

# Place your bets

**The world of sports betting has changed dramatically in recent years. New opportunities in sports risk trading mean that you can now be the market maker and make a profit regardless of results in the underlying event. Peter Webb explains how it works**

**I**f I could show you a market where you get regular price swings of 30-40% every ten minutes, where you only pay commission if you win, where there is little spread, where you can be the market maker, where there are no transaction costs and where losses often don't mature as losses, would it be interesting to you? Of course it would.

Welcome to the new world of the sports risk trader. Sports have not generally been defined as a trading market in the past, on the basis that most markets until recent years were made by bookmakers. Bookmakers make money by creating prices that ensure they make money over the longer term, and they do this by adding a spread to their book to your disadvantage. Now that betting exchanges have come along, sports events are no longer subject to the whim of bookmakers as anybody can take either side of the book at whatever price they wish. Spreads, bookmaking and market making in the old sense have gone. Now you create the prices you want to buy and sell at. Another big plus is that the betting exchange model charges commission only when you win, not when you lose and also the current model has no transaction costs. You can place and pull orders at will, with no cost.

This has opened up a mass of exciting opportunities for shrewd users of the exchanges. No longer is the opportunity there to just back a selection at a certain price, you can trade sports risk in much the same way that you would trade any other form of risk.

Trading risk on a sport may seem odd but it is really absolutely no different from trading commodities, foreign exchange or shares. All you are talking about is a slightly different product and market. Betting exchanges have transformed the traditional betting markets to an exciting new type of financial marketplace which is full of opportunities.

## Market moves

At the beginning of these markets most people were attracted to the betting exchanges simply because there were better prices available, and then because you could bet against something happening. As the volume of matched bets grew a new pattern of activity developed. Rather than attempting to make a judgment on the underlying event or taking on risk as a bookmaker, shrewd punters started to trade the movements in the odds. This enabled them to make a profit regardless of the form, the structure or the eventual winner of the event.

Traders look at the odds and make a judgment on the direction of the movement of the odds. They make money by correctly predicting this movement. Traders now account for a large amount of the bets and volume present on the exchanges.

Traders on exchanges work in the same way as conventional traders on existing financial risk markets. They are interested only in the short-term price movement of the market they are trading. They make their money by placing buy and sell orders into the market to take advantage of these price movements. The strategies and tactics will be very familiar

Total selections: (13)	GBP		Back		Lay	
Hidden Jewel £24.55	1.99 £79	2 £815	2.02 £573	2.04 £982	2.06 £1537	2.1 £404
Our Little Secret £0.00	20 £58	21 £28	22 £55	23 £93	24 £30	28 £46
Ryedane £0.00	8.4 £106	8.6 £11	8.8 £288	9.2 £33	9.6 £31	9.8 £180
Gaudalpin £0.00	15 £20	15.5 £37	16 £12	16.5 £26	18.5 £118	19 £30
Open Verdict £0.00	9 £80	10 £99	10.5 £93	11 £686	12 £44	12.5 £20
Ashes £0.00	10 £75	10.5 £66	11 £48	12 £25	12.5 £24	14 £14

1. By trading instead of a betting on a horse race we have a risk-free profit if Hidden Jewel wins the next race

Total selections: (13)	GBP		Back		Lay	
Hidden Jewel £24.55 > £12.28	1.98 £10	1.99 £1746	2 £217	2.02 £110	2.04 £100	2.06 £206
Our Little Secret £0.00 > £12.27	20 £36	21 £19	22 £58	23 £30	24 £30	28 £46
Ryedane £0.00 > £12.27	9.8 £10	10 £30	10.5 £107	11.5 £22	12 £52	12.5 £114
Gaudalpin £0.00 > £12.27	15.5 £30	16.5 £71	17 £60	17.5 £4	18.5 £42	19 £141
Open Verdict £0.00 > £12.27	9 £175	9.2 £31	9.4 £273	10 £7	10.5 £50	11 £600
Ashes £0.00 > £12.27	10.5 £177	11 £53	12.5 £391	13.5 £33	14 £14	15.5 £50

2. Using trading we can guarantee that we have a winner in the next horse race before it even starts

➤ to traditional traders. Say, for example, a trader spotted a horse available to back at odds of 2.00 in the market and felt the price was too short and therefore the price was going to drift and get larger. He would back and lay at different prices at either end of this price movement to net a sure-fire profit. At the end of those two successful bets he will be left with a profit on that particular selection if it goes on to win. This is because of the fact that he has backed and laid at different liabilities, so he effectively nets the difference between the two.

In this particular example, a horse race, I have placed a series of bets on 'Hidden Jewel' (see screenshots 1 and 2). To make a profit all I did was correctly forecast the price movement of its odds. I have no interest in the horse, its form, the course or what the going is like. All I have monitored here is the way in which money has arrived in the betting market. By backing and laying different amounts at different prices I have netted a profit on this horse of £24.55. My potential loss is zero, I cannot lose – all I have is 100% upside. As things stand, I will win £24.55 if Hidden Jewel wins and if it does not win I will lose nothing. Interestingly thanks to the way these markets are settled, if I got this position wrong and made a loss, only if the horse won would the loss mature. If the horse doesn't win I lose nothing. Remarkable!

One curious aspect of trading on these markets is that you can actually transfer the money around and to other selections, meaning that whatever the results you will be guaranteed to profit. This means that regardless of what happens in the race and whichever horse crosses the line first, you will make money. It's a bit like making money on an option then being able to hedge it when you are in profit to ensure that you can not lose whatever the expiry level. You can see on the illustration I have transferred money from Hidden Jewel to the other horses. I now know that I will have definitely picked the winner in the next race before it has even started.

Top traders using advanced strategies can achieve a situation where they will not lose around 90% of the time. This figure relates not to one or two tips in a day but to each and every race. Advanced traders will also often trade more than one horse in a race. When you consider there are races every 10-15 minutes or so every afternoon throughout the year you can instantly see the potential and why trading is a huge and growing business on the exchanges. Of course, you can trade any sports event, not just horse racing. The only prerequisite is that you know and understand how and why the odds move. To fail to do so would mean facing a loss-making situation for sure. Each event and the time at which you get involved and why radically changes the way you approach each market.

One good event to trade recently was the Pakistan vs. England first test match cricket (see screenshot 3). If you look at the illustration of England's odds you can see that the price on England flip-flopped between a good chance that they would win the match and the possibility that they would lose – a typically English thing to do in cricket it would appear!

If you decided to place orders in the market to buy and sell either side of 50% implied chance, which would be priced at 2.00 in digital odds, a 10% margin trade would have been completed eight times before the match ended, netting you 80% profit.

The volume in these markets can be huge. In the last Ashes test match against Australia, £36m was traded on the match odds market alone. Current turnover on the exchanges is now running at around £2bn a month and the market leader, Betfair, processes more transactions on a daily basis than the London Stock Exchange.

### Tools of the trade

More recently, things have developed further. Now, rather than using a traditional browser such as Internet Explorer to interface with the exchange to place orders, many people are using specially designed software to place bets and monitor their positions. This sort of software allows exchange users to monitor the market closely and see exactly where money is flowing and quickly take advantage of that. The software will also actively monitor and manage your open positions for you by using automation and familiar functions such as stop or trailing stop orders. These help make the chances of success much more likely.

Trading on the betting exchanges is still virgin territory. It appears many users have yet to fully understand its potential. Certainly, in my experience traditional stockmarket traders take to these new markets like ducks to water. They already have the necessary trading experience and as form or underlying knowledge of the event are useful but not critical, they feel fairly comfortable in these arenas. It is important to note though that each market has its own little quirks and oddities and as such you should read up and spend some time researching each market. Spending some money now on a course or books is money well spent, rather than learning the hard way by losing cash first and asking questions later.

If you are interested in these new and exciting markets you can see a live example of this type of trading and also download some free trading software – [www.moneyam.com](http://www.moneyam.com) has a lively and active exchange trading community on the bulletin boards. It is worth visiting if you are interested in learning to trade sports risk. ■



3. The England cricket team's inability to dominate their match against Pakistan created numerous profit-making opportunities for astute traders



4. A cracking share trade netting over 60% profit over a year? No, just the price movement on the favourite ten minutes before the off at the 15:50 at Wolverhampton racecourse