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MARK HULBERT

The markets are the victors

By [Mark Hulbert](#), [CBS.MarketWatch.com](#)
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ANNANDALE, Va. (CBS.MW) -- As I write this Wednesday morning, the winner of the presidential election has yet to be declared, even though foreign stock markets and the U.S. futures market appear to have concluded that Bush has won a second term.

It's nevertheless not too early to conclude that the markets did a better job than the political pundits of forecasting the outcome.

That is perhaps the most important lesson that investors can draw from the last several months: Ignore the endless stream of predictions issued by these pundits and focus instead on what the markets are saying.

Of course, the markets don't always make it easy to interpret what they are saying. In the political arena, though, they do, thanks to the Internet-based futures markets that allow investors to bet on, among things, various political events such as presidential elections.

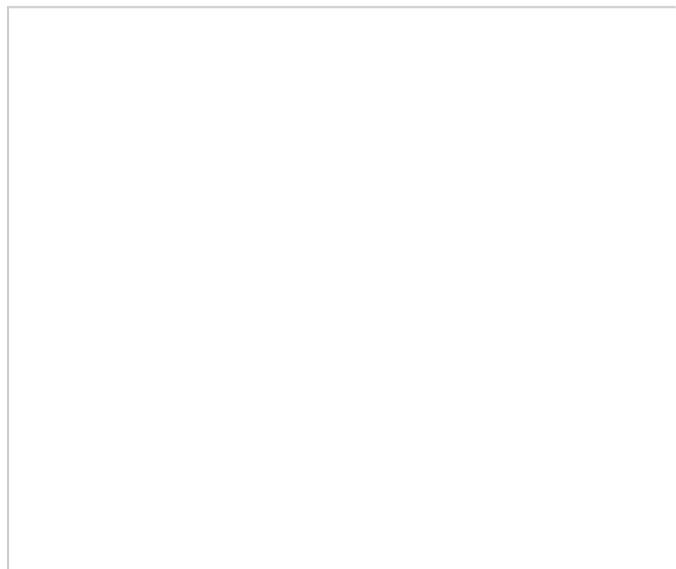
The best known of these futures markets are Dublin-based [Intrade](#) and the [Iowa Electronic Markets](#). As of Monday night, both were projecting that, while the race was close, Bush would be the victor.

Those projections are looking quite prescient right now. And they are looking far better than the many predictions of Kerry victories that were boldly made by so many market gurus as recently as Tuesday afternoon.

One newsletter I monitor, for example, confidently wrote Monday night that, when the "dust settles" Wednesday morning, "John Kerry will be the 44th President."

Another newsletter reported on an indicator whose success rate in predicting presidential elections was "better than any other economic, financial or market statistic" that he had ever seen. It also was predicting a Kerry victory.

These confident predictions notwithstanding, the electronic futures markets continued to forecast that Bush would win a close election.



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Why do they do such a good job? To get some answers, I chatted Tuesday night with Justin Wolfers, an assistant professor of business and public policy at the Wharton School of the University of Pennsylvania. He believes, he said, that the key to these electronic futures markets' success is their ability to aggregate and process lots of information -- far more than any of us can individually, no matter how smart or how widely read we may be.

These electronic futures markets have this ability even if the volume of trading on them is relatively small. Wolfers said it doesn't take a huge amount of trading in these markets for them to incorporate a tremendous amount of relevant information and insight.

Of course, the relatively small size of these electronic futures markets makes them at least theoretically vulnerable to attempts to manipulate them, as I suggested in my Oct. 22 column. ([Read archived column.](#)) But Wolfers said any attempt to manipulate these futures markets would rarely have more than a short-term effect and eventually fail.

To be sure, these futures markets sometimes are volatile. Indeed, for a few hours Tuesday, the Intrade Bush contract dropped to below 30, in effect assigning less than a 30 percent probability to his re-election. This happened when early exit polls appeared to show Kerry winning.

But it hardly is a criticism of these futures exchanges that they are not perfect. Nothing is, of course.

They appear to have come closer than any of the alternatives.

Mark Hulbert is the founder of Hulbert Financial Digest in Annandale, Va. He has been tracking the advice of more than 160 financial newsletters since 1980.

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