

# Political Futures

American investors have set up an online betting exchange in Dublin where punters can bet with each other on sports outcomes - or when Saddam Hussein will be captured

BY DICK O'BRIEN



John Delaney: contacts in the Pentagon

**T**HE 'WAR ON TERROR' HAS sparked a renewed interest in both politics and foreign policy in the United States. Earlier this year the Pentagon came up with a proposal to tap this public interest by creating a 'terrorism futures market', or Policy Analysis Market as it was officially known. The idea was that users would buy futures on possible geopolitical events and the market data could be used to provide intelligence. The scheme was quickly shelved once it became public knowledge. However what isn't widely known is that Dublin company Tradesports is already allowing people to bet on current events in a similar fashion. What's more, it had discussions with the Pentagon while it was developing its own proposed market.

Tradesports styles itself as a trading exchange and has been open for business since March 2002. Since then, the company claims that almost \$1 billion has been traded on its online exchange, according to 35-year-old chief executive John Delaney. It works by combining traditional gambling with the structure of a securities market. For punters, it means cutting out the bookmaker and allowing people to bet with each other. To borrow the phraseology of the technology world, it's 'peer-to-peer' betting.

Says Delaney: "Each of the securities offered has a 0-100 range. Like everything else, if you buy it and sell it for a higher price or it settles at a higher price, you make a profit. The beauty of it is that you can bet against someone to

lose as well. If you don't think the odds being offered by someone is fair, you can just put up your own odds."

Tradesports makes its money by charging a fee for every transaction conducted over its system. On the trading screens at Tradesports.com, a variety of events are traded at any one time. With its main customer base in the US, sports such as NFL football, baseball and basketball figure prominently, though international soccer and golf also feature. Political events also have a market. For example, you can bet on who will win the next US presidential election or if Saddam Hussein will be captured by March 2004. Punters can also bet on Homeland Security alert levels.

Betting on politics appears to be something of a new phenomenon, but according to Delaney more money was bet on politics than sport in the US prior to the great depression of the 1930s, making this trend a revival of an old tradition. "Anything people have a strong opinion on, they'll tend to put their money where their months are," says Delaney. With this in mind, the company has decided to open a dedicated political exchange in 2004.

Tradesports' experience in this arena also brought it within the orbit of one of

the more controversial recent initiatives from the Pentagon, namely the proposed Policy Analysis Market. Despite some reports that Tradesports was designing the scheme for the Pentagon, the association wasn't as close in reality. "The relationship began when they decided to start issuing contracts on political events and saw that we were doing the same and we started to speak to them," says Delaney. Initial contact was made by an individual within the Defence Department and this led to discussions with Defence Advanced Research Projects Agency, the specific departmental agency tasked with handling the project.

Tradesports then began providing data to the Department of Defence. Delaney was keen to stress that no individual data is handed over, only aggregate data on the markets.

However DARPA's project ran afoul of higher powers in the US government once it became public knowledge. A casualty of the affair was DARPA's head, retired admiral John Poindexter, who last gained the limelight during the Iran-Contra affair. Indeed, once the project was scrapped, Tradesports listed a contract on when Poindexter would leave the agency. Despite the project's cancellation, Tradesports is still in

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contact with the US Defence Department. Delaney's attitude towards this is that his company shouldn't withhold any information that could assist the US authorities.

Despite the level of criticism it attracted, Delaney still thinks the DARPA project was a good idea. "Markets are the best aggregators of information you will ever get," he says. A number of objections were raised at the time; the most frequently heard was that it would allow people to profit from terror. Delaney counters that trading in oil or gold is still allowed in times of war.

**A**nother objection was that it would tempt people to orchestrate events for their own benefit. "If you were a terrorist, would you feel secure going on to a government-sponsored site? If you bear in mind that it was supposed to be limited to a couple of hundred dollars initially, there would be very little to gain," he says. But Delaney conceded a point on the issue of whether armchair pundits could predict events more accurately than intelligence agencies.

"When it was proposed initially, it was suggested that 5,000 experts around the world be asked to participate. When it got into the news, it appeared as if members of the public would also be allowed to trade. To be honest, I'm not sure what their final plans were regarding participation," says Delaney.

With regard to Delaney's own exchange, the company is careful on what contracts are being offered. "It isn't

about people betting on violence or death. Instead we'd offer contracts on things like the capture of Saddam Hussein or Osama Bin Laden, or the possibility of there being a Palestinian state by 2005," he explains.

The publicity surrounding the Pentagon initiative probably did the company no harm and may have created interest in Tradesports' core service. The company was set up just over two years ago. It began trading in March 2002 and in April 2003 it acquired Intrade PLC, the company it had been leasing technology from. The company now employs 30 people.

Along with Delaney on the board of directors are Irish solicitor Eugene Fanning and British businessman Stuart Niman. Fanning and Niman are non-executive directors of the company. Prior to setting up Tradesports, Delaney spent 12 years in various investment houses in Dublin, working most recently with Oppenheim.

Tradesports lists 22 different companies and individuals as its investors, the majority of whom are located in the UK and US. Investors put up €1m in equity and through 2002 turnover amounted to €448,000. With operating expenses running to €1.3m, this led to a loss of €850,000. According to Delaney: "We have had some profitable months this year but because of the seasonality of the business you can end up making a loss. We expect to break even next year. What's most important to us is that we have a strong growth trend and that we maintain it."