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POLITICAL EXCHANGE

By JUSTIN WOLFERS

Markets Show Late Surge for Obama

Plus, Romney May Face Trouble in California

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As voters hit the polls today there appears to be a dramatic shift underway among Democrats toward Barack Obama¹ as he faces off against Hillary Clinton for the party's nomination.

The Wall Street Journal political market², run in partnership with Intrade.com, shows the Democratic nomination race in a dead heat: Hillary Clinton is rated a 50% chance of eventually securing the nomination, to Obama's 49%. Notably, the chances of an Obama victory have risen from 40% only yesterday morning, likely buoyed by strong national polling which shows Mr. Obama drawing within striking distance of Mrs. Clinton. A key question is whether his upward trend will continue.




While momentum tends to build slowly in polling data, the advantage of political prediction markets is that they can jump ahead, anticipating the ongoing trend, even before it becomes fully evident in the data.

Much of the momentum for Mr. Obama has come from the increased likelihood of a strong performance in California³. That Mr. Obama's chances of securing the nomination have so closely paralleled his prospects in California suggests that this may be a key race for determining the

momentum his campaign takes into subsequent races. This race is attracting a lot of attention in the political markets, and is worth watching closely.

But beyond California, Mrs. Clinton is still expect to win several of the larger states today, including New Jersey and Massachusetts. Of course, Mr. Obama is likely to win in his home state of Illinois, while Mrs. Clinton is expected to handily win both of her home states -- Arkansas and New York.

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This leaves a slew of Southern states as heavily contested, and it is here that Mr. Obama stands a strong chance of picking up a handy lead. By contrast, Mrs. Clinton is favored in all of the Northeastern states. Political prediction markets also highlight a handful of states as hanging "in the balance." In particular, the Connecticut, Alabama, Arizona, Delaware and Missouri are likely to be closely watched.

On the Republican side, we have seen much less movement in the markets. John McCain's strong showing in South Carolina then Florida led him to be installed as a strong favorite, with an 88% chance of eventually securing the nomination, and the past week has not changed this at all. Mitt Romney remains his only serious rival (with a 9% chance), while Mike Huckabee is less than a 1% chance of securing the nomination.

Mr. Romney's chances depend critically on California, where a late surge has Mr. McCain equal in the polls. As of around 4:30 p.m. ET, [markets rate Mr. Romney with a 37% chance to win the state](#)⁴ -- and unless he wins California, it is hard to see him remaining competitive.

Interpreting the Democratic "winner" is going to be a lot messier. At this point, we can be confident that both Democratic candidates are going to win a number of important states. And so tonight's results are likely to provide useful "spin" for both the Obama and the Clinton campaigns, and each is likely to claim some sort of victory from Super Tuesday. How then should we sort out these competing claims? I would suggest simply tracking the markets on which candidate is most likely to secure the nomination.

My key forecast for tonight is that the televised pundits will reveal all sorts of confusion. Tracking results across more than twenty states, and interpreting both general trends, and also their broader implications for states that are yet to vote is simply too hard for any individual brain.

And this is why I will spend tonight watching the ticker from political prediction markets a lot more closely than I'll be watching the talking heads. Think of the market as distributed computing: Traders around the country (and around the world) will be working jointly to make sense of the numbers as they come in—early reports of turnout, leaked exit polls, demographic splits, and incomplete vote tallies from around the nation. The markets, in turn, aggregate these alternative streams of data into a useful summary of the overall trend.

I recall watching the 2006 midterm elections this way, and just as the networks were telling me at around midnight that the Senate would likely stay Republican, the prediction markets (correctly) pointed to a likely Democratic takeover. An hour later, the networks started to come to terms with the same data that the distributed computing provided by the market had already crunched.

I'm betting that once again the markets will beat the pundits at interpreting tonight's results. I'm inviting you to join me on the couch to watch the results come in. But don't forget your laptop.

Write to Justin Wolfers at predict@wsj.com⁵

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