



HOUSE EDGE

IF YOU CAN'T BEAT THE HOUSE, BE THE HOUSE.

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On 14th February 2010, Singapore made history by opening its doors to the country's first casino in Resorts World Sentosa. The casino welcomed its first punter - a middle aged Singaporean woman - at the auspicious time of 12:18pm on the first day of the Chinese Lunar New Year.

When pronounced in the Cantonese dialect, 12:18 sounds like "prosperity".

The first bettor was followed by an initial crowd of about 200 enthusiastic gamblers and within hours of the opening, hundreds more were queuing up outside. At the end of the first three days, a total of 60,000 visitors had thronged the casino. According to industry estimates, the casino is on track to draw 10 million visitors by the end of this year.

What is the draw of a casino? Why do we love its

appeal when at the end of the day, it seems as if the casino ALWAYS WINS?

There is just something about being at a casino. We stand at the entrance, glance at the red carpet, take in the shimmering slot machines and hear the roulette wheels spinning. It's almost as if we're the suave, debonair main cast in a carefully scripted Hollywood blockbuster. James Bond in *Casino Royale*, perhaps?

Let's consider an interesting question here - why DOES the casino always win?

To understand why a casino always wins, we have to understand a term called the "house edge."

The house edge is the casino's average profit from a player's bet. For example, in *Roulette*, the house edge is about 5%.





That means on average, for every \$100 bet, the casino keeps \$5 as profit and returns the other \$95 to the players as winnings. If all the roulette players in a casino collectively wager \$10 million on a Saturday evening, the casino expects to pay back around \$9.5 million as winnings and keep around \$500,000 as profit.

In Baccarat, the house edge is “only” 1.2%. This means that on average, the casino keeps \$1.20 for itself and pays out \$98.80 out of every \$100 wagered. It seems like a good deal for the player – or does it? On the average, Baccarat plays at a rate of 60 hands per hour, or 1 every minute.

Simply because of this, even a small house edge like 1.2% means that you can expect to lose half your money after 1 hour of play, 75% after 2 hours, 90% after 3 hours and 95% after 4 hours. A stunning result!

This is the casino’s secret: to keep you playing LONG ENOUGH. The longer you play, the closer you get to losing everything. That’s another way of saying that the casino always wins in the long run.

Now we understand why all casinos try to give you an “Alice in Wonderland playing experience”, complete with free food of drinks and sandwiches. No prizes for guessing why it’s also impossible to find windows or clocks in the casino. Why would you want to keep track of time when you’re having a ball placing your bets?

Let’s draw a parallel to trading here. Is it possible to gain a “house edge” over the financial markets?

The answer is an emphatic yes.

As a trader, I have found that 2 keys above all else, give me a “house edge” – Consistency and Discipline.

CONSISTENCY

The best traders are typically also the most consistent ones. Consistency here refers to a few scenarios:

1. Limiting your risk

Great traders never risk more than 1-3% of their capital per trade. I just can’t over-emphasize the importance of this rule. As the trading colloquial goes, “Amateur traders are concerned with how much they can make; professional traders are concerned with how much they will lose.”

Inconsistency creeps in when a trader takes on different levels of risk for different trades without understanding the consequences. This mostly occurs after a trader experiences a string of losses and packs on the risk to “make up for past losses.”

2. Trust the markets

Many traders take or pass on trades based on “feeling” or “intuition.” This can be very hazardous. When a trade doesn’t fit all your trading criteria, don’t take it. When it does, take it. I have come to find that the latter tends to be more difficult to follow. Sometimes even when all the

criteria fits for us to take a trade, we pass it up because we “have a bad feeling.”

Remember, to have the “house edge” working for you, you have to have the odds in your favour and allow it to play out in the long run. The best application of this principle is to NOT pass on a trade when it fits ALL your criteria.

This rule becomes all the more important to aspiring traders who decide to “abandon” a trading plan and conclude that trading is “risky” after a couple of negative results.

Do not trust your gut – Trust the markets.

DISCIPLINE

Discipline is the hallmark of every great achiever, so why should it be any different when it comes to trading? Discipline in trading takes many forms, but we will explore the more important ones here:

1. Place a stop immediately after entering a trade

As simple as it sounds, I’m willing to bet (no pun intended) that not many traders follow this one simple rule. Traders get lazy and convince themselves that placing a stop immediately is not as important as “catching the right price.”

Variations of this bad habit include loosening a stop or “doubling-down,” which is to trigger ANOTHER trade when the trade is not going in your favour.

This can be an “addictive” habit, especially if a trader flukes a win when doing this. The trader’s downfall eventually comes when a trade is doubled-down to an extent that it never recovers.

2. Mis-timed entries and exits

As humans, we are basically motivated by “fear of loss” and “hope of gain.” We see this trait playing out in trading when traders try to “chase the price.” In trading, the basic rule is to let our profits run and cut our losses short. However, because of our nature, many of us tend to cut our profits short and let our losses run.

Remember that much of successful trading is counter-intuitive. We must exercise discipline at all times so that we never deviate from our original plan of entries and exits.

Ever wondered why casino owners like Steve Wynn, Stanley Ho and Sheldon Adelson are billionaires? That’s because they fully understand the secret of the “house edge” and never deviate from their “trading plan.”

As traders, we need to do the same. With consistency and discipline as our “house edge”, we can firmly stack the odds in our favour and emerge the ultimate winner in the long-term.

Be the casino - because the casino ALWAYS WINS. **SI**



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