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**Poker, Real Estate, and Other Games of Chance...** by Marc J. Goodfriend

Last night was "Friday Night Poker". Today, it is back to real estate investing. And there is not as much difference as you might at first think. Poker, even to a professional, is a gamble. It is a game of calculated risk. Real estate investing, even to a professional, is a gamble. It is a game of calculated risk. Thinking back on the years which we have spent studying, teaching, investing, and gambling, there are some lessons we would like to share with you:

**Lesson 1. Never play in a game in which the odds are against you.**

Whether you gamble, or not, think about Las Vegas. What image do you conjure up? Lights, glitter, fancy buildings, famous stars in the showrooms? Do you think they pay for all of that by offering a game in which the average person can win? Of course not!! If you want to own the casino, or be as rich as someone who owns the casino, you must be on the side with the advantage.

Carefully selected real estate investments offer just such a gamble. If you learn your lessons and study your market, you can buy property that is significantly undervalued. That way the odds are truly in your favor. And as we will see in a minute, those undervalued properties tend to be in the single-family home end of the market and not in the very large multi-unit complexes.

**Lesson 2. If a game is in your favor, be patient - make small bets.**

Think again about Las Vegas. In a typical casino, you would find a mixture of many different games of chance. These range from slot machines to the more glamorous "21" and Craps tables. No matter which casino you enter, you will find the bulk of the space devoted to slot machines. Why? Slot machines do not have the highest "house take" of any of the games. Why are they given so much space? Because, they have unlimited patience. By offering the player a series of bets, which represent a small portion of the player's bankroll, the casino managers know that, except for a handful of lucky people, the casino will eventually win all of their money.

If you want to own the casino, or be as rich as someone who owns the casino, you also need to be patient and make small bets. Mathematicians have shown that when you play a game where the odds are in your favor, you have the highest likelihood of attaining any goal if you make small bets and are very, very patient. Where do you make small bets? In the single-family home end of the market.

**Lesson 3. Never bet so much money on one "chance" that you will be out of the game if you lose the bet.**

The drawback of following Lesson 2 above is that it requires patience. You will be making steady but relatively slow progress towards your financial goals. If you become impatient, there will be a tendency to develop the disease of "big-deal-itis." The impatient investor tries to make a killing in one big deal. You need to learn how to make the tradeoffs between risks and rewards. It makes perfectly good sense to make fairly large investments in projects with a high likelihood of success but a relatively small reward. It also makes sense to invest very small amounts in projects with small chance of success but very, very high rewards. But, as long as the investing game continues to be in your favor, your primary goal should be to survive ~ to stay in the game until you reach your desired level of financial success.

**Lesson 4. Never play in a game you don't understand — or at least make sure you play against people who understand the game less than you.** Nearly every casino in Las Vegas offers a poker room. The casino provides a dealer and a place to play in exchange for a piece of every "pot." The tables have a mix of all kinds of players -- tourists and local professionals. The tourists, sooner or later, transfer their money to the local professionals. Many of these tourists think of themselves as the star of their local Friday Night Poker Club. But, they cannot compete for very long against people who have devoted a lifetime to turning poker into their livelihood. In real estate there are all sorts of different players also. Some know very little about the game. Some know quite a bit. In general, the knowledge of the players increases with the size of the property. As a group, home-owners tend to know the least about real estate. Large-scale, multi-unit owners tend to know the most. The beginning investor will find it easiest to be competitive in the single-family home market place. Here is the place in which it will be the easiest for you to play against people who understand the game even less than you.

 What is the moral of this story? As a beginner, or maybe even as an old pro, stay with the small deals. Don't be misled by the occasional story you hear about the real estate investor who made zillions of dollars on his first deal. That person is the tip of an iceberg — an iceberg made up of people who "lost their shirts" on their first "big deal" and never invested again. Those "one-shot" successes exist — just as the occasional person hits a big jackpot in the casino or wins the State lottery. Remember how they pay for the buildings in Las Vegas and you, too, will get rich by sticking with the little deals. As the old gambler's axiom goes, "Always bet with your head, and not with your heart."