

Investor's Outlook •

Quarterly edition of investment ideas
from the research experts at Francis

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Welcome to this edition of Investor's Outlook

The vision of this newsletter is to provide a high-level view of investing trends, philosophies, and practices that formulate our investment discipline.

In this issue, we consider the secular trends of gambling and their influence on financial innovation and investing.

All in on Everything

- Mobile trading, sports betting apps, crypto, and prediction markets have merged gambling and investing, making many financial decisions feel like entertainment rather than wealth-building.
- Gambling platforms masquerading as investing tools use casino-like designs to trigger impulsive risk-taking, while regulators struggle to draw consistent boundaries and the “house” steadily profits from being the middle-man.
- Most gamblers lose over time; the real edge for investors is found in patience, discipline, and choosing when not to play.

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Introduction

Ask a room full of people whether they're investors or gamblers, and most will confidently answer "investor." In today's financial climate, however, the line between the two has never been blurrier. With smartphones enabling instant trades, cryptocurrency markets operating around the clock, and prediction markets allowing bets on everything from elections to celebrity behavior, many of the same psychological lures that pull gamblers to casinos now tug at people who consider themselves investors.

The goal here is not to moralize but to reveal how financial innovation and behavioral psychology have merged to create a world where gambling, entertainment, and investing share the same stage. Understanding where the boundaries lie—and where they might disappear—is crucial for anyone who wants to protect wealth, make rational decisions, understand some of the forces shaping markets today, or recognize the temptations they face.

The Legal and Technological Foundations of Modern Gambling

The 2018 Supreme Court decision that struck down the Professional and Amateur Sports Protection Act (PASPA) was a defining moment.¹ Overnight, it enabled states across the country to legalize sports betting—a type of gambling that had been largely restricted to Nevada, and a few other states and territories.² The impact was immediate. Companies like DraftKings, FanDuel, and BetMGM aggressively entered new markets with user-friendly apps designed to be as frictionless and engaging as possible.

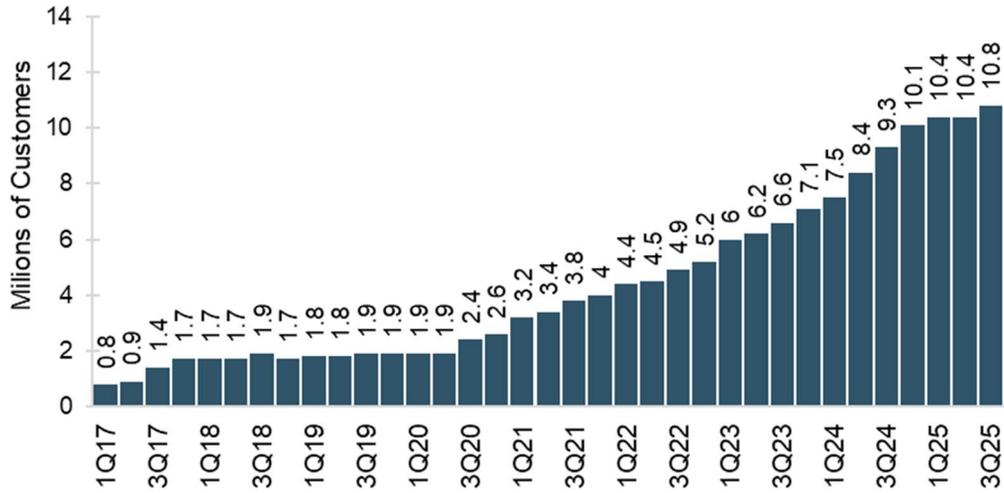
Here in 2025, the casino has effectively moved into everyone's pocket. Studies indicate that more than 40% of U.S. adults visited at least one of over 1,000 casinos in 2023, but the more remarkable statistic may be that tens of millions placed bets on their phones without ever setting foot in one.³ The combination of legally sanctioned sports betting, technological ease, and behavioral triggers built into mobile apps has turned gambling mainstream. In fact, downloads of online sports betting apps went from 9 million in 2019 to 33 million in 2024⁴ and companies like DraftKings have seen explosive growth in their number of users since 2020 (Exhibit 1).

Investing Products That Mirror Gambling Dynamics

While casinos and sports books have embraced new freedoms, financial markets have been busy creating products that mimic gambling's features—leverage, instant feedback, and the adrenaline rush of "double or nothing" risk. It's no coincidence that the secular trends in sports betting and gambling have created a tail wind for new financial products that possess gambling-like characteristics. Leveraged ETFs (Exhibit 2), zero-day options (contracts that expire the same day they're issued), and retail-friendly derivatives make it possible for everyday investors to speculate on price swings with enormous, embedded risk.

Exhibit 1

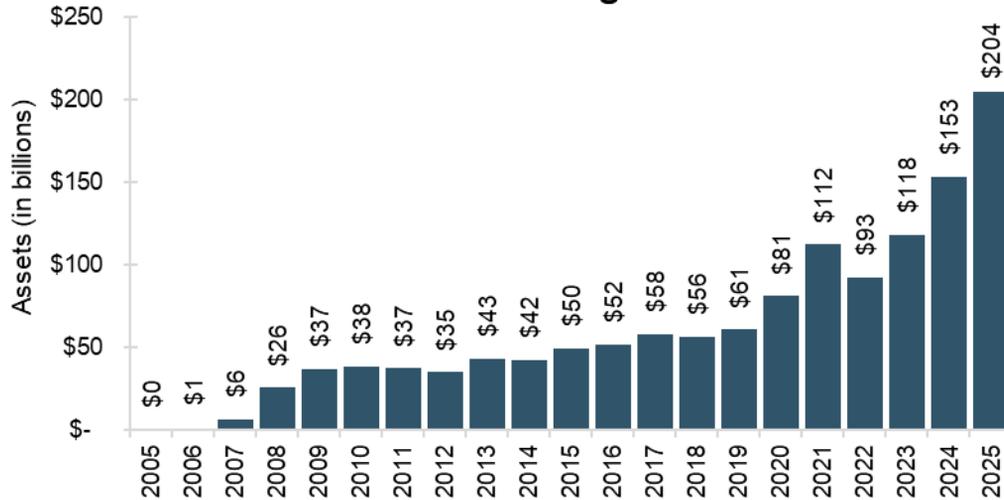
DraftKings # of Unique Users, Prior 12 Months



Sources: DraftKings

Exhibit 2

Assets in Leveraged ETFs



Sources: Bloomberg

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An Investment or a Gamble?

So, what's the difference between investing and gambling? Traditional distinctions between the two rely on several factors: access to information, duration of the activity, the nature of the underlying risk, and the presence (or absence) of an asset that generates value over time. Investing typically involves “extant risk”—the type inherent to any economic activity. Gambling, by contrast, creates new risk focused primarily on entertainment.⁵

Blurring Boundaries

Some examples today challenge the traditional tests of what is an investment, such as broadly categorizing something like



Image generated using ChatGPT, OpenAI, December 2025.

sports betting as gambling in all instances. Consider a Texas mattress company that offered customers free mattresses if the Houston Astros won the World Series. To manage the potential loss, the company placed bets on the Astros winning.

When the Astros captured the championship, the customers got free merchandise, and the company's hedge paid off.⁶ Was this gambling or simply smart risk management? Economically, it was a hedge against a contingent liability, something most financial professionals would have a hard time describing the maneuver as “just a gamble.”

The Modern-Day Rainmakers: Roaring Kitty and Jensen Huang

Now also consider the GameStop and meme stock phenomenon of 2021 and reappearing periodically of late. Sparked by online communities and social media personalities like “Roaring Kitty,” GameStop rocketed to valuation levels entirely detached from its fundamentals—its price-to-book ratio soared past 50x. That same metric also described high-growth stocks like NVIDIA at the time, yet the former was labeled speculative and reckless while the latter, led by Jensen Huang, was considered visionary.⁷ Defining which form of risk-taking qualifies as gambling and which deserves the legitimacy of being categorized as “investing” is increasingly difficult to decipher.

Compulsion, Obsession, and Fixation

Gambling taps into a deep-seated human instinct: the desire for excitement, control, and immediate feedback. In behavioral finance, this often manifests as overconfidence. Inside the brain, the dopamine-driven thrill of intermittent rewards is a known physiological response that is addictive. Being aware that even though you may be in a state of rational thinking, your brain's reward functions may be attempting to find a way to convince you that being rational just isn't fun.

Social media has intensified these “dopamine-seeking” tendencies. Some trading platforms now employ the same design philosophies as social media platforms—flamboyant interfaces, gamified achievements, and instant gratification loops. The urge to act is powerful. Watching markets move without participating can feel like missing out, especially in an age of viral wealth creation stories à la Roaring Kitty.

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Take leveraged ETFs like UPRO, for instance, which seeks triple the daily performance of the S&P 500. It charges a steep 0.89% expense ratio—almost thirty times higher than a standard S&P 500 index ETF from Vanguard. The appeal is obvious: the potential for quick, amplified returns. These are not long-term buy-and-hold vehicles. Their compounding mechanics mean that short-term trades can quickly go awry, turning supposed investments into short-lived bets that quickly destroy a portfolio's value.

It's a cold, hard truth but shouldn't be surprising that most gamblers lose money over time. To the extent anyone brings a gambling mindset to their investment accounts, they shouldn't expect the results to be any different. One large study of more than 700,000 online gamblers found that only about 4% withdrew more money than they deposited over a five-year period, meaning roughly 96% lost money overall.⁸

Regulation's Paradox

Regulators face an unviable challenge. Where there is a lot of money at stake, expect bad actors to take unfair advantage of a market where few guardrails are in place. Regulators must simultaneously balance financial innovation with the need for consumer protection. On the one hand, products like currency swaps and synthetic derivatives—devoid of underlying assets which are part of the traditional analysis for determining a bet versus an investment—are permitted within institutional markets, while on the other hand, activities such as betting on weather outcomes or political events, may be restricted. Regulators' thumbs-up or thumbs-down decisions reflect underlying moral concerns which, in a pluralistic society, are inherently subjective and depend on the worldview of whoever holds power.

Classifying what is gambling and what is investing can arguably be a matter of opinion. For instance, when Wall Street banks use complex derivatives to hedge or speculate on macroeconomic movements (i.e., changes in interest rates, commodity prices), they are acting on probabilities and risk exposure. When individuals are predicting election results, they are doing the same thing on a smaller scale. Is it fair to label one as "financial sophistication" while the other is considered "gambling?"

The House Always Wins

Enthusiasm surrounding these products is high, but the consistent winners are those making the products and rarely the participants. The exchanges, brokerages, and financial firms collect fees on every transaction. In leveraged exchange-traded products alone, issuers like BlackRock, State Street, and Barclays earn steady income regardless of whether the investor's bet wins or loses. This mirrors the casino model, where the "house" always takes a cut. The players may vary, but the outcome is predictable: a small number of large operators consistently profit from the participation of millions. Even as individuals rationalize their trades as investing, the fee structures and turnover rates can often suggest a closer resemblance to gambling.

Of course, as revenue from gambling industries has skyrocketed since 2020, the government is another key member of the "house." According to the American Gaming Association, it is reported that for 2024, \$72B in commercial gaming revenue generated nearly \$16B in direct gaming-specific taxes to state and local governments.⁹

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Where the Convergence of Gambling and Investing Might Have a Payoff – Better Insights into the Future

Enter prediction markets—online platforms like Polymarket and Kalshi that allow traders to bet on the outcome of future events: elections, economic data releases, even celebrity behavior like how many tweets Elon Musk will make before the month of December closes out. The prediction markets operate on a simple premise: each market reflects a probability, implied by real-money wagers, that a given event will occur. These bets fall under a broader category known as “event contracts.” Like gambling apps, the likes of Kalshi are seeing explosive growth in interest (Exhibit 3).

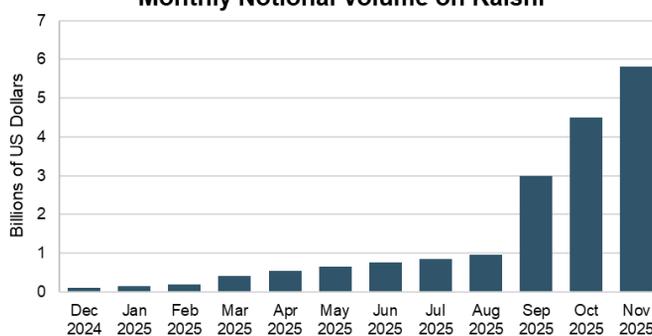
For example, traders can buy shares predicting whether a particular candidate will win the White House, or whether gold will surpass \$5,000 per ounce at a point in time. With respect to predicting elections, academic research has shown that such markets, though imperfect, often predict outcomes better than traditional polls.¹⁰ Why is this? Rather than asking “Whom will you vote for?” prediction markets implicitly ask, “Who do you think will win?”—a question that minimizes personal biases. When real stakes are involved, people tend to reveal more accurate expectations.

Take a European trader who reportedly made tens of millions of dollars on a political prediction tied to the 2024 U.S. election.¹¹ Some observers see that and think, “Maybe I could do that, too.” Keep in mind that the trader put down tens of millions of dollars thus leaving such payoffs only for the uber-rich.

For anyone watching, the temptation to participate is understandable. The psychology of lottery participation can be found in thousands of other ways that are accessible by the masses with small probabilities and large payoffs which fuel a dream that seems worth chasing. Media narratives glorify the occasional winner, while losses remain largely hidden. Again, data across both gambling and short-term trading tell a consistent story: nearly all participants lose money. The defining skill, therefore, may not be picking the right event to bet on but knowing when not to play and just learn.

Exhibit 3

Monthly Notional Volume on Kalshi



Source: Kalshi

To this end, prediction markets and novel data sources do provide legitimate value. Investors can use them as supplementary indicators, especially where polling or sentiment analysis falls short. Just as options prices reveal implied volatility, prediction market odds can reveal short-term consensus—or complacency—about major events. They can also reveal the peculiar. For instance, on Polymarket as of December 4, 2025, Donald Trump has a 5% chance of being re-elected President of the United States in 2028, even though the U.S. constitution only allows one person to be elected twice. Curiously, that’s up from 2.8% from late October. The information prediction markets generates can help investors interpret probabilities, even if they choose not to stake money on the outcomes but as the previous example demonstrates, the output should be handled with care.

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One other note of caution, prediction markets remain thinly traded compared to traditional exchanges though the momentum is building as the Intercontinental Exchange announced a \$2B investment in Polymarket this past October.¹² Prediction market's accuracy with elections, while impressive, has a short-term track record and still suffers from swings in sentiment and limited depth, meaning they're insightful but far from infallible.

Watch Out for Amplified Risk and Amplified Regret

A century ago, buying shares required calling a broker and filing paperwork. Today, platforms allow trading with the swipe of a finger. That ease has psychological consequences which you must guard against. When trading feels like playing a game, participants are more likely to behave impulsively, chasing momentum or reacting emotionally to news. And remember, your brain likes dopamine so the rational, long-term answer can suddenly have no impact on your decisions the more you subject yourself to highly volatile investment schemes.

Financial innovation has democratized access to new markets, but it has also democratized your ability to be exposed to outsized risks. It's never been easier to gamble, but it's also never been easier to make repeated, small mistakes which can get magnified in a blink which collectively erodes wealth. For those who truly wish to invest, patience, discipline, and a long-term horizon remain irreplaceable advantages—qualities gamblers rarely exercise.

Conclusion

Gambling and investing have grown closer together than perhaps at any other point in modern history.

The boundary between them is not only blurred by products and technology but also by human physiology and culture. Financial markets now increasingly cater to entertainment and not just capital formation. More participants are drawn to these markets by the same emotional hooks that drive traffic to social media platforms. Instead of just scrolling to the next video, however, the modern algorithm leads you to make a bet.

In this environment, awareness is the first defense for investors. Recognize that many of today's modern financial inventions are designed to provoke action, not reflection. The lesson isn't to abstain entirely but to engage intentionally—to observe, learn, and discern where genuine opportunity ends and where entertainment and thrill seeking take over.

The irony is that prediction markets, though built for wagers, may serve true investors best—not so much as the playground for betting, but as an instrument for understanding collective wisdom. The final word on the matter is this: in a world where investment, gambling and entertainment converge, the wisest move might be to place fewer bets and study the game itself.

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What's Important for Investors to Consider?

- *Gamified, instant-feedback trading platforms trigger impulsive, dopamine-driven behavior that blurs investing and gambling, driving excessive turnover and undermining disciplined, long-term decision-making.*
- *Financial innovation mimics gambling mechanics. Leveraged ETFs, zero-day options, and speculative crypto tokens replicate casino-style payoffs—short-term excitement and frequent losses, often turning investment tools into volatility bets.*
- *Intermediaries always win first. Exchanges, brokers, and governments capture reliable fees regardless of outcomes, proving long-term, low-turnover strategies remain investors' best defense against the house edge.*

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Endnotes:

¹ https://www.supremecourt.gov/opinions/17pdf/16-476_dbfi.pdf

² https://www.supremecourt.gov/opinions/17pdf/16-476_dbfi.pdf

³ <https://www.americangaming.org/resources/american-attitudes-2023/>

⁴ <https://gamblingharm.org/wp-content/uploads/2025/09/Online-Gambling-Policy-Effects-on-Tax-Revenue-and-Irresponsible-Gambling.pdf>, page 2.

⁵ <https://bclawreview.bc.edu/articles/10.70167/DDAX4275>, p.2223.

⁶ https://www.espn.com/mlb/story/_/id/34870415/houston-astros-superfan-mattress-mack-lose-no-matter-wins-world-series

⁷ <https://bclawreview.bc.edu/articles/10.70167/DDAX4275>, p.2231

⁸ <https://gamblingharm.org/wp-content/uploads/2025/09/Online-Gambling-Policy-Effects-on-Tax-Revenue-and-Irresponsible-Gambling.pdf>, page 13.

⁹ <https://www.americangaming.org/wp-content/uploads/2025/05/AGA-State-of-the-States-2025.pdf>

¹⁰ https://facultyprofiles.vanderbilt.edu/esplora/outputs/preprint/Are-Betting-Markets-Better-than-Polling/991044693428503276?institution=01VAN_INST

¹¹ <https://nypost.com/2024/11/06/business/polymarket-whale-who-bet-on-trump-raked-in-48m-in-profits/>

¹² <https://ir.theice.com/press/news-details/2025/ICE-Announces-Strategic-Investment-in-Polymarket/default.aspx>



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