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Sick of Polls? Gamblers Bet Democrats Will Take Over House

By Brendan Murray

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Nov. 1 (Bloomberg) -- Gamblers are increasing their bets that Democrats will be redecorating the leadership offices in the U.S. House of Representatives next year.

President George W. Bush tells Republican audiences to ignore polls that indicate Democrats may gain the 15 or more seats they need to take control of the House in the Nov. 7 elections. Some Democrats, he says, are "already measuring the drapes for their new offices" and will be proven wrong.

Gamblers are voting with their money. Recent betting on political future contracts at TradeSports.com, an online unit of the Dublin-based Trade Exchange Network Co., gives Democrats a 69 percent chance of winning the House. Democrats have a 29 percent chance of capturing the Senate and a 24 percent chance of gaining majorities in both chambers, based on wagers.

On the Iowa Electronic Markets, run by the business school at the University of Iowa in Iowa City, Democratic chances of taking over the House were 74 percent, up from 43 percent at the beginning of the month, and 33 percent of taking the Senate. IEM put the probability of Democrats controlling both chambers yesterday at 25 percent, up from 14 percent Oct. 1.

On Betfair, a privately held U.K. Internet gambling exchange, the odds of Republicans holding the House were about 3- to-1 against, and about 1-to-2 for the Senate. London-based Ladbrokes Plc, the world's biggest publicly traded gambling company, isn't handicapping the U.S. midterm elections.

Markets may be better prognosticators than surveys of public attitudes, said Alfred Cuzan, an election forecaster at the University of West Florida in Pensacola, who predicts a 20-seat gain for Democrats in the House.

'Forward-Looking'

"Prediction markets take in all the information available -- and that includes polls, expert opinion, up-to-the-minute information," Cuzan said in an interview. "And they are forward-looking."

Markets may also be more accurate because election pollsters often ask likely voters who they will support, while markets try to determine who will win.

"Markets have a way of correcting the biases in polls," said Justin Wolfers, a business and public policy professor at the Wharton School of Business at the University of Pennsylvania in Philadelphia.

In the 2004 presidential election, the IEM's vote-tally contract came within 1.1 percent of the outcome, a Bush victory over Massachusetts Senator John Kerry with 51.54 percent of the vote.

Foley

Democrats' chances this year may have been helped by the scandal involving Representative Mark Foley, a Florida Republican who resigned his seat in Congress Sept. 29 amid accusations he sent sexually explicit messages to

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underage congressional pages. On Sept. 28, a Democratic takeover in the House had 42 percent probability, according to the IEM.

“The big change started a couple of days after the Foley scandal broke,” said Joyce Berg, an accounting professor at the University of Iowa, in Iowa City. “The more that started coming out about that, the more you saw prices slide in that Republicans-to-keep-the-House contract.”

The IEM, which caps traders' accounts at \$500, is geared toward research and education rather than big profits. In 2004, the IEM said it had 3,100 traders buying and selling with a total of \$356,000 invested.

The demand for political futures contracts on TradeSports, which has no limit on the amount traded, is growing. It's an all-or-nothing wager: A contract showing a 70 percent chance that the Democrats win House control, for example, would cost \$7 and would pay \$10 if they do. If they don't win the majority, it would settle at zero.

‘Crazy’ for 2008

For the 2004 congressional and presidential elections, trading in political futures jumped to the “tens of millions” of dollars and 2008 betting is “going to be crazy altogether,” John Delaney, chief executive officer at Trade Sports Network, said in an interview.

“With our market you have to put your money where your mouth is,” he said. “With opinion polls you don't.”

Ladbrokes is already showing Democrats with a slight edge over Republicans to win the White House in two years.

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Last Updated: November 1, 2006 00:09 EST

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