

## **Investing Lessons from a Jeopardy! Champ**

**Answer:** This Las Vegas resident recently won 32 consecutive games of Jeopardy! and racked up \$2.5 million in winnings while obliterating many records, including holding each of the top 16 slots for highest one-day payouts.

**Question:** Who is James Holzhauer?



*source: Jeopardy Productions*

If you didn't already know that one, do yourself a favor and watch [this official Jeopardy! video](#) detailing James' amazing run.

Before he came along, the highest-ever one-day payout for a Jeopardy! winner was \$77,000 to Roger Craig back in 2010. In Holzhauer's fourth game, he blew that record out of the water with a \$110,914 win. He then added to that with wins of \$89,158, \$106,181, \$131,127, \$80,006, \$90,812, \$118,816, \$90,812 again, \$96,726, and on and on.

It was an incredibly entertaining two months for viewers of the show, but strangely enough it also provides a great object lesson for investors. If we look at a typical James Holzhauer Jeopardy! game as a microcosm of a typical investor's lifespan, he set a great example for us all to aspire to.

### **The Key is Daily Doubles**

A Jeopardy! game consists of up to 61 trivia questions, each of which is assigned a particular dollar value. Some correct answers will earn you \$200, some \$2,000, and the rest somewhere in between. The drama of the show comes from the fact that 4 of those 61 questions are special:



there are three Daily Doubles and one Final Jeopardy! question, on which a contestant is allowed to wager any amount from zero to their entire bankroll.

All participating players can wager in Final Jeopardy!, but only the contestant who happens to be in control at the moment can participate in the randomly-hidden Daily Doubles. If one player is lucky enough to find all three Daily Doubles, and they wager enough and answer correctly, then they give themselves a terrific chance to run away with the game.

James did just that in 17 of his 32 wins... he found all three Daily Doubles, bet big, and—by the time Final Jeopardy! rolled around—his score was so far above the second-place contestant's that he was mathematically un-catchable.

But James' secret sauce, and the key to the lesson investors can learn from his gameplay, is that his big bets on the three Daily Doubles were not uniform in nature. That is, he did not wager the same percentage of his bankroll on the first Daily Double as he did on the second and third Daily Doubles.

### **Bet Big Early, Then Dial It Back**

The 60 questions before Final Jeopardy! are split into two groups of 30: the Jeopardy! round has one Daily Double hidden among its 30, and the Double Jeopardy! round has two. In James' 33 games, he was about equally likely to find each of these. He found 26 of the first Daily Doubles, 24 of the second, and 26 of the third.

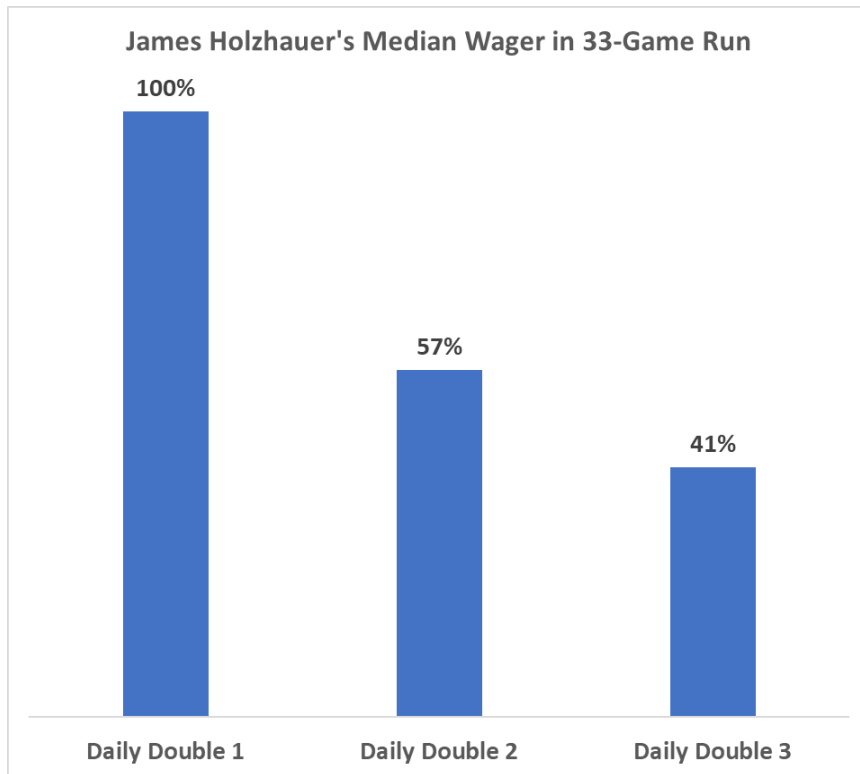
But there was a big difference in how much James wagered on each of these three Daily Doubles. For instance, in his 16<sup>th</sup> game James found all three Daily Doubles. When he came across the first one, he had \$6,600 in the bank. He was eligible to wager anywhere from nothing to the entire \$6,600, and he chose to wager it all. One hundred percent of his winnings up to that point, all or nothing, riding on one trivia question. Can you imagine the nerves it must take to do that?

He answered correctly, and when he came across the second Daily Double that day he had \$22,800 available to bet. His wager, though larger than his first wager in absolute dollars, was much smaller in percentage terms. He bet \$11,381, or just 50%.

By the time he found the third Daily Double, he had amassed \$40,981, of which he elected to bet \$11,914. Again, this number was higher in an absolute sense than either of his first two Daily Double wagers, but in percentage terms it was the smallest by far: just 29% of his pot.

If we aggregate all of the Daily Doubles James encountered during his historic run, we can see how he dialed back his bet sizes as the game progressed:





*source: [www.j-archive.org](http://www.j-archive.org), Inkwell analysis*

In virtually every single case that James found the first Daily Double, he bet every single dollar he was entitled to bet. Why in the world would he do that? According to James himself, he thought about it in terms he is familiar with as a professional gambler: “In poker tournaments there's a big advantage to accumulating a big stack of chips early on: you can make plays that no one else can,” he said in an interview with CBS.

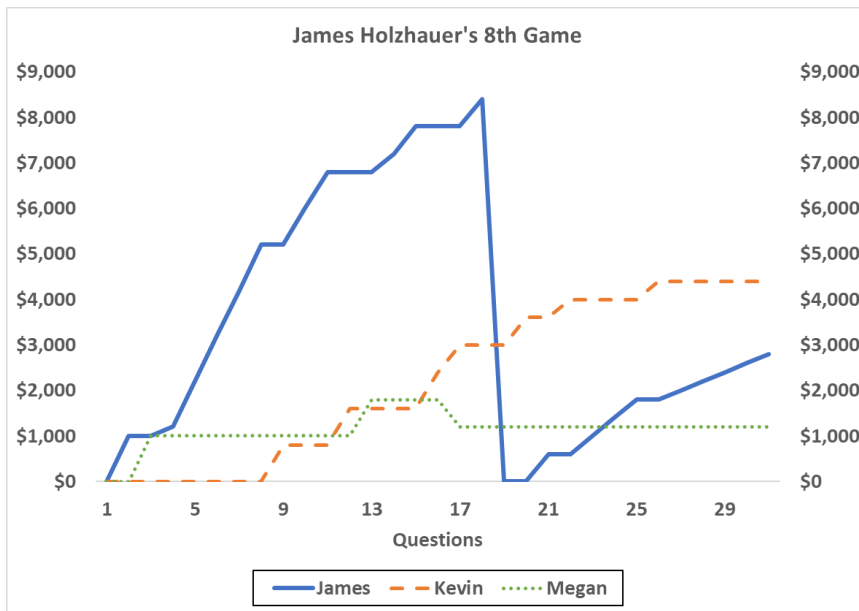
He also knew that, if he was unsuccessful in answering that first Daily Double (which occasionally did happen), the downside is that he would lose all of his winnings up to that point, but the upside was that there was still a lot of the game left and he had plenty of time to build his bankroll bank up.

As an example, in his 8<sup>th</sup> game, James was doing well early on. He had accumulated \$8,400 in prize money compared to just \$3,000 and \$1,200 for his two opponents. He then found the first Daily Double, risked it all, and then flubbed the answer. (By the way, the clue was: “In 1903 Maurice Garin was its first winner in 94 hours, 33 minutes, 14 seconds.”\*)

So now he’s sitting in third place with no money. However, the game is only one-quarter over, and James knows he has half of regular Jeopardy!, all of Double Jeopardy!, and then Final Jeopardy! to stage his comeback. And, of course, that’s exactly what he did.

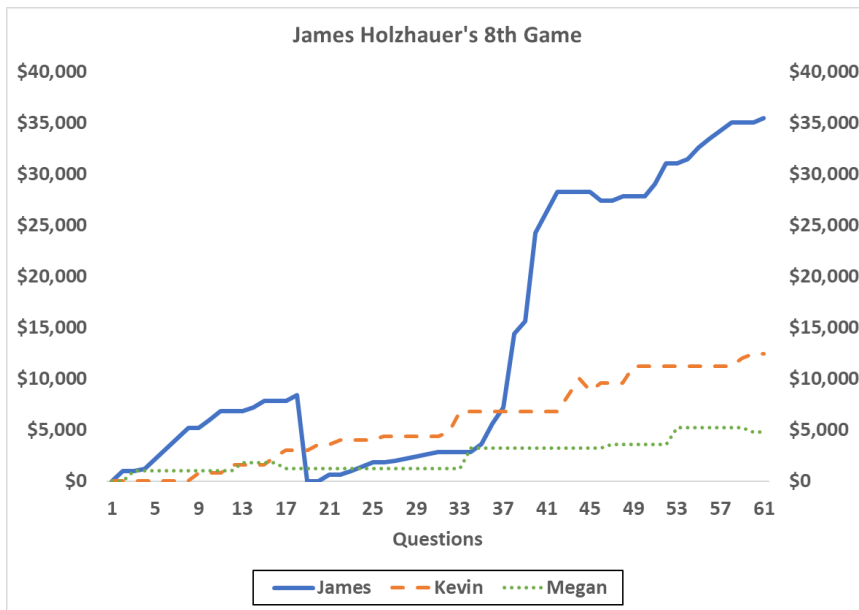
By the end of regular Jeopardy!, James had fought his way back to second place: he had \$2,800 compared to his opponents’ \$4,400 and \$1,200. Here is what that game looked like after the first 30 questions:





source: [www.j-archive.org](http://www.j-archive.org), Inkwell analysis

James went on to find the second and third Daily Doubles also, answering both of them correctly on his way to a run-away win:



source: [www.j-archive.org](http://www.j-archive.org), Inkwell analysis

### Your Adult Life As a Thirty-Minute Game Show

The lesson for us investors is to think of James' betting strategy in a single game of Jeopardy! as a microcosm of our investing lifetimes. When we are in our 20s, just starting out in our career and with a long runway of higher earning power ahead of us, it makes sense to invest our nest



egg in the riskiest way possible. We can afford to take wild chances with our money in our 20s, precisely because we barely have any money. If we have to go back to zero in our 20s, that's not the end of the world, because we still have our 30s, 40s, and 50s ahead of us, with the higher salaries those years present us.

Taking another look back up at that first bar chart, think of the left-most column as investing in the early part of your adult lifetime, your 20s and even your 30s and 40s. This is the time when you want to have fully 100% of your nest egg invested in the stock market. Yes, stocks can have terrible years like they did in 2000-02 or 2008-09, and you will suffer a terrible loss on paper at those times. But then you might experience a great surge after those plunges, like we did in 2002-07 (when the S&P advanced 83%) or 2009-18 (with the S&P up 171%), giving you plenty of time to catch up.

In the same way that James decreased his bet sizes as he came closer to the end of a game of Jeopardy!, as you come closer to retirement you'll want to mitigate the effect the stock market can have on your portfolio. So you'll want to gradually ratchet down the percentage of your portfolio exposed to stocks while using the money thus freed up to invest in the bond market. The lower your remaining life expectancy, the lower your equity exposure should be.

## **Conclusion**

When positioning your portfolio, attack the problem as if you are James Holzhauer playing Jeopardy! Invest almost exclusively in stocks in the high-earning portion of your career, and then gradually dial that back in your retirement years.

*\* Correct response: What is the Tour de France?*

