

Rules of the Game

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In the summer of 1883 Americans were starting to enjoy a new concept called “leisure time.” People attended Buffalo Bill Cody’s Wild West Show, they read Mark Twain’s “Life On The Mississippi” and the new humor magazine, “Life.” Board games were not common, and the few that people owned dated from the 1820’s. On a rainy summer day, sixteen year old George Parker modified an old card game to include the adventures of adult life and renamed it “Banking.”

George would go on to found Parker Brothers and help change the way people spend their free time. His early successes included Ping Pong, Pit (the card game), and 1,250 piece hand cut puzzles. Today Parker Bros. is better known for its games Monopoly and Trivial Pursuit.

In the book The Game Makers, Philip Orbanes describes how George instinctively found a parallel between the rules in the games he created (and sold) and the “rules” for running a successful business. He realized that business and games were similar in that both had a certain amount of unpredictability, but were mainly influenced by the quality of moves you make. With this in mind, he put together 12 principles to guide him in business.

1. Know our goal and reach for it.
2. Find “winning moves.”
3. Play by the rules but capitalize on them.
4. Learn from failure; build upon success.
5. When faced with a choice, make the move with the most potential benefit versus risk.
6. When luck runs against you, hold emotion in check and set up for your next advance.
7. Never hesitate and give your opponents a second chance.
8. Seek help if the game threatens to overwhelm you.
9. Bet heavily when the odds are long your favor.
10. If opportunity narrows, focus on your strengths.
11. Be a gracious winner or loser. Don’t be petty. Share what you learn.
12. Ignore principles 1 to 11 at your own peril!

(Philip E. Orbanes, The Game Makers – The Story of Parker Brothers)

One of the striking features of this list is how simplistic and obvious it appears. However, if we reflect upon each item in the context of our own successes or failures they become very insightful. Here are a few that seem to be applicable to our financial success.

Know your goal and reach for it. If your goal is to have financial stability in your life then why would you allow yourself to incur excessive debt for things that are inherently short term. Too often we buy toys or things that provide short-term gratification with money that hasn’t been earned yet, and then pay interest to someone else long after the enjoyment has dissipated.

When faced with a choice, make a move with the most potential benefit versus risk. Although this seems very obvious, many make the mistake of only considering the benefits of an investment, without balancing the benefit and the risk together. According to Dr. John Hussman the two

questions you should ask yourself are the same as when you are playing Chess: 1) What is the opportunity? 2) What is threatened? If you don't ask those questions, you can miss opportunities to add value or avoid losses.

Bet heavily when the odds are long your favor. To adapt this rule to the investment world Dr. Hussman recommends you never take an investment position that would be successful if you are right but would lead to unacceptable losses if you're wrong. Good investing requires taking greater amounts of risk when the return per unit of risk is likely to be high, on average, and taking smaller amounts of risk when the return per unit of risk is likely to be low, on average. Many investors believe that every risk is worth taking, or they hold a position that they're uncomfortable with because they're scared to miss out on any further gains. The answer is simply to increase or decrease the size of the investment, and therefore the risk exposure, based on the average return/risk you can expect.

George Parker taught us through his games and the way he ran his business his guiding principles of success. Take a minute and review each of the rules that George Parker lived by. If you do, you will win in the game of life by making better financial decisions.