

Opinion

A6 SATURDAY, OCTOBER 4, 2008

THE CHIPPEWA HERALD • WWW.CHIPPEWA.COM

Betting without risk can lead to big problems

By TOM ARNEBERG
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I enjoy a good game of poker once in a while. Playing poker is a great way to learn about risk and reward: Do you break up a pair to draw to an inside straight?

Even people who aren't into math know that if you wait for one specific card for a killer hand, the odds are lower but the potential reward is greater because you're more likely to win the pot if you get that card.

Learning risk assessment is why I teach my kids poker at a young age — and we use real money. Since their weekly income is only a few dollars, we play penny-ante. It's not much, but poker just isn't the same if you don't have a real stake in the outcome.

Sometimes, however, my kids join a game with other adults at our kitchen table. Those other guys don't like messing with pennies, and insist that we play with nickels and quarters. (Yes, I have some big-spender friends.)

My kids do not want to risk that much of their hard-earned money, so we came up with a scheme to allow them to play with us while still having skin in the game. I provide them leverage. They choose the ratio — for example, if it's 5-to-1, then I buy them five chips for every one they buy.



Arneberg

When the game is over and they cash in their chips, we do the reverse — I get five chips for every one they keep. This way, their potential loss is limited to one-fifth of what it

would have been. Likewise, their potential GAIN is also limited.

They usually do pretty well. They are very careful bettors when their money is at risk, even if it's diluted.

I've been thinking lately — what if we changed the rules a bit?

What if I were to let them keep ALL their winnings, but cover all their losses? Would that change their behavior at all?

I think it would. Knowing my kids, if there were huge potential upside with NO RISK, they'd be betting the farm and going for an inside straight or a flush every time. Why not? There's everything to gain and nothing to lose!

Of course, at the end of the night, I'd be left holding the bag.

I would never do this to my kids, since it would ruin their poker prowess (not to mention cost me money).

Maybe you can see where I'm going with this.

Suppose that instead of playing with quarters, the stakes were

raised to, say, BILLIONS of dollars? We have a name for that game: "Fannie Mae." The kids are investment bankers and Dad is the federal government, represented by FNMA, the Federal National Mortgage Association.

Because of government guarantees, bankers made loans that were risky but had higher returns. They are called "subprime" because the interest rate is worse (higher) than the prime rate. But worse for the borrower is better for the lender.

Yes, you expect a higher return for a riskier investment. That's Business 101. However, businesses normally have to BALANCE risk and reward.

Not so when working with Fannie Mae. Since Fannie bought billions of dollars' worth of subprime mortgages from banks, the banks had no reason to worry about the buyers' ability to pay.

In other words, the risk was removed from the equation.

With no risk, any banker worth his salt would naturally go for higher returns. That is not "evil greed." It's common sense.

How did we get into this mess? It was mostly from efforts in the 1990s to make "affordable housing" available to more people — people who really couldn't afford a house on the open market.

I am sick to my stomach at

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the \$700 billion (some estimate \$1 trillion) bailout bill and the fact that BOTH presidential candidates are all for it. This is the biggest lurch toward socialism in my lifetime.

What makes me even madder is when politicians stand up and blame the free market for this debacle. Nothing could be further from the truth! This disaster has been looming for years because the federal government has been INTERFERING with the free market!

If you want a quick education free of any media bias, just go to

www.YouTube.com and do a search for "fannie." You'll see several videos of a House Committee hearing four years ago where the dangers are clearly presented, and promptly ignored.

You can watch Democrat Barney Frank assuring everyone that Fannie Mae is fundamentally sound and poses no risk, and even if it did, it wouldn't be bailed out by the federal government.

Now Barney Frank is leading the charge for a TRILLION dollar bailout.

One bright spot is that this is the first presidential election where the masses — you and I — have instant access to unfiltered archived footage on web sites like YouTube. I hope people use this new power in their quest for truth.

As for my kids, they will soon graduate from betting pennies to quarters on their own, so they won't need my help much longer.

But they have already lost untold thousands of dollars of their own future income due to our national debt, which is about to become a lot bigger.

That's a loss I wasn't betting on.

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OUR VIEW

Public severance packages frustrating

There's something more than a little disquieting about

