CHAIRPERSON JAMES: Mr. Sklansky.

MR. SKLANSKY: Thank you. I'd like to thank the Commission for inviting me. As I think you know, my presentation is only indirectly related to advertising and promotion. I personally believe that most advertisements, casino advertisements are not deceptive and that their description of their liberal games are basically accurate. The problem is that it --

CHAIRPERSON JAMES: Mr. Sklansky, can I ask you to pull that microphone up a little closer.

MR. SKLANSKY: The problem is it does the casino little good to bring in customers who will only optimally play those games that they advertise. If everyone did only that, the casinos would go broke. So in that one sense, you might say that the advertisements would be considered not quite what they appear. I agree that casinos do not rely on compulsive gamblers. However to at least some extent, they rely on mathematically ignorant gamblers and that's more what I want to address right now.

Before one can determine the impact of gambling in this country, I believe it is important to distinguish among the various games. The fact is different games of chance contain different aspects. To put it bluntly, some games are significantly worse than others. I might be biased as a semi-retired professional gambler. I am displeased with any game that doesn't offer the opportunity to get an edge over the house. However, even those games that don't can be categorized along a
spectrum ranging from a very acceptable and enjoyable gamble to frankly a rip-off.

In my opinion there are four factors that should be considered when evaluating a game's position within the spectrum; the house percentage, the degree of skill, if any, the expected hourly loss and the amount of deception inherent in that game. In a moment I will describe the various games with regard to those factors but first, in general, clearly the larger the percentage edge, the worse it is for the person playing that game. For example, if a game has a five percent house edge, it means that your expected loss at the end of your gambling session will be five percent of the total amount of money you have bet.

Currently the house percentage varies from as much as 30 percent to as little as one-tenth of one percent. In fact, there are some games where expert players can even have up to a one percent advantage. As to skill, again, I may be biased because it is only skillful games that give the professional gambler the opportunity to make a living. Examples are poker, poker machines, black jack and sports betting. Still in my opinion games requiring a high degree of skill are not as open to criticism. The fact that a game forces you to learn sound reasoning skills and develop discipline cannot be discounted.

As far as hourly loss is concerned, percentage edge by itself is not always the best way to evaluate a game. Games that offer high odds deserve to have a higher edge. But another aspect that can mitigate this high percentage is if the game is played slowly, at least that game will not beat the player out of...
that much on an hourly basis. Keno and football bets are examples.

The amount of deception inherent in a game; regardless of the house edge, I believe one thing that should be frowned upon are deceptive games. By that I mean games where the edge is greater than it appears. This for instance is not the case in the game of roulette. Clearly the edge comes from the green zeros which are there for all to see and I have little sympathy for those who choose not to see. But there is one category of game that I believe is deceptive. I speak of some but not all of the more modern gaming machines. An example would be those machines that have some sort of wheel above them that occasionally spin and reward the player varying amounts.

It is not generally known that this wheel is not equally likely to stop in any position. The lower pays come up much more frequently than the higher ones and nothing indicates this is the case. There is a similar problem with the actual reels of some slot machines and I will speak more on this shortly. I want to state a few things before going into each game in more detail. One is the games in Nevada are almost always the most liberal in the country. So any criticism I may have about any particular game would be that much stronger in other parts of the country.

Secondly, I do not consider myself a consumer advocate. Everyone must drive a car, so we need people like Ralph Nader to make sure cars are safe and to speak out when they are not. But no one is forced to gamble and certainly no one is forced to gamble foolishly. There are plenty of opportunities to
play games with minuscule house advantages and it is not that
difficult to learn which games those are and how to play them.
So I have little sympathy for those who choose not to educate
themselves enough to distinguish between the good games and the
bad. But the purpose of this testimony is simply to lay out the
facts.

On the other hand, while I have no sympathy for
gamblers too lazy to do the proper studying, the fact is that
casinos count on the ignorance of their customers. Actually, I
should say they count on the ignorance of some of their
customers. I can use the health club business as an analogy. It
is well known that health clubs can charge a reasonable yearly
membership because the vast majority of the members quickly lose
their discipline and don't show up.

The situation is similar for casinos. If everyone
placed only the lowest house percentage games and played
properly, casinos would have to close their doors or at least
offer a lot less amenities. An unforeseen benefit to these
hearings may be greater public awareness of the importance of
studying probability. While I am not an anti-gambling crusader,
I am a pro-probability crusader. Probability is a key component
in making good decisions and I don't just mean in the area of
gambling. It is a valuable tool in evaluating questions of
everyday life. Yet probability is normally studied only by
college math and science majors.

This is a shame because the subject is actually
rather simple and very important. If everyone fully understood
probability it would undoubtedly have a major impact on the
gambling industry. Some gambling operators would go out of business but that would be a small price to pay when compared to the benefits the country would gain from the more educated populations.

Now, the games in more detail. Roulette; bets on roulette have a house advantage of about five percent. For instance, if you bet on red, you will win if any of the 18 red numbers show up and lose if any of the 18 black numbers or the two green numbers show. On an average you will be down $2.00 after a $38.00 bets, two divided by 38 is five percent. There is no skill in roulette. Some people think they can devise winning systems but they are utterly wrong. Some casinos encourage this thinking by posting an electronic board to show the past results but this information is completely useless and casinos know it. As far as hourly loss is concerned, it works out to a bit more than one bet per hour if you bet one bet at a time.

Craps; that house edge depends on which bet you make. The most common called the pass line bet is a 1.4 disadvantage to the player but if you back that up with what is called a odds bet this disadvantage can be substantially reduced. Casinos would not be happy if their patrons stuck only to these bets. However, there are many other bets on the crap layout with a far greater house edge. For example, you can bet that the very next roll will be a seven.

The true odds of rolling a seven are five to one against you. The casino pays four to one. This results in a 16-2/3 percent house advantage and thus, is a terrible sucker bet. Many of the other craps propositions are almost as bad and
there is one completely disgraceful bet which I just found out is not allowed in New Jersey but it's called the "Big Six" and "Big Eight". The bet is that you bet that a six or an eight comes up before a seven. What makes this bet really unacceptable is that the exact same bet can be put on the way out and somewhere else and you get seven to six odds.

In other words, there two different spots and one bet pays higher odds than the other. That's the "Big Six" and "Big Eight" bets only attract the complete novice gambler who isn't aware that the exact same bet with better odds is elsewhere. Though it is a traditional part of the craps layout, I would highly recommend that that bet be eliminated.

The "Big Six Wheel"; this is a terrible game. More than any other it takes advantage of total beginners. Most casinos have one or two "Big Six Wheels" not to be confused with the "Big Six" bet on the crap table, situated near their entrance and they are obviously targeting the beginner. The fact is no one but a novice would play this game. The odds are horrible and self-evident. Every bet has a disadvantage well over 10 percent and it would be a simple matter to adjust the wheel so that the house edge is reasonable.

Black jack; some people actually beat black jack. Expert players have a small edge against the casinos. That edge is enough to make a living at the game. There are those who do, in fact, do that until they are caught that is. The vast majority of people have a disadvantage when they play 21. Depending on their skill level that disadvantage is usually between one percent and four percent. To go beyond this requires
some study. By memorizing a computer derived basic strategy, you reduce your disadvantage to about a half of a percent. It should take only a few days to attain this level of expertise and if you want to take it further you can learn how to quote "count" cards.

This is not hard. If you spend a couple of weeks learning and practicing, you will have an edge over the casino. On the other hand, casinos should not really be commended for offering this game. For one thing, when it was first offered, they were not aware of the possibility of beating it. They were taken by surprised when Edward Thorpe first demonstrated that fact in 1962. Ironically, after an initial period of paranoia they realized the publicity surrounding the beatibility of the game helped more than it hurt. The fact is that they do bar counters however, and if they didn't, they would get destroyed.

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

Keno. Oh, I do want to say one other thing though. It is illustrative to note that while casinos are happy to provide you with the past winning numbers in roulette or in baccarat so you can devise a scheme based on those numbers, they would never provide you with help as to what cards have been played previously in black jack because you could beat them.

Keno, your expected loss is 30 cents for every dollar bet. That's a terrible disadvantage but it's not quite as bad as it seems because on bets that pay very, very high odds it really isn't that horrible. There is one bet on the keno board though that really is terrible. It's called the one spot and you get two to one odds on a three to one shot and it just is really terrible, they should eliminate it.
However, keno doesn't have that much of an hourly loss involved. If you play $1.00 tickets, you're going to lose about $3.00 an hour. So that's another reason why I'm really not that opposed to keno. The lottery is similar to keno. You have a 50 percent disadvantage and the hourly rate doesn't really apply. And in fact, there is some skill to the lottery, namely betting combinations that are less likely to tie with other people but I won't go into that here.

Poker; I say please leave this game alone. Unquestionably poker has the most positive aspects to it of any gambling game. It is a game of skill. There is a short term luck factor which allows weaker players to beat those more skilled but in the long run those who are talented, dedicated and disciplined will win the money. Thus, there is a major incentive for those who like to play poker to improve their game. Getting good at poker requires learning things which I believe will also help you in other areas of your life. Reading people, analyzing risks versus rewards, calculating probabilities and developing willpower under adversity are just a few of those attributes. In poker, the house does not make its money from loses. It charges a reasonable rate for rent.

Poker machines; they also involve skill, although not as much as poker. Still they are actually very good gambles because the hourly rate that you'll lose at is very small. There are two things which determine the payback percentage of a poker machine. One is the skill of the player and the other is the odds that the machine pays. There are many machines in Las Vegas
that pay back over 100 percent against the skillful player, a
tiny bit over 100 percent.

And it is not that hard to learn how to play them
that well. Of course, casinos are aware of the laziness of the
vast majority of their customers, that is why they can offer
black jack and liberal poker machines. They know people will
play very quickly. They count on it. As far as hourly loss is
concerned, a typical poker machine player will lose less than
$10.00 an hour. As far as deception is concerned, there is none.
The computer deals the cards in exactly the same proportion as
they would be dealt using a real deck. In other words the queen
of hearts will show up once out of 52 times in any particular
position. Furthermore the payoffs are posted for all to see.
Thus, any mathematician upon reading the pay table can very
quickly calculate the pay-back for any machine assuming optimal
play.

He needs no further information about the workings of
the machine. This is not so with many slot machines. I am not
thrilled with slot machines. Though may pay back as much as 98
percent this is not the whole story. Ninety-eight percent still
costs you $54.00 an hour on a $1.00 machine. And there are many
machines that are 90 percent. Ninety sounds like 98 but it's
actually five times as bad. It costs you $270.00 an hour.

Furthermore, the symbols do not come up on some
machines as often as they appear to. They come up much, much,
much less in order to allow for greater jackpots. I suggest
there be some sign that indicates that. I'm having to cut this
short but I want to say about sports betting, a person who bets
$110.00 to win 100 on a sports bet is costing himself $67.00 an hour. So I think that's actually one of the more innocuous gambles. Thank you.

CHAIRPERSON JAMES: Thank you. I think we should have had this briefing on our first day in Las Vegas.