

H I G H S T A K E S

FIXED ODDS SPORTS BETTING



The Essential Guide



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Sports Betting as a Form of Investment

What Is Investment?

One of the tenets of capitalist economics is the principle of investment, the idea of committing capital to make a profit. Traditional sources of investment have included banks and building societies, stock markets and property. Profits from these types of investment may come in two forms, to a greater or lesser extent, depending on the nature of the investment. These are capital growth and income. Capital growth occurs when the investment increases in value. One typical measure of capital growth is the price of a share on a stock market. An investor may buy some shares at £5 each. After a year, if they are worth £10, the investor has doubled his capital. In contrast, if the price falls to £2.50, the value of the capital has halved. Another measure is the price of a house, which, like shares on a stock market, can go up and down. How the value of an investment will change over time will depend upon a whole host of influencing factors that operate within any particular investment market. Naturally, any investor wants to avoid markets that are falling, and concentrate on investments that will return profits. Clearly, not every investment will be a successful one. A successful investor is one who can identify more winners than losers through an assessment of profitability and analysis of risk.

Certain capital investments also return what is termed an income. A let property, for example, returns an income through rental receipts. The size of the income is normally quoted as a percentage of the initial capital investment. If a landlord buys a house for £50,000 and generates £5,000 each year from rents, the income yield is said to be 10%. Many shares on a stock market pay an income in the form of a dividend. Again, the size of dividend may be quoted as a percentage of the value of each share. Perhaps the most common investment income is that achieved through a bank or building society savings account, the size of which will be determined by the interest rate. A savings account holder, of course, may choose to reinvest any income earned by the capital by leaving it where it is. Such income compounded over time will allow the initial capital to grow.

One might ask at this point, what has all this got to do with sports betting? After all, isn't sports betting just a form of gambling, and what has gambling got to do with investing? The answer to these questions will

depend to a large extent on the aims and interests of the sports bettor. Whether he considers his sports betting to be gambling or investing will be governed by his approach to sports prediction and money management, the level of professionalism attributed to both, and even by his view of what it actually means to gamble or invest.

What Is Sports Betting?

To have a bet is to make an agreement between two parties that the one proved wrong about an undetermined outcome of a specified event will forfeit a stipulated payment, most often a sum of money, to the other. Sports betting, then, is concerned with bets or wagers agreed where the specified event central to the betting terms involves a sport, for example a football game, a tennis match, a golf tournament or an athletics race. Horse racing is perhaps the oldest and most popular form of gambling, with more money changing hands in this betting market than in any other. Increasingly, however, and particularly since the advent of Internet gambling, sports including rugby, cricket, tennis, golf, snooker, cycling, swimming, athletics, skiing, motor racing and, most popular of all, football, are gaining more attention as a medium for betting.

Sport is about settling arguments: arguments about who is the fastest, strongest, most accurate and so on. Betting is about settling arguments too, and that is why sport lends itself so easily to betting. Wherever the element of competition is present in sport, a speculation can be made on the outcome of a particular event. Furthermore, sport has become increasingly popular as entertainment in recent years, with viewers becoming progressively more knowledgeable about the teams and players they are watching. Being able to speculate on a sporting event, and confirm one's convictions about the likely outcome with a financial reward, is a natural attraction that adds to the viewing excitement.

Sports Betting: Gambling or Investing?

Gambling and investing have one primary aim in common: to make a profit. Furthermore, both gamblers and investors speculate on the chances of making a profit, by taking a risk in the hope of gaining an advantage. Perhaps the most obvious apparent difference between gambling and

investing concerns the level of exposure to risk as a result of any speculation to gain an advantage. For most fixed odds bets,¹ the risk is infinite: that is, if the bettor is wrong, he loses his entire stake. By contrast, the investor is very unlikely to lose all his money, and may choose to withdraw any remaining capital invested if its value falls. The bettor, however, usually knows in advance what he will win if his speculation proves correct.² Frequently, since the risk is so much higher than for standard investments, the rewards will be higher too. The investor can only guess at what profit he may hope to secure, and unless he is extremely lucky, an equivalent profit (as a percentage of the initial stake or capital invested) will take much longer to secure.

Another obvious difference between gambling and investing concerns the period of speculation in terms of time. Whereas traditional forms of investment discussed earlier are generally made over weeks, months or years,³ the resolution of a bet on the outcome of a game usually involves no more than a few hours or days at most.⁴ Generally then, gambling might be considered to be high-risk, short-term speculation, whereas traditional forms of investing are lower risk and longer term. On the face of this assessment, it might seem rather imprudent to risk money through sports betting, as the risk of losing your capital is just too high to justify placing the bet in the first instance, no matter what profit is available to the speculator. Bettors, or punters, of course, rarely place only one bet, and the size of any one stake will invariably be much smaller than the total capital a punter has made available for his betting. Instead, by having many smaller wagers, a punter can effectively spread his exposure to risk, because it is very unlikely that all the bets will lose.

The similarity between such risk-managed gambling and a traditional investment strategy may become more apparent by means of the following example. Consider first a stock market investor who buys units in a FTSE100 tracker fund. Buying 100 units at £10 each, the investor watches as the prices fluctuates over the next 200 days, rising to £12 by the end of this period. A profit of £200 or 20% on the initial capital invested has been made. At the same time, a gambler bets 1% of his £1,000 betting fund, or

¹ Certain handicap bets allow for ties where stakes are returned without loss or profit.

² The potential profit is exactly calculable for fixed odds betting, but not for spread bets until the result of the event is known. Spread betting shares parallels with financial market trading.

³ In recent years the phenomenon of day trading on stock markets has increased in popularity.

⁴ Ante post betting involves betting on an event weeks, months or even years in advance.

£10 every day that the value of the FTSE100 tracker fund will rise. If he is correct, he wins £10. If he is incorrect, he loses his £10 wagered. During the gambling period, the value of the fund rises on 110 days, when a £10 profit is made, and falls on 90 days, when £10 is lost. Overall, the gambler has made £200 profit, the same as the investor, because there were 20 more days when the value of the fund rose than when it fell, despite losing all money staked on the losing days. Notice however, that although the profit is 20% on the initial betting fund, the percentage profit over turnover is only 10%, because the gambler wagered a total of £2,000, compared to the £1,000 invested in one lump sum by the investor.

What are the chances of either the investor or the gambler losing all their capital through this speculation? The investor will lose all his capital if the value of the fund falls to nothing. Such an event is of course highly unlikely, and consequently such an investment fund would be considered a very safe or low-risk form of investment. By contrast, the gambler risking 1% of his betting fund with each wager will lose everything if there are 100 more days on which the value of the fund falls than when it rises. Clearly, during a 200-day gambling period, the probability of such an occurrence is low, but not negligible. Suppose that on 50 days the value of the fund rises by £20 and on 150 days it falls by £5. After 200 days, the investor would see his capital increase by 25% to £1,250, but the gambler would have lost everything. Conversely, suppose that on 150 days the fund rises by £5 but on 50 days falls by £35. This time the investor loses everything, whereas the gambler is up £1000, or 100% on the initial betting fund.

Clearly, the relative profitability and risk associated with traditional capital investment and fixed odds gambling is not as straightforward as that presented in this oversimplified comparison. Furthermore, real-life investment and gambling markets are rarely found to overlap, with the exception perhaps of financial and sports spread betting, making a comparative assessment even more problematic. Finally, a lot of sports betting, particularly fixed odds betting, has the added disadvantage that a third party, the bookmaker, is taking a sizeable percentage of any profits, thereby making it an inherently riskier form of money-making. Nevertheless, it is by adopting a professional approach to forecasting and, more importantly, money management, that a successful punter can turn apparently higher-risk gambling into a lower-risk investment strategy. This book aims to reveal some of the techniques and tools available to the punter to invest in the world of fixed odds sports betting.