

**IN UNCERTAIN TIMES, DON'T GAMBLE WITH YOUR LIFE**  
BY PHIL SLADE

**W**hen faced with uncertain or ambiguous outcomes, and in the presence of a feeling of loss or grieving change, our brains can lead us to some very peculiar decisions. In some ways we start to act like gamblers, taking bigger risks and we're much more susceptible to emotional influences.

Often we track how the brain processes information and reacts emotionally by looking at electrical pulses (EEG) or chemical reactions in the brain. When we do this a curious pattern is observed. Two very different scenarios in our physical world can be viewed by the brain as the same, even if we consciously perceive them to be different. For instance, research shows that feeling nervous or anxious about a test or public performance, is interpreted by the brain in the same way as excitement or anticipating a future event (Brooks, 2014; Unjore, 2014). Is it anxiety, or excitement? The brain doesn't seem to differentiate – it seems it is a problem of perception rather than cognition.

Studies have also shown we can reverse the negative impact of nervous anxiety simply by reframing the feeling as excitement and anticipation (ie. Brooks, 2012; Prado, Tan, & Capuyan, 2019). How many times have you seen an elite sports person answer a question about whether they are nervous about a big upcoming event with "I'm just excited and looking forward to the challenge" – or something to that effect. They are real-time hacking their own brain to improve their performance and decision making under pressure. The brain doesn't differentiate between excitement and nerves, so why should they? All the brain is doing is triggering a chemical reaction in response to a identifying a future event that is meaningful to us in some way. We just have different words for it depending on context. Excitement generally feels less emotional and less fearful than anxiety or nerves, and so we have more control and perform better in high pressure situations if we simply label the feeling as excitement.

We observe a similarly odd thing when considering gambling or investing. In both scenarios you are risking money when the outcome is uncertain, and our brain reacts in very similar ways emotionally when we compare trading shares with playing Blackjack. These are financial decisions (and therefore prone to emotional

influence) made under high outcomes of uncertainty. However, while the brain reactions are similar between gambling and investing, our behavioural responses change depending on how we label things. For instance, if you sat at the poker table, would you bet differently if you thought of every bet as an investment? Or if you were thinking of buying shares, do you think you would take more risks if you thought of it as gambling? In most cases the answer to both of these questions is, yes.

This cognition/perception problem is highlighted when we look at the way people make decisions in uncertain times, particularly if they have experienced a significant recent financial loss (like a large contract being cancelled, a large project failing to reap expected returns, or the loss of your job). In these events your brain interprets things in the same way as losing a money in a casino, and our very next choices can be devastating.

In these moments there are two very human emotional influences that affect our decision making – loss aversion and loss of control.

Behavioural economics is essentially the study of decision making under uncertainty. One of the very early discoveries that helped give birth to behavioural economics as a profession was that of our natural aversion to loss (Kahneman and Tversy, 1980). Loss aversion basically plays out like this:

If an investment feels like a 50/50 gamble most of us won't take the risk. For us to take that risk we have to have the option of winning 2 to 3 times more than we could lose. For instance, if I was to flip a coin and say "heads you win \$100, tails you lose \$100" most would not take that deal because the pain of losing \$100 outweighs the potential joy of winning \$100. Our aversion to loss outweighs our appetite for opportunity. However, if I say "heads you win \$200, tails you lose \$100" then you become more interested – even though the chance of losing \$100 hasn't changed the pain/joy ratio has. If I was to say "heads you win \$300, tails you lose \$100" then most of us would decide to play and take the gamble – even though half of us will still probably lose \$100.

However, there is a crucial twist that is often overlooked. For those of us who



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DECISION MAKING

Psychology and Behavioural Economics:  
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do take the gamble, and lose, the most interesting thing happens. Our loss aversion completely flips on its head. After feeling the pain of losing \$100, I can say “heads you win back \$100, tails you lose another \$150” and many people will take that bet, and of course chances are that half will lose. Why are people likely to take this extra gamble with only a 50/50 chance of it paying off after already losing? Because once experiencing the pain of loss, an extra loss doesn't feel like it will add much more pain and so we gamble on the possibility of experiencing the joy that making it back will give. Easing pain becomes more important than avoiding more pain.

That is loss aversion. We will avoid loss until there is enough of a comparable opportunity to justify the gamble (sorry, investment). However, when we lose that gamble our attitude to risk flips. Our desire to recover from the pain of the loss means we embrace risky propositions, and often lose even more.

Having a job is an investment. We invest time and skill (and sometimes money) in order to receive a financial return on that investment. The larger and more stable the organisation, the more certain it feels that we'll get a return on our investment. This is why people more nervous about risk are more likely to get government jobs and less likely to work for a small start-up because of the perception of predictability.

When people lose their job they suffer pain and grief of loss and become more vulnerable socially and financially, and more likely to take risky gambles and payday loans in order to make up for losses (Mogaji, 2020). This is supported somewhat by the dramatic rise in online gambling and horse race betting during the COVID-19 lockdown (Financial Times, April 2020). Even if people keep their jobs, the increased feeling of times of uncertainty and the loss of social connections and everyday freedoms can stimulate this response

because the brain doesn't emotionally differentiate between the types of losses being experienced. We simply experience the pain of loss in a time of high uncertainty.

This leads us to our second emotional influence, loss of control.

We all know we have lost some control during the COVID-19 crisis. So what do we often do to regain some control over our lives? We spend – and often irrationally. We lose our job and we make purchases to feel good about ourselves and prove we're still in control. We lose our ability to buy items when we want, so a scarcity panic breaks out and we find ourselves jostling in the supermarket aisles for random goods like toilet paper. If I can buy it and someone else can't then I feel like I have more control over my life than them. A downwards comparison also tends to make us feel better and like we're more in control. Things might be bad, but at least we're better off than those unprepared people who now have no toilet paper.

This is of course completely irrational, but it makes us feel good in a time of pain and ambiguity – pain and ambiguity being the two sworn enemies of our survival instinct. In the face of loss and uncertainty, we are neurologically wired to act out in ways to soothe the pain of loss and increase our own sense of control. Even if the decisions we make are bad ones, we will feel good because our brain's chemical reward mechanism kicks in. It's only later that we suffer regret and shake our heads in disbelief that we could have ever acted in such irrational ways.

In these uncertain times we need to spend and invest with more patience and less emotion. Don't let your need to win back after a loss lead to poor choices with negative consequences for your future self.

In times of great uncertainty and loss, don't gamble with your life. You're worth more than you realise.

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## ABOUT THE AUTHOR

Behavioural economist, psychologist, award-winning musician, author and co-founder of Decida, Phil has a driving belief that to change the world, we must first improve our individual choices. His humour, casual approach and unique background has made him a sought-after speaker, helping people to master their own choices and design their own destiny. Phil makes neuroscience simple, interesting and fun, highlighting irrational 'blind-spots', increasing awareness of cognitive biases that influence perception and behaviour, and inspiring people to become less reactive, and more responsive.

Behavioural Science Advisor and columnist for Suncorp Group, Phil regularly provides expert commentary in the media, including in national press, online and television (inc. Channel 7 news, A Current Affair, and the Today Show). In 2016, Phil co-authored the book 'Behavioural Economics for Business' that was launched by the World Bank in Washington DC. Phil regularly speaks to diverse audiences, from workshops, university lectures and large conferences, to individually coaching executives, politicians and leaders in a range of topics including strategic decision-making, critical thinking, strategic communications, mental resilience and change.





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