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# Money Stuff: Prediction Markets Are a Thing Now

1 message

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Bloomberg Opinion

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## Prediction markets

One thing that I thought was a little interesting on Tuesday is that the prediction markets for the US presidential election didn't really move all day. Kalshi, for instance, had Donald Trump at 57.1% at 6 a.m.; at 11 a.m. he was up to 58.6%, at 2 p.m. down to 57%, and at 7 p.m. he was back to 57.1%, where he had started the day.[1] After that, polls closed, results started coming in and the odds moved pretty rapidly: 61% at 8 p.m., 74.1% at 10 p.m., 92.5% by midnight. But essentially no new information was incorporated into prices during the day.

This makes sense and is consistent with at least semi-strong form market efficiency and also with *my* acquisition of information: There are polls and news and early voting and stuff in the days leading up to Election Day, and then on the night of Election Day results become public and you can update frequently, but during Election Day itself not much happens. Polling guru Nate Silver also experiences it this way:

> While election *nights* are incredibly busy, Election *Day* isn't so bad, actually. There's not a lot to do until results start coming in — and no, you probably shouldn't pay too much attention to exit polls.

But you could imagine *someone* experiencing it differently. I always vaguely assumed that, for instance, the senior people working on the campaigns *know something* during the day, that by 7 p.m. on Election Day probably Kamala Harris's campaign staff were less confident than they were at 6 a.m. My vague imaginings don't contain any clear mechanism for how they would get information during the day, but it's not hard to think of ideas. They manage large staffs of people who monitor voting sites and work on getting out the vote and talk to voters; you can look at the lines at different polling places and learn something about size and enthusiasm of turnout.

Also there are exit polls. In the US, exit polling is done mainly by Edison Research on behalf of a consortium of big media organizations, who agree not to report results publicly until the polls close. But the information *exists*. Someone is doing those polls; someone is aggregating them. Surely someone, somewhere, is better informed than the rest of us at like 6 p.m.

But the prediction markets tracked public information and didn't update during the day. I suppose two possible explanations are:

- Maybe my assumption is wrong and in fact nobody anywhere — on the campaigns, at the big media organizations that call the election — knows anything useful until the polls close?
- Or maybe there is useful inside information during the day but the people who have it don't trade on it, because (1) they think that would be unethical,[2] (2) they are pretty busy on Election Day and/or (3) there is not all that much money to be made on unlevered 50-50ish bets on election prediction markets.

A pretty clear takeaway from this election is that election prediction markets are a big deal now. Real-money election prediction markets were more or less illegal in the US until two months ago, and Polymarket is still technically off-limits to US traders,[3] but they have gotten a lot of attention in this election and seem to have performed well.[4] Bloomberg's Claire Ballentine, Annie Massa and Charlie Wells report:

> As Donald Trump's victory in the US presidential election became clear Wednesday, so too did the power of betting websites to predict political outcomes.
>
> For weeks leading up to the contest, prediction websites were cited — and often questioned — for showing the former president as a heavy favorite over Kamala Harris, even as poll after poll pegged it as a toss-up race. In the end, the betting markets won.
>
> And with the election seen, particularly in finance circles, as a referendum on the relative power of polls and these platforms, betting websites will now no doubt take on an even greater air of market-powered invincibility. …
>
> "These markets will run the world," said Thomas Peterffy, the billionaire founder of Interactive Brokers. "People tend to say what they want, but in these markets, they will bet the way they think the outcome will occur, not what they want the outcome to be. It takes the emotion out of these questions."

Also Trump's win probably means that these markets will be more legally accepted: The US Commodity Futures Trading Commission has fought to block them, but the Republican CFTC commissioners have dissented,[5] and Polymarket seems to have built ties with the Republican party. I assume that within the next four years election prediction markets will be as legal and normalized in the US as, you know, sports gambling is now.

But maybe not as popular? In May, Nick Whitaker and J. Zachary Mazlish published an article on "Why prediction markets aren't popular":

> Rather than regulation, our explanation for the absence of widespread prediction markets is a straightforward demand-side story: there is little natural demand for prediction market contracts, as we observe in practice. We think that you can classify people who trade on markets into three groups, but each is largely uninterested in prediction markets.
>
> - Savers: who enter markets to build wealth. Prediction markets are not a natural savings device. They don't attract money from pensions, 401(k)s, bank deposits, or brokerage accounts.
> - Gamblers: who enter markets for thrills. Prediction markets are not a natural gambling device, due to various factors including their long time horizons and often esoteric topics. They rarely attract sports bettors, day traders, or r/WallStreetBets users.
> - Sharps: who enter markets to profit from superior analysis. Without savers or gamblers, sharps who might enter the market to profit off superior analysis are not interested in participating. They also largely don't need prediction markets to hedge their other positions.
>
> In our view, much of the volume that exists on financial markets comes from money that is not attempting to beat the market by correcting pricing errors (like an asset that is underpriced compared to its likely returns), but money that wants to be in a market for other reasons, like investing in companies that will deliver a long-run return (as savers do), or making a sports event more exciting (as gamblers do). In both instances, market participants' demands are relatively inelastic.

"Prediction markets are not a natural savings device" seems obviously true, and a good reason to think that prediction markets will never compete with *stock* markets for size and liquidity and efficiency. (However: "Design a product for retail investors who want to use prediction markets as a savings device" strikes me as a *very* good exercise for the reader, and I expect that within two years I will be writing about a buy-and-hold prediction-markets exchange-traded fund.)

But prediction markets don't need to compete with the stock market: The market for sports gambling is quite large, and very sophisticated parties compete to set accurate odds for big games. "Prediction markets are half as good at predicting events as NFL oddsmakers" would be an *extremely* good outcome. And "prediction markets are not a natural gambling device" is not *obviously* true. It *might* be true; it might be that people in the US naturally pay attention to precisely one prediction market every four years, and otherwise they are no fun.

But I will say that, based on the experience of legalized US sports gambling, and zero-day options, and all the weird ETFs I've written about, I tend to be bullish about the ability of legal betting site proprietors to construct bets and user experiences that retail customers will find exciting. In a friendly regulatory environment where the CFTC will approve lots of different types of contracts, surely you can find, you know, 20 items a day that people will want to bet on. Surely you can attract some notice on Reddit. Prediction markets might not be that fun *now*, because they are fairly new and lightly crypto-scented and regulators push back against all the fun contracts. (The Oscars!) But give them a few years of friendly regulation and the tailwind from this election and maybe they'll be fun.

As for sharps, yes, prediction markets can't really attract smart money unless they also attract dumb money. But there are obviously sharps in prediction markets already. Here is a Wall Street Journal article about "Théo," the pseudonymous Frenchman who bet more than $30 million on Donald Trump on Polymarket because he had a differentiated view on polling, and *also did his own polling*:

> Polls failed to account for the "shy Trump voter effect," Théo said. Either Trump backers were reluctant to tell pollsters that they supported the former president, or they didn't want to participate in polls, Théo wrote.
>
> To solve this problem, Théo argued that pollsters should use what are known as neighbor polls that ask respondents which candidates they expect their neighbors to support. The idea is that people might not want to reveal their own preferences, but will indirectly reveal them when asked to guess who their neighbors plan to vote for.
>
> Théo cited a handful of publicly released polls conducted in September using the neighbor method alongside the traditional method. These polls showed Harris's support was several percentage points lower when respondents were asked who their neighbors would vote for, compared with the result that came from directly asking which candidate they supported.
>
> To Théo, this was evidence that pollsters were—once again—underestimating Trump's support. The data helped convince him to put on his long-shot bet that Trump would win the popular vote. At the time that Théo made those wagers, bettors on Polymarket were assessing the chances of a Trump popular-vote victory at less than 40%.
>
> As Théo celebrated the returns on Election Night, he disclosed another piece of the analysis behind his successful wager. In an email, he told the Journal that he had commissioned his own surveys to measure the neighbor effect, using a major pollster whom he declined to name. The results, he wrote, "were mind blowing to the favor of Trump!"

This, I think, is the dream of prediction markets: That they will be big and liquid and reliable enough to *incentivize people to do their own better private polling*. Théo really wanted to know who would win the US election, not, apparently, because he had personal stakes — he's French and says he has "absolutely no political agenda" — but because he could make $50 million by being right. So he was willing to spend money to be right. And then he was right. And it is plausibly approximately correct that Polymarket was more informative about the US election than public polling was, because Polymarket incorporated better polling, because a guy with $50 million at stake on Polymarket was very focused on getting the best polling.

What if prediction markets *do* become popular? What if they succeed in attracting a lot of gamblers, and thus provide a lot of opportunity for sharps to make money? Presumably we will see more sharps like this, more professional traders and firms finding non-public data sources to make informed trades. There's the well-known story about how Jane Street analyzed state election data in 2016 and was able to call the election for Trump well before television networks did, but then lost a bunch of money because it took the wrong view of

the effect of Trump's win on asset prices. With deep liquid election prediction markets that wouldn't be a problem, and the rewards to better predictions would go up.

Or I started this column by talking about the lack of updating during Election Day. But if you *really* wanted to know the results at 5 p.m. on Election Day, you could probably get an advantage by sending people to watch a lot of voting sites, do exit polls, etc. That seems prohibitively expensive, today, for anyone but a consortium of television news networks that don't release the results until later. But there is probably some amount of money that could incentivize a hedge fund to do it. Modern investing involves tons of alternative data sources and machine learning techniques to find signals that can predict asset prices; prediction markets could be another way to turn those data and techniques into money.

Now, I also started this column by suggesting that perhaps some insiders *do* know the results at 5 p.m., but don't trade, because that seems unethical and/or because it's not worth it. In a world of large popular normalized liquid lucrative prediction markets, *that* might change. For one thing, it would be worth it.

Would it be unethical? I mean, probably your campaign or news organization would think so. But my general impression is that most people in the prediction-markets world *love* insider trading:

> "If the point of [prediction] markets is to get accurate information on the prices, then you definitely want to allow insiders to trade, even if that discourages other people from betting because that makes the prices more accurate," the George Mason University professor [Robin Hanson] told *Decrypt* in an interview. "And that's the priority."

I once joked about insider trading on a Manifold Markets prediction market about me, and then got emails from Manifold traders saying "oh no insider trading on Manifold is totally cool, that's the point." "Unlike many other places," Manifold's community guidelines say, "Manifold encourages you to make markets more accurate by trading based on private information you might have."[6]

Not everyone agrees. Kalshi, which is regulated by the CFTC, bans insider trading:

> If a Member is an Insider that has access to material non-public information that is the subject of an Underlying of any Contract or that has the ability to exert any influence on the subject of an Underlying of any Contract, that Member is prohibited from attempting to enter into any trade or entering into any trade, either directly or indirectly, on the market in such Contracts. An "Insider" means any person who has access to or is in a position to have access to material non-public information before such information is made publicly available.

And I suspect that will continue to be true of US regulated prediction markets: "Go ahead and insider trade because it makes prices more informative" is the sort of thing that you expect to hear from George Mason economists and crypto enthusiasts, but not from the CFTC, which has expanded its insider trading enforcement in commodities markets. But soon it will be a new CFTC, probably one that is friendlier to prediction markets, so who knows. I am tempted to say "I look forward to writing about prosecutions for insider trading on elections," but maybe there just won't be prosecutions?

Oh meanwhile, amusingly, Polymarket might be illegal in *France*, where Théo is apparently located, oops:

> France's gambling regulator is examining the operations of cryptocurrency-based prediction markets platform Polymarket to see if it complies with local rules following a surge in user demand around the US presidential election.
>
> "We are aware of this site and are currently examining its operation and compliance with French gambling legislation," an Autorité Nationale des Jeux spokesperson for the regulator told Bloomberg News on Thursday.

## How is CZ doing?

I think that if you just asked most people on the street "what would you do if you started a company that made you billions of dollars before you turn 50," their answers would involve things like "never work again" and "buy an island." "Spend 12 hours a day at the office" would not be at the top of most people's lists, in that hypothetical situation.

On the other hand if you look at *real* cases of people who start businesses and become billionaires, there does seem to be a pretty common tendency to *continue* to work really hard on their business even after getting far more money than they could ever spend. One plausible explanation for this is that running the business — working on the idea they are passionate about, hanging out with their buddies who built the business with them, building a durable institution, solving difficult problems, being important, etc. — is more fun than anything else they could be doing. But another possible explanation is just, like, inertia: You've been doing this for a long time, it is an important part of your identity, you don't know who you'd even be if you weren't running your multibillion-dollar company, and you don't want to find out.

It might be therapeutic for successful founder-CEOs to take a few months off mid-career, to try new things and get perspective. And then conclude either "yes running my company is the most satisfying thing I could be doing, I'm coming back," or else "actually yachting is *also* really satisfying." For most founder-CEOs this does not seem especially practical, though there are occasional stories of founders who go off for a while and come back.

This is not quite that but good for CZ man:

> Changpeng Zhao, the billionaire founder of the Binance cryptocurrency exchange … isn't back at the helm of the largest crypto exchange, since his plea deal with the Department of Justice forbids him from leading the company. And he says he's OK with that. …
>
> Zhao spoke with Bloomberg a day before Donald Trump's victory in the US presidential election sent crypto prices soaring and CZ's estimated net worth to almost $53 billion. He reflected on his forced separation from Binance and four months of incarceration during which he passed the time by working out, writing a book and talking crypto with fellow inmates.
>
> "I don't think I want to go back" to being Binance's chief executive officer, Zhao said in the interview, his first comments to the press since his release.

> "I've been leading the company for seven years. I enjoyed it. It's a lot of work. But I think that chapter is that chapter." …
>
> Zhao is adamant he's no longer involved in Binance's decisions and has no desire to return. … The Binance leadership asks his advice "very rarely," he says, and he obliges only with "historical context." ...
>
> Now back home with his family, reflecting on life after prison, Zhao says he'll always have an "emotional attachment" to Binance, even if he's feeling no burning desire to return to the CEO's job.
>
> "It's like a kid, right?" he says of the company. "Once it grows up, it doesn't need to be attached to me."
>
> So what is life like now that his crypto kid is all grown up?
>
> "It's a lot more relaxed," he says.

You will occasionally hear of drug addicts crediting going to prison with saving their lives, but it is sort of charming to think that the US Department of Justice helped Zhao turn his life around by making him take a break from work. Though the food in prison was bad:

> "I usually stick to a paleo diet, just proteins and veggies. That's not possible there," said Zhao.

## Greenhushing

This one is new to me:

> Investors intending to continue with [environmental, social and governance] portfolios will need to ensure they understand the intricacies of the US legal system well, according to analysts at Jefferies Financial Group Inc.
>
> "We'd encourage all ESG fund managers to have a lawyer on the team, or on speed-dial," analysts led by Aniket Shah wrote in a note to clients on Wednesday. "Antitrust risk remains high for asset managers in ESG; there haven't been any cases yet, thus there is no legal precedent. Further, legal risks regarding fiduciary duty will stay relevant as states enforce anti-ESG laws." …
>
> A likely consequence of the new political landscape will be "greenhushing," the Jefferies analysts said, referring to the phenomenon of not making public any work on ESG.

"Greenwashing" means talking a lot about ESG but not really doing it. "Greenhushing" is the opposite, investing using ESG criteria but not talking about it. For instance if you are an investment manager and you think "climate change is real so we are not going to invest in any buildings that will be washed away by hurricanes," that is plausibly a sensible decision to maximize the long-term return of your portfolio. Saying "we evaluate investments and consider their risks to try to maximize the long-term return of our portfolio" is fine. Saying "we consider the risks of climate change in that evaluation" is hotly controversial: Not that

long ago it was a way to attract environmentally conscious investors, but now some states want to make it a crime. So if you are considering climate risk in evaluating investments, you might want to keep that to yourself.

## Apex

If you like the intrigue and drama of mergers and acquisitions, the merger proxy for Skydance Media LLC's proposed acquisition of Paramount Global came out this week. The "Background of the Transactions" section runs from page 93 to page 140, and describes Paramount's negotiations with Skydance, Apollo and other potential buyers. At Puck, William Cohan goes through "all the machinations that took place for the six months or so between the start of the sale process and its conclusion." The deal was complicated because Skydance first struck a deal with National Amusements Inc. (NAI), Shari Redstone's holding company that owns a controlling stake in Paramount, and then Skydance (and Redstone) had to negotiate with the special committee of Paramount's board to find a deal that was acceptable to the public shareholders.

But my favorite bidder for Paramount was the possibly fake one, Apex:

> On June 6, 2024, [NAI's lawyers] shared with [Paramount's lawyers] a purported acquisition proposal that had been submitted to NAI by an entity identifying itself as Apex Capital Trust ("Apex"). The Special Committee ultimately determined this entity was not credible, as described further below.

Paramount signed with Skydance on July 7, and then started a "go-shop" process to try to get a higher price from another bidder. Again Apex showed up and was ignored:

> The seven parties that expressed interest in a potential transaction with Paramount included Apex, Edgar Bronfman, Jr. ("EBJ"), an individual with media industry experience who had previously expressed interest in a potential NAI-only transaction, Party D, Party L, Party M, a leading private equity firm, Party N, an individual with media industry experience, and Party O, a strategic counterparty. Paramount (acting at the Special Committee's direction) executed non-disclosure agreements with, and granted access to due diligence information to, six of those seven parties (each such party other than Apex).

Eventually it went public with its proposal:

> On July 31, 2024, Apex (describing itself as "a conglomerate of financial institutions and financial services providers") issued a press release announcing that it had submitted an all-cash offer for up to $43 billion to acquire Paramount. That afternoon, Business Wire withdrew the press release, raising questions about the authenticity of the press release and prompting news outlets to retract their media reports regarding the press release in light of the questions about the credibility of the offer.

That day Louis Ashworth wrote a funny FT Alphaville article about Apex's proposal. (Apex's plans for Paramount included "quantum computing," and its existing businesses apparently included "cryptocurrency issuer," "financial literacy program provider" and "actively

producing gold mines.") But the proposal does seem to have briefly pushed up Paramount's stock price by 4%.

We have talked a few times around here about fake merger proposals,[7] and one thesis of mine is that, while *some* fake merger proposals are clearly done to manipulate stock prices and make money, many have other motivations:

> I am always open to the possibility that *some* people pretend to do takeovers for other reasons, not because they want to make a quick illegal profit on the stock but because they want to *get attention* and *feel important* and *conduct high-stakes negotiations*. Fictional high-stakes negotiations, of course — if they agree on a price for the company, they're not going to *pay* it — but, still, fun role-playing.

The first most people heard of Apex's bid for Paramount was when it put out that press release on July 31 and briefly moved the stock up. But Apex had contacted Paramount privately almost two months earlier, and tried again when Paramount launched a go-shop. These are not the actions of a stock manipulator looking to make a quick buck, probably. Apex really wanted to negotiate a merger with Paramount! A fake merger, Paramount concluded, but still.

## Things happen

Wall Street rejoices as the bell tolls for Biden-era regulation. Blackstone Strikes $4 Billion Deal for Shopping-Center Landlord. Banks face growing risk as double defaults on commercial loans mount. Wall Street Quants Set to Buy $50 Billion in Stocks as Volatility Falls. Wendy's Bets on Palantir AI to Keep Up With $1 Frosty Demand. QXO Hires an AI Chief to Help Sell Items Like Pipes and Lumber. Trump Win Gives Altcoin ETFs 'Fighting Chance' Under New Regime. JPMorgan to Offer Instant Dollar-Euro Settlement Via Blockchain. US backs Argentina's fight against asset seizures in $16bn court case. Musk Is Counting on Trump Win to Boost SpaceX's Mars Plans. Virgin Galactic's Halted Tourism Flights Hurt Revenue, Cash. Vampire bats on treadmills.

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*[1] I am reading off times and prices from Kalshi's one-week price graph for "Who will win the Presidential Election?" available here. I'm using Kalshi rather than Polymarket mostly*

*because it's easier to find timestamps on its website, but I don't think things were materially different on other prediction markets.*

*[2] Or, in slightly different form, because they are prohibited by ethical rules of their organization from trading on it.*

*[3] Lol.*

*[4] It is hard to be too sure about that from a small sample: "Poll aggregators thought the race was a toss-up but Polymarket had Trump at 60% and he won, so Polymarket was right" is not an especially valid inference. Still better than the reverse. Here is Scott Alexander arguing that Polymarket was still mispriced.*

*[5] Technically one dissented and one abstained.*

*[6] Or the other night Odd Lots had a live event that featured betting on a Manifold market on whether Zvi Mowshowitz would appear on Odd Lots. The market probability "fell to as low as 40% … even as Zvi was physically on stage recording the episode," because an audience member was manipulating the market for comedic purposes.*

*[7] As it happens, we also talked about Bronfman's proposal to buy Paramount, which news reports suggested was mayyyybe slightly on a continuum with "not that credible." But actually the Paramount proxy hints (page 139) that Paramount found Bronfman's proposal pretty credible and thought that he would be able to raise the money, but (page 140) "NAI would not support any transaction alternatives that did not have certainty of financing and closing consistent with that provided by the Skydance transaction, and that NAI did not consider the EBJ Proposal, in its current form and based on the information made available by the EBJ Investor Group to date, to offer such certainty."*

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