1   CHAIRPERSON JAMES: Mr. Sklansky.

2   MR. SKLANSKY: Thank you.   I'd like to thank the

3   Commission for inviting me. As I think you know, my presentation

4   is only indirectly related to advertising and promotion.   I

5   personally   believe   that   most   advertisements,   casino

6   advertisements are not deceptive and that their description of

7   their liberal games are basically accurate. The problem is that

8   it --

9   CHAIRPERSON JAMES: Mr. Sklansky, can I ask you to

10   pull that microphone up a little closer.

11   MR. SKLANSKY: The problem is it does the casino

12   little good to bring in customers who will only optimally play

13   those games that they advertise. If everyone did only that, the

14   casinos would go broke. So in that one sense, you might say that

15   the advertisements would be considered not quite what they

16   appear.   I agree that casinos do not rely on compulsive

17   gamblers.   However to at least some extent, they rely on

18   mathematically ignorant gamblers and that's more what I want to

19   address right now.

20   Before one can determine the impact of gambling in

21   this country, I believe it is important to distinguish among the

22   various games. The fact is different games of chance contain

23   different aspects.   To put it bluntly, some games are

24   significantly worse than others.   I might be biased as a

25   semi-retired professional gambler. I am displeased with any game

26   that doesn't offer the opportunity to get an edge over the house.

27   However, even those games that don't can be categorized along a

1   spectrum ranging from a very acceptable and enjoyable gamble to

2   frankly a rip-off.

3   In my opinion there are four factors that should be

4   considered when evaluating a game's position within the spectrum;

5   the house percentage, the degree of skill, if any, the expected

6   hourly loss and the amount of deception inherent in that game.

7   In a moment I will describe the various games with regard to

8   those factors but first, in general, clearly the larger the

9   percentage edge, the worse it is for the person playing that

10   game. For example, if a game has a five percent house edge, it

11   means that your expected loss at the end of your gambling session

12   will be five percent of the total amount of money you have bet.

13   Currently the house percentage varies from as much as

14   30 percent to as little as one-tenth of one percent. In fact,

15   there are some games where expert players can even have up to a

16   one percent advantage. As to skill, again, I may be biased

17   because it is only skillful games that give the professional

18   gambler the opportunity to make a living. Examples are poker,

19   poker machines, black jack and sports betting. Still in my

20   opinion games requiring a high degree of skill are not as open to

21   criticism. The fact that a game forces you to learn sound

22   reasoning skills and develop discipline cannot be discounted.

23   As far as hourly loss is concerned, percentage edge

24   by itself is not always the best way to evaluate a game. Games

25   that offer high odds deserve to have a higher edge. But another

26   aspect that can mitigate this high percentage is if the game is

27   played slowly, at least that game will not beat the player out of

1   that much on an hourly basis.   Keno and football bets are

2   examples.

3   The   amount   of   deception   inherent   in   a   game;

4   regardless of the house edge, I believe one thing that should be

5   frowned upon are deceptive games.   By that I mean games where the

6   edge is greater than it appears.   This for instance is not the

7   case in the game of roulette.   Clearly the edge comes from the

8   green zeros which are there for all to see and I have little

9   sympathy for those who choose not to see.   But there is one

10   category of game that I believe is deceptive. I speak of some but

11   not all of the more modern gaming machines.   An example would be

12   those machines that have some sort of wheel above them that

13   occasionally spin and reward the player varying amounts.

14   It   is   not   generally   known   that   this   wheel   is   not

15   equally likely to stop in any position.   The lower pays come up

16   much more frequently than the higher ones and nothing indicates

17   this is the case.   There is a similar problem with the actual

18   reels of some slot machines and I will speak more on this

19   shortly.   I want to state a few things before going into each

20   game in more detail.   One is the games in Nevada are almost

21   always the most liberal in the country.   So any criticism I may

22   have about any particular game would be that much stronger in

23   other parts of the country.

24   Secondly,   I   do   not   consider   myself   a   consumer

25   advocate.   Everyone must drive a car, so we need people like

26   Ralph Nader to make sure cars are safe and to speak out when they

27   are not.   But no one is forced to gamble and certainly no one is

28   forced to gamble foolishly.   There are plenty of opportunities to

1 play games with minuscule house advantages and it is not that

2 difficult to learn which games those are and how to play them.

3 So I have little sympathy for those who choose not to educate

4 themselves enough to distinguish between the good games and the

5 bad. But the purpose of this testimony is simply to lay out the

6 facts.

7   On the other hand, while I have no sympathy for

8 gamblers too lazy to do the proper studying, the fact is that

9 casinos count on the ignorance of their customers. Actually, I

10 should say they count on the ignorance of some of their

11 customers. I can use the health club business as an analogy. It

12 is well known that health clubs can charge a reasonable yearly

13 membership because the vast majority of the members quickly lose

14 their discipline and don't show up.

15   The situation is similar for casinos. If everyone

16 placed only the lowest house percentage games and played

17 properly, casinos would have to close their doors or at least

18 offer a lot less amenities. An unforeseen benefit to these

19 hearings may be greater public awareness of the importance of

20 studying probability. While I am not an anti-gambling crusader,

21 I am a pro-probability crusader. Probability is a key component

22 in making good decisions and I don't just mean in the area of

23 gambling. It is a valuable tool in evaluating questions of

24 everyday life. Yet probability is normally studied only by

25 college math and science majors.

26   This is a shame because the subject is actually

27 rather simple and very important. If everyone fully understood

28 probability it would undoubtedly have a major impact on the

1 gambling industry.   Some gambling operators would go out of

2 business but that would be a small price to pay when compared to

3 the benefits the country would gain from the more educated

4 populations.

5   Now, the games in more detail.   Roulette; bets on

6 roulette have a house advantage of about five percent.   For

7 instance, if you bet on red, you will win if any of the 18 red

8 numbers show up and lose if any of the 18 black numbers or the

9 two green numbers show.   On an average you will be down $2.00

10 after a $38.00 bets, two divided by 38 is five percent.   There is

11 no skill in roulette.   Some people think they can devise winning

12 systems but they are utterly wrong.   Some casinos encourage this

13 thinking by posting an electronic board to show the past results

14 but this information is completely useless and casinos know it.

15 As far as hourly loss is concerned, it works out to a bit more

16 than one bet per hour if you bet one bet at a time.

17   Craps; that house edge depends on which bet you make.

18 The most common called the pass line bet is a 1.4 disadvantage to

19 the player but if you back that up with what is called a odds bet

20 this disadvantage can be substantially reduced.   Casinos would

21 not be happy if their patrons stuck only to these bets.   However,

22 there are many other bets on the crap layout with a far greater

23 house edge.   For example, you can bet that the very next roll

24 will be a seven.

25   The true odds of rolling a seven are five to one

26 against you.   The casino pays four to one.   This results in a

27 16-2/3 percent house advantage and thus, is a terrible sucker

28 bet. Many of the other craps propositions are almost as bad and

1   there is one completely disgraceful bet which I just found out is

2   not allowed in New Jersey but it's called the "Big Six" and "Big

3   Eight". The bet is that you bet that a six or an eight comes up

4   before a seven. What makes this bet really unacceptable is that

5   the exact same bet can be put on the way out and somewhere else

6   and you get seven to six odds.

7   In other words, there two different spots and one bet

8   pays higher odds than the other. That's the "Big Six" and "Big

9   Eight" bets only attract the complete novice gambler who isn't

10 aware that the exact same bet with better odds is elsewhere.

11 Though it is a traditional part of the craps layout, I would

12 highly recommend that that bet be eliminated.

13   The "Big Six Wheel"; this is a terrible game. More

14 than any other it takes advantage of total beginners. Most

15 casinos have one or two "Big Six Wheels" not to be confused with

16 the "Big Six" bet on the crap table, situated near their entrance

17 and they are obviously targeting the beginner. The fact is no

18 one but a novice would play this game. The odds are horrible and

19 self-evident. Every bet has a disadvantage well over 10 percent

20 and it would be a simple matter to adjust the wheel so that the

21 house edge is reasonable.

22   Black jack; some people actually beat black jack.

23 Expert players have a small edge against the casinos. That edge

24 is enough to make a living at the game. There are those who do,

25 in fact, do that until they are caught that is. The vast

26 majority of people have a disadvantage when they play 21.

27 Depending on their skill level that disadvantage is usually

28 between one percent and four percent. To go beyond this requires

1   some study. By memorizing a computer derived basic strategy, you

2   reduce your disadvantage to about a half of a percent. It should

3   take only a few days to attain this level of expertise and if you

4   want to take it further you can learn how to quote "count" cards.

5   This is not hard. If you spend a couple of weeks

6   learning and practicing, you will have an edge over the casino.

7   On the other hand, casinos should not really be commended for

8   offering this game. For one thing, when it was first offered,

9   they were not aware of the possibility of beating it. They were

10 taken by surprised when Edward Thorpe first demonstrated that

11 fact in 1962. Ironically, after an initial period of paranoia

12 they realized the publicity surrounding the beatibility of the

13 game helped more than it hurt. The fact is that they do bar

14 counters however, and if they didn't, they would get destroyed.

15 I'm going to have to speed up a little bit here.

16   Keno. Oh, I do want to say one other thing though.

17 It is illustrative to note that while casinos are happy to

18 provide you with the past winning numbers in roulette or in

19 baccarat so you can devise a scheme based on those numbers, they

20 would never provide you with help as to what cards have been

21 played previously in black jack because you could beat them.

22   Keno, your expected loss is 30 cents for every dollar

23 bet. That's a terrible disadvantage but it's not quite as bad as

24 it seems because on bets that pay very, very high odds it really

25 isn't that horrible. There is one bet on the keno board though

26 that really is terrible. It's called the one spot and you get

27 two to one odds on a three to one shot and it just is really

28 terrible, they should eliminate it.

1   However, keno doesn't have that much of an hourly

2   loss involved. If you play $1.00 tickets, you're going to lose

3   about $3.00 an hour. So that's another reason why I'm really not

4   that opposed to keno. The lottery is similar to keno. You have

5   a 50 percent disadvantage and the hourly rate doesn't really

6   apply. And in fact, there is some skill to the lottery, namely

7   betting combinations that are less likely to tie with other

8   people but I won't go into that here.

9   Poker; I say please leave this game alone.

10 Unquestionably poker has the most positive aspects to it of any

11 gambling game. It is a game of skill. There is a short term

12 luck factor which allows weaker players to beat those more

13 skilled but in the long run those who are talented, dedicated and

14 disciplined will win the money. Thus, there is a major incentive

15 for those who like to play poker to improve their game. Getting

16 good at poker requires learning things which I believe will also

17 help you in other areas of your life. Reading people, analyzing

18 risks versus rewards, calculating probabilities and developing

19 willpower under adversity are just a few of those attributes. In

20 poker, the house does not make its money from loses. It charges

21 a reasonable rate for rent.

22   Poker machines; they also involve skill, although not

23 as much as poker. Still they are actually very good gambles

24 because the hourly rate that you'll lose at is very small. There

25 are two things which determine the payback percentage of a poker

26 machine. One is the skill of the player and the other is the

27 odds that the machine pays. There are many machines in Las Vegas

1 that pay back over 100 percent against the skillful player, a

2 tiny bit over 100 percent.

3   And it is not that hard to learn how to play them

4 that well. Of course, casinos are aware of the laziness of the

5 vast majority of their customers, that is why they can offer

6 black jack and liberal poker machines. They know people will

7 play very quickly. They count on it. As far as hourly loss is

8 concerned, a typical poker machine player will lose less than

9 $10.00 an hour. As far as deception is concerned, there is none.

10 The computer deals the cards in exactly the same proportion as

11 they would be dealt using a real deck. In other words the queen

12 of hearts will show up once out of 52 times in any particular

13 position. Furthermore the payoffs are posted for all to see.

14 Thus, any mathematician upon reading the pay table can very

15 quickly calculate the pay-back for any machine assuming optimal

16 play.

17   He needs no further information about the workings of

18 the machine. This is not so with many slot machines. I am not

19 thrilled with slot machines. Though may pay back as much as 98

20 percent this is not the whole story. Ninety-eight percent still

21 costs you $54.00 an hour on a $1.00 machine. And there are many

22 machines that are 90 percent. Ninety sounds like 98 but it's

23 actually five times as bad. It costs you $270.00 an hour.

24   Furthermore, the symbols do not come up on some

25 machines as often as they appear to. They come up much, much,

26 much less in order to allow for greater jackpots. I suggest

27 there be some sign that indicates that. I'm having to cut this

28 short but I want to say about sports betting, a person who bets

1 $110.00 to win 100 on a sports bet is costing himself $67.00 an

2 hour. So I think that's actually one of the more innocuous

3 gambles. Thank you.

4   CHAIRPERSON JAMES: Thank you. I think we should

5 have had this briefing on our first day in Las Vegas.