THEORY IN PRACTICE / **Edward O. Thorp**

86

Granville at UCI — Part 3

Nov 81

Question to Granville: A recent issue of *The Financial World* claims that when the market was up 32% in 1980, the stocks that you (Granville) recommended in the same period were only up 7%. *Wall Street Week* made a similar charge that the performance of your individual stock selections was much inferior to the performance of the market itself. The same claim was made in a story in *Barrons* on April 20, 1981, titled "Box Score on Advisors." Is this true or false? How good was your record for selecting individual stocks?

My suggestion is that you work up a complete record of all stock recommendations and results from, say, January 1, 1980, to the present. Some advisors already do publish such a current record of all stock recommendations and results for subscribers. They give the date recommended and the price at which the position was first taken.

If the stock is closed out, they show the date it was closed out, the price it was closed out, and the percent gain or loss. If the position is still open, they give the stock's current price and the percent unrealized gain or loss. This allows a subscriber to quickly evaluate the advisor's individual stock recommendations.

Your newsletter presently does not seem to have an organized record of which stocks you have recommended and whether the positions are still open. Furthermore, there is no indication of how well the stocks have done.

It would be a great help to your followers and subscribers to know how good your advice was on individual stocks.

Answer (Granville): We haven't done that and it is something we will consider.

The Great Nonearthquake

Granville publicly predicted that a major earthquake would hit California at a specific time on a specific day in April. The day and time came and went with no major earthquake. I am sorry I was not able to bet $1000 or $10,000 or $100,000 or $1,000,000 or . . . against the likehood of that prediction coming true. I stand ready to bet against such future specific predictions.

Several questions about the earthquake predictions were handed in by the audience. I put them aside because we had already had enough entertainment . . .

Several written questions about the earthquake predictions were handed in by the audience. I put them aside simply because we had already had enough entertainment and too little information.

Here is an amusing anecdote. While chatting with Granville's charming new wife, I asked how she liked their place in the Palm Desert area. She said she had never seen it because it happens to sit near an earthquake fault and a recent minor tremor in California had damaged the house enough so they had to await its repair before using it.

The further irony to me is this: In 1980, Granville vigorously warned me that 1981 and 1982 were so unsafe in California that he was unlikely to even set foot in this state because of the high probability of earthquakes. He told me to move out while there was time.

But I heard that he was scheduling talks in California and was buying a place. I didn't have the slightest belief in his unique ability to make an earthquake forecast, yet I thought to myself that if I were going to bet, I would compare what he said with where he put his money. Then I would bet with the money.

James E. Alphier, Portfolio Manager, Wilson Foster & Co., Inc., prepared a documented list of questions for Mr. Granville and for the panel. Alphier covered many of the questions submitted by the audience and a number of the questions asked by readers of this column. Partly because of a lack of time, Mr. Granville was unable to answer these questions at the meeting.

I invite Mr. Granville to send me his answers to these or any of the other questions which arose at the meeting. I will then report his answers in this column.

Question: It is your (Granville's) claim that you listen exclusively to "the language of the market." Yet there are some key statements about the behavior of the stock market which you have made in your market letter which are factually incorrect.

For example:

(1) *The New York Stock Exchange Composite Index and the Standard & Poor's 500 provide independent corroboration of the action of the stock market.* Fact: they are very nearly the same market average due to construction.

(2) *The Wilshire 5000 Index is irrelevant.* Fact: it is a slightly broader version of the NY Com-

All during 1981, claims were made that stock lowered since January 6. This is clearly incorrect.

posite and S & P Composite, and tracks them closely.

(3) *The majority of NYSE listed issues are lower than they were on January 6, 1981.* Fact: they are not.

(4) *Low-priced stocks have topped out in 1981 ahead of the blue chips.* Fact: they moved up strongly into mid-April.

To what extent are these conceptions built into your methodology? How much influence do they have on your market opinions?

Mr. Alphier's documentation on this question:

(1) The Granville letter has made frequent reference to the New York Stock Exchange Composite as being an independent corroborative indicator to the S & P 500 Composite. They are essentially the same market average, being weighted by total market value of stocks included, with the largest companies getting the most weight.

"...the important New York Stock Exchange Composite Index is knocking on the door of a better than 50% retracement... In harmony with this, the Standard & Poor's 500 Stock Index is but a point away from also recording a bullish 50% Principle signal." Letter #797, page 3 of December 20, 1980.

"...The New York Stock Exchange Composite Average closed at a new low...the Standard & Poor's 500 Stock Average reflected confirming action..." Letter #804, page 3 of February 21, 1981.

In the "Sell Everything" letter #799 of January 6, 1981, these two averages are listed as two separate indicators.

In reality, these two market averages are virtually mirror images of each other when compared, as would be predicted from examining their construction.

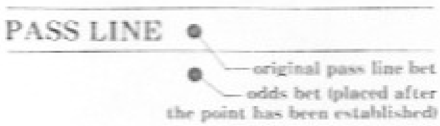
(2) The Wilshire 5000 Index, which simply shows total market value of a great many more companies than the S & P or New York Stock Exchange Composites, closely tracks these two better-known averages, especially over the shorter term. Yet "...those who try to argue otherwise use *irrelevant data* such as the Tokyo market, the London market, the NASDAQ, the Wilshire index, and so forth." Let-

continued on page 46

In general, the player has a better percentage playing don't pass or don't come.

line bet.

Sure, it will increase the percentage on the odds bet. But remember, you can't make an odds bet unless you first make a pass line, don't pass, come, or don't come wager. So the best thing a player can do is to use as much of his bet as possible as the odds wager "behind the line." The pass line odds are referred to as behind the line because the bet is placed in the unmarked felt area between the player and the pass line, as illustrated:



There are many ways that players can increase their overall chances of winning at the craps table, and this is one of the best. That 1.414% house edge is diminished to 0.848% when there is an equal amount bet behind the line. When a casino permits players to make double odds wagers, players may bet twice as much behind the line as their original pass line wager. Then the house edge drops even further; all the way down to 0.606%, slightly better than 1/2 of 1%. There is none better in the casino (unless, of course, you find a triple odds casino).

The odds paid on the various numbers are calculated thus: the number of possible combinations that will total to a given point number vs the combinations that will total seven. For example, there are five ways a shooter can make the point of eight: 5-3, 3-5, 6-2, 2-6, and (the hard way) 4-4. There are six ways to make a seven, and a total of 36 possible combinations on two dies.

The ratio, then, is 6/36 to 5/36, or simply 6 to 5. The true odds, therefore, are 6 to 5. These odds differ from place bet odds, which are less. Table 1 shows the odds for place bets, and true odds for wagers made on the pass line or come bets.

Point Number	Place Bet	True Odds
4 or 10	9 to 5	2 to 1
5 or 9	7 to 5	3 to 2
6 or 8	7 to 6	6 to 5

There are other ways to increase the portion of the wager that is being bet at odds that are especially beneficial in a single odds casino.

● ● ●

(Ed.—These will be discussed in a future issue of *Gambling Times.*)

No doubt a lot of you are saying, "Well, Pantano, when the hell are you going to tell us that the best bet is the don't pass?" I'm sorry to disappoint you, but I'm not going to say that without reservations. What I will say is this: In general, with casino craps the player has a better percentage if he plays the don't pass or the don't come. That's true whether there are odds involved or not. But it is not always the *best* bet, and players who think that may not be playing the game to their best advantage.

In my next column, I will explain that statement and give don't bettors some food for thought. You might even change your playing habits. Until that time, I wish you all good health and good luck; unless, of course you are a casino dealer. Then I wish you good health. **gt**

Theory in Practice

continued from page 43

ter #811, page 4 of April 11, 1981.

As described by its creators, the Wilshire 5000 is nothing less than an attempt to measure the total market value of all companies trading in the United States.

(3) All during 1981, the claim has been made that most stocks have worked lower since January 6. For example, ". . . it can be proved that the majority of stocks today are lower than they were on January 6." Letter #812, page 1 of April 25, 1981.

This is clearly incorrect. A head count of all NYSE common stocks shows that as of April 25, 1981 (the date of Letter #812), in excess of 60% of all NYSE listed issues were above their January 6 price. The Value Line Composite Index, which is an unweighted average of 1700 common stocks, was above its January 6, 1981, high, as were all unweighted NYSE, ASE and OTC averages kept up by several independent organizations.

(4) Statements have been made about the price action of low-priced stocks. For instance, "It is easily demonstrable that the market has already peaked and that blue chip strength is not confirmed elsewhere by the broader market indicators. It is easily shown that low-priced stocks have topped out ahead of the blue chips." Letter #809, page 1, March 28, 1981.

Actually, the Standard & Poor's Low Priced Stock Index and the Barrons Low Priced Stock Average made new highs for the entire bull move from late 1974 on April 15 and 16 respectively. They were more than 10% above their January 6 levels on March 28, 1981, and advanced further to their mid-April highs (as of this writing). **gt**