

Monthly Income	No.	%	Investment Portfolio	No.	%
< 50,000	20	7.4	< 200,000	20	7.4
50,000 – 75,000	30	11.1	200,001 - 400,000	50	18.5
75,001 – 100,000	70	25.9	400,001 - 600,000	110	40.7
100,001– 150,000	120	44.4	600,001 - 800,000	80	29.6
150,000 <	30	11.1	800,001 - 1000,000	10	3.7
SD	1.065		SD	0.963	
Mean	3.407		Mean	3.037	

Characteristics		Investor	1	2	3	4	5	Speculator
01	HPD	long-term						short-term
02	RTG	moderate risk						high risks
03	FOR	dividend & capital gain						price appreciation
04	ROR	moderate						high
05	DTB	through careful analysis						based on intuition, or rumours
06	INV	own money						borrows money

HPD = Holding period
RTG = Risk taking
FOR =Form of return
ROR=Rate of return
DTB =Decision to buy
INV =Investment

TABLE 3: Motives of Investors at CSE

	Characteristics	Mean	SD	Motive / Decision
01	Holding period [HPD]	2.7037	.85424	Interested in short-term holdings - couple of days, weeks, or months
02	Risk taking [RTG]	2.8148	.86386	Willing to assume high risks.
03	Form of return [FOR]	3.5185	.83467	Primarily interested in price appreciation.
04	Rate of return [ROR]	3.1852	.81969	Expects a high rate of return in exchange for the risk assumed.
05	Decision to buy [DTB]	3.2963	.76225	Desire to buy is usually based on intuition, or rumours
06	Investment [INV]	1.8889	.99565	Usually borrows money using his securities as collateral.
	Gambling-Speculating Index (GSI)	2.9012	.50454	

Further, these results reveal that there is a strong correlation between investor's expectations in gambling / speculation and the value of their investment portfolio (Table 4).

TABLE 4: Correlation between Investment Motives and Portfolio value

	Value of Portfolio	Motives of Investments					
		HPD	**RTG**	**FOR**	**ROR**	**DTB**	**INV**
Pearson Correlation	1	-.890**	-.796**	-.533**	-.809**	-.673**	.663**
Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
N	270	270	270	270	270	270	270

**. Correlation is significant at the 0.01 level (2-tailed).

TABLE 5: Correlations between Investor's Demographics and Speculative / Gambling Motives

		Sex	HPD	RTG	FOR	ROR	DTB	INV	G/S/I
Gender	Pearson Correlation	1	.261**	.076	.063	.064	.017	.040	.315**
	Sig. (2-tailed)		.000	.214	.303	.295	.778	.518	.000
	N	270	270	270	270	270	270	270	270
Age	Pearson Correlation	1	-.445**	-.365**	-.352**	-.462**	-.172**	.228**	-.467**
	Sig. (2-tailed)		.000	.000	.000	.000	.005	.000	.000
	N	270	270	270	270	270	270	270	270
Education	Pearson Correlation	1	.084	.197**	.220**	.296**	.060	-.217**	.158**
	Sig. (2-tailed)		.166	.001	.000	.000	.324	.000	.009
	N	270	270	270	270	270	270	270	270
Income	Pearson Correlation	1	-.725**	-.645**	-.448**	-.683**	-.516**	.534**	-.624**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000
	N	270	270	270	270	270	270	270	270

**. Correlation is significant at the 0.01 level (2-tailed)
*. Correlation is significant at the 0.05 level (2-tailed)

Figures given in Table 4 indicate that the value of investment portfolio is negatively correlated with the holding period ($r = -.890$, $p<0.01$), risk taking ($r = -.796$, $p<0.01$), form of return ($r = -.533$, $p<0.01$), rate of return ($r = -.809$, $p<0.01$), and decision to buy ($r = -.673$, $p<0.01$), while positively correlated with investment ($r = .663$, $p<0.01$). It means investors with comparatively less worth investment portfolio interested in short-term holdings - couple of days, weeks, or months (HPD), they willing to assume high risk in investment (RTG), primarily interested in price appreciation (FOR)expect a high rate of return in exchange for the risk assumed (ROR), and desire to buy is usually based on intuition, or rumors (DTB).

Yet, they usually borrows money using their securities as collateral (INV). These findings profoundly support the second hypothesis of this study and, hence, it can be concluded that *other than the mode of investment, all other investment motives of stock market gambling / speculation are positively correlated with the value of the investment portfolio.*

The relationship between the investor's demographics and their intensity of gambling / speculation also measured. Results presented in Table 5 reveal that only from the speculative / gambling motives, holding period of investment is significantly correlated with the gender of the respondent. It shows that female are less speculative than male investors ($r = .315$, $p<0.01$). Yet all the motives are significantly correlated with the age of the respondents. When investors are getting older they pay less interest in speculating and gambling ($r = -.467$, $p<0.01$). Surprisingly, no significant relation is found between investment holding period (HPD) and how they make their decision to buy shares (DTB) with investors education level ' However, other motives shows a significant correlation with investors education achievements ($r = .158$, $p<0.01$). As expected, results show a significant and negative correlation between investor's income and speculative / gambling motives. This indicates that when small scale retail investors invest more funds in CSE, they demonstrate less interest in taking high risk by means of gambling and speculating ($r = -.624$, $p<0.01$). These findings moderately support to the third hypothesis of thesis study, which assume *stock market gambling and speculation are negatively correlated with investor's average income, age, and education.*

6. CONCLUSION AND RECOMMENDATIONS

Gambling and Speculation in the stock market are the practice of engaging in risky financial transactions in an attempt to profit from short or medium term fluctuations in the market value of securities, rather than attempting to profit from the underlying financial attributes embodied in the instrument. There has been a hot debate about the role played by gamblers and speculators in controlling the securities market and their sensitiveness to news and rumors associated with the different political or economic activities. Whether we see them as important or not, still they have many implications on the stock markets and investors.

One of the main reasons behind gambling and speculations at CSE is having short-sighted investment strategies by investors. They attempt to pay little attention to the fundamental value of a security and instead focus purely on price movements. Their main concern is about the short-term movement of share market indices; both ASPI and S&P SL20.

The results indicate that all three motives (investing, speculating, and gambling) induce small-scale investors to utilize the CSE to capitalize their money, with 'speculation motive' was rated as the most important motive in this respect, especially amongst the relatively new investors. Further, there is a significant correlation between the worth of the investment portfolio and their investment / gambling / speculative motives of small scale retail investors in CSE. Investors' demographics are also found to be powerful predictors for investment / gambling / speculative motives of small scale retail investors in CSE.

These finding will provide some insight to the policy makers in Colombo Stock Exchange in Sri Lanka. Since less discipline involved in speculation than that with regular investing, in most cases, investors should avoid speculating and investor advisors should discouraged investors investing money speculatively.

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