

OUTFRONT

Super Bowl Science

Sometimes sports bettors are no more rational than stock investors | BY IRA CARNAHAN

DO YOU PLAN TO BET ON THE SUPER BOWL? A GROWING body of academic research suggests that while the sports betting market, like the stock market, is mostly efficient, the psychological biases of bettors create some anomalies—and openings for profit.

That's the view of Justin Wolfers, who worked in the Australian bookmaking industry before getting his Harvard Ph.D. and now teaches "Finance, Behavioral Economics and Sports Betting" at Stanford's business school. Still, he warns, it's tough to come out ahead, both because professional gamblers often act as arbitrageurs, thus reducing anomalies, and because transaction costs are so high. Here are some tips from the research of the gambling dons.

• **Bet against suckers**

When you wager on a game, you're not betting against your bookie—who usually strives to maintain a line that will draw an even balance of bets—but against fellow bettors. If more bettors favor the New Orleans Saints, the bookie moves the line, requiring the Saints to win by a bigger and bigger margin (even an improbable one) until enough bettors take the other side.

Where can you find suckers to bet against? Hugely popular events like the upcoming Super Bowl, where an estimated 90% of bettors are unsophisticated, offer one opening. Even in regular season play, the betting on National Football League games is generally considered less sophisticated than betting on baseball, which has a large group of numbers-obsessed fans.

College football is another promising venue, but for a different reason, says Wolfers: Many games draw relatively limited attention, and those fans who do bet may have strong team loyalties that can lead them to take bad bets. The office is another good place to bet, provided you won't get fired for it. The Wharton School's Andrew Metrick found bettors in NCAA basketball tournament pools put too much on first seeds and local teams and too little on second and third seeds and out-of-towners.

• **Keep costs low**

First rule: Stay away from the ponies. Horse betting is legal in 43 states, but it's the most expensive sports bet. Tracks typically keep 15% to 25% of each pot. By contrast, Nevada bookmakers last year kept only 4.5% of the pool in football, 5.5% in basketball and 3% in baseball. Betting on these sports is generally legal only in Nevada. While illegal bookies obviously don't report their holds, they appear to work on roughly similar percentages.

• **Take the long view**

NFL bettors tend to overreact to teams' recent performances while ignoring their longer-term records, a 1997 study in the *Journal of Finance* found. So there's a profit opportunity for bettors willing to take a chance on teams that have struggled recently. Bettors also tend to overestimate the significance of games with lopsided scores and those with an unusual number of fumbles, interceptions or penalties. While turnovers and penalties are important—they explain about 40% of the point difference between teams—they reveal less than bettors believe about a team's prospects in future games.

• **Bet against the home team**

A new study finds that local illegal bookies offer odds nearly identical to the legal odds in Las Vegas with two exceptions. First, local bookies often offer worse odds on the home team, reflecting the bias of local bettors. Some local bookies also use their knowledge of bettors' past wagers to price-discriminate: If your bookie knows you would never bet against a certain team, he might feed you a sucker bet. One way to avoid such problems is to bet over the Internet. This is illegal or at least questionable, depending on where you live. But if you choose to do it anyway, Wolfers suggests checking out www.sportsbook.com, www.will-hill.com, www.centrebet.com and www.betfair.com.

• **Don't go for broke**

Horse players regularly put too little money on the favorites and too much money on long shots, studies show. This produces a dramatic skewing of potential returns; one study found that when the odds on a horse reach 30-to-1, the expected return on a \$1 bet is about 60 cents. When the odds exceed 100-to-1, it falls to a mere 14 cents.

Intriguingly, the tendency of horse players to put too much money on long shots is especially strong during the last couple of races of the day. Apparently, folks who've lost earlier are trying to make it up with a big score before heading home. **F**

Field research: Stanford professor Justin Wolfers at the track.

MARK RICHARDS FOR FORBES

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