

February 2016—Lottery Mentality

In January, after 19 drawings had failed to produce a grand prize winner, the Powerball lottery jackpot reached nearly \$1.6 billion (if you wanted a lump-sum payment, you would have had to settle for a measly \$930 million).

The odds of winning were a mere 1 in 292,201,338, but that didn't stop thousands of players from lining up outside convenience stores and gas stations and liquor outlets all over the country to take a chance. Thinking about this another way, if you took the entire population of the United States, man, woman, and child, and gave each one a free ticket, there would be on average one person in the country who won.

I myself invested a hefty \$2, simply for the entertainment value. The most popular topic of conversation in my small town that day was how would you spend the money if you won. As it turned out, nobody in my town actually had to worry about that; there were three winners nationwide, splitting the big prize.

In recent years, horse-race betting has become something like a lottery. In the old days, you had win, place, and show bets, along with a single daily double. You couldn't make a life-changing score no matter what you did.

Over the years, though, the game has shifted. Now you can find everything from pick 6's with carryovers to jackpot single winners in the pick 5. The emphasis is on hitting some huge payoff for a small investment.

Often these payoffs are the result of sheer luck. With the jackpot, the big money goes out only if you're the only player with a winning ticket. You can handicap for hours to pick the winning combination, but if somebody playing lucky numbers lands on the same combo, all that jackpot money gets carried over to the next day.

While carryovers help players, particularly on mandatory payoff days, the emphasis on the big score may not be in most players' best interest. Typically, the win-place-show takeout is 17%--but the trifecta takeout is usually around 25% (and at Penn National, it's a whopping 31%). That means that for each \$1,000 a typical player wagers, he gets back \$830 for W-P-S but only \$750 for the tri. Sure, maybe the tri might pay a bundle, but it had better to make up for that confiscatory takeout. Many players bet small pick 6's on a daily basis (which rarely win), tossing away thousands of dollars over the course of the year in a futile effort to hit something big.

Nobody brags about a \$5.80 winner, but that \$37,000 pick 6 a player hit in 1996 is still worth talking about two decades later. And that's the problem—too many people try for these pot-of-gold bets simply to be able to say “I scored.” How many players crow about the number of signers they've hit, while conveniently neglecting to mention how much they lost in chasing those signers?

Keep records. And understand that while life-changing scores can be beautiful, life-changing losses can be ugly.