Rodrigo Gordillo: 00:00:06 Welcome to Gestalt University, hosted by the team of ReSolve Asset Management, where evidence inspires confidence. This podcast will dig deep to uncover investment truths and life hacks you won't find in the mainstream media. Covering topics that appeal to left-brained robots, right-brained poets, and everyone in between, all with the goal of helping you reach excellence. Welcome to the journey.

Speaker 2.: 00:00:28 Mike Philbrick, Adam Butler, Rodrigo Gordillo, and Jason Russell are principals of ReSolve Asset Management. Due to industry regulations, they will not discuss any of ReSolve's funds on this podcast. All things expressed by the principals are solely their own opinion and do not express the opinion of ReSolve Asset Management. This podcast is for information purposes only and should not be relied upon as a basis for investment decisions. For more information, visit investresolve.com.

Mike: 00:00:54 Today on the ReSolve podcast is Steve Merril. For those of you who might not know Steve, he is the founder of ProSportsInfo.com. He founded that back in 1996 and he's the first person ever to win the prestigious $100,000 Insider's Handicap Invitational. He's considered one of the sharpest minds in the sports betting industry and has been a professional sports handicapper and betting analyst for over 24 years. You can see him on Twitter at @stevemerril. He's heard each week on numerous radio and TV shows across the nation. And his personal bets are actually available daily with detailed reports and analysis for his clients. Listen folks, this guy's spent 25 years basically studying the odds and probabilities in all forms of chance whether they be talking about the poker table, casino games, sports betting, and even the financial markets. In short, he's a probability junkie and he's addicted to the math of winning. So he's a ReSolve kind of guy. Steve, welcome to the podcast. Love having you here. How are you today?

Steve: 00:01:59 Hey Mike. Doing great and tried to do the math before this show. Obviously 20 some years of radio and TV appearances, several times a week, I've probably done several thousand, maybe 10,000. And I know for a fact this is the first time I've done a financial-type show with sports betting. It's something I've wanted to do for about a decade now. So really appreciate it guys.

Rodrigo: 00:02:18 We started chatting, and just chatting about investments. I had no idea what your background was. I knew nothing about you. You seem to get from a quantitative perspective more than the vast majority of people interested in what we do and then I realized that you were in sports betting and my past in playing professional poker, we kind of hit it off and spent 80 percent of our time talking about that and 20 percent of the time talking about investing. And then we started seeing the parallels and we realized we got to do a podcast about this. I mean it really is two sides of the same coin, isn't it?

Steve: 00:02:48 Yeah exactly. What put you guys on my radar was hearing a podcast you all did last year with Meb Faber actually. And I love Meb's background because he's a quant guy and he looks at things big picture. What I love about what Meb does too is you guys are very technical and I like that. Meb kind of has the blend of both. In sports handicapping, you really have to do that. I try to be as systematic as possible with sports betting, but it's really impossible because something that won't work for long because it's such a smaller market in general. Whereas with the financial markets, I think you really can be systematic and should be actually. And that's my default as well. I don't like any of the fundamental stuff because I've done that enough for 20 some years as Mike mentioned and I know what an emotional grind that can be. So the more I got into looking at finances over the last 10, 15 years, I knew from the start I wanted something systematic, technical, quantitative because I didn't want to handicap the markets on a daily basis like I've done the sports markets.

But yeah, I mean, Meb Faber, mutual friend for all of us, has great stuff as well of course. And Rodrigo, I heard you last August on his show and I just loved the mindset and the approach you guys took. So, yeah, as we started talking finance, we realized we all had some commonality in sports. I mean you had the poker background and Mike, of course, I didn't realize at the time had the CFL background. So small world, to say the least, even though you guys are up in another country and I'm in the U.S.

Rodrigo: 00:04:05 Yeah. Kind of crazy. So why don't you just give us a little bit of the history of gambling in the U.S. and how you were involved throughout that evolution. I think that's a fascinating place to start.

Steve: 00:04:16 Yeah, I mean, what I find fascinating is we talk about the overlap that we discovered just chatting over the last few months. But if you look at the history of sports betting, it has a financial background as well. Up until the 1940s, what people don't realize, there was no point spread. Everybody thinks of the point spread when you think of sports betting. Of course, the point spread is favored is minus three, the underdog is plus three. It takes two teams that aren't equal and it theoretically makes them equal as far as the outcome of the bet, 50-50.

Up until the 1940s, baseball was the big sport of course in the U.S. And even nowadays there's really no point spread on baseball. It's all a money line which means you risk more to win less in the favorite, and it's minus 130 favorite, underdog plus 120. It means you risk 130 to win 100. On the underdog, you risk 100 to win 120. And it's one of the reasons baseball's not as popular as football or basketball when you're betting because there's no point spread. And actually football up until the 1940s had no point spread and you would get a team like Notre Dame, a powerhouse back then, that was heads and above somebody. It'd be like one to 20. So somebody would have to risk 20 to win one. So nobody wanted to do that.

And this guy named Charles McNeil, who was a bank analyst, a financial analyst for a bank in the 1930s, became a sports bettor. He'd go to baseball games on his break and would bet with people in the bleachers as was common back then. And he realized he was pretty good at it. So he started going to the local bookie shops in Chicago. And this was Chicago, by the way. And he was doing very well there. Got kicked out of many of them for winning. So he started his own book making shop in the early 1940s and he came up with the idea of using what he called a... well, he didn't call it a point spread. He called it something else, like the spread or a margin. He was using it as his own handicap. And so he started putting odds on how much a team would win by. And all the other bettors in Chicago started flocking to his shop. He became the biggest bookmaker. And he was also a very successful sports bettor.

So the origin of the point spread as we know it today came from a guy with a banking background and a financial analytic background. And he was a numbers guy. So once again it's come full circle nowadays. And the guys that do the best here nowadays are also numbers guys. That's something I find fascinating about both industries.

Rodrigo: 00:06:19 That's awesome. So from there, I mean, when did you start in the industry? And what were you working on then? How has your experience evolved through the last couple of decades?

Steve: 00:06:29 All three of us are really the last generation alive ever, I can say, that was both pre-Internet and post-Internet. Came up through school basically pre-Internet, pre-cell phone. And in fact I graduated college in 1996 at William & Mary in Virginia where I'm from. I never used an email address. I had a computer science class my final semester and we had an in-lab email. And I think I sent one email from a William & Mary address in the spring of '96. And then that summer when I decided to start my own business, not get a real job, and start my company ProSportsInfo.com, I actually got an email address. And it was an old video company, Erol's, who got replaced by Blockbuster, who got replaced by Netflix. So I never even used email until I was out of college, and it was the summer I started my business in '96.

And I say ProSportsInfo.com. It's a little misleading because I didn't have a website technically until '99. It was actually Professional Sports Information was the real business name. It was phone only. In fact, I had a 900 line back in the fall of '96 for the football season. That's how I sold picks and then I built an in-house group of clients. And in the winter of '97 when basketball rolled around, I put in an office line and I actually started dealing directly with individual clients.

Rodrigo: 00:07:38 Is the Matthew McConaughey character based on you? Is that what you're saying?

Steve: 00:07:42 Luckily not. That's another thing we'll get to in this industry. It's parallel to your all's industry, as you all know, there's a lot of what I call boiler room operators. But it's even worse in the sports industry and the 900 industry. I even hesitate to say I had a 900 line for that reason. In fact, the only reason I do bring it up is to show how different things were when I started in '96. There really were no websites back then. Even the offshore internet sportsbooks that we'll talk about later really were 800 call centers, and they didn't even have a web presence. So, yeah, I've seen everything, pre-Internet, post-Internet. I've been in this industry and it obviously from a handicapping aspect as well.

Just a quick example I'll give of preseason football. NFL preseason football, people think how can you bet on the preseason games. The starters don't play. And that was my mindset initially when I started in the '90s. But like anything, everything is handicapable. Everything has true odds. Some are just more difficult to figure out. And the NFL preseason market is smaller. Yet it's an information market. It's all about when the starters are going to play, the coaches' motivations, the quarterback rotations, if a team has a better second or third string quarterback. And back in the early to mid '90s when I started handicapping, it was all about information. And I would scour the Internet newspapers and I would find a tremendous edge because I would read a Buffalo newspaper or a Chicago newspaper and they would say, "Hey, this coach really wants to make a statement. He's playing his starters three quarters." And the odds wouldn't reflect it.

Nowadays, you can go to any website and they have that information for you in two seconds. So the biggest change in a nutshell from when I started 24 years ago in 1996 as a full time professional, the information is everywhere now. It's not about getting the information anymore. It's about what you do with the information because every Joe, Scott, and Larry has the same information I do. That can be good, that can be bad. Where I find my edge now is deciphering it in a smarter way.

Mike: 00:09:27 Man, that is awfully similar to the investment world, isn't it? The ability to gain information and the amount of information, and then sorting what's important, what's not, what the impact of it is going be is. It becomes a different problem, I suppose, is what happens. Is it becomes a slightly different issue and it's an iterative reinforcing cycle, right? You have these reflexivity type aspects of the players. Because the players that are not the players in the field but the players within the sports betting arena are adapting. That adaptation causes changes in the lines, causes changes in the way in which you might exploit any value you would find. That's kind of a really neat complex adaptive system as we say.

Steve: 00:10:07 Yeah. And I'll tell you what, it's a reason also that I've drifted more towards a quantitative systematic approach over the last 10, 15 years. Because when I started in the mid '90s, preseason football another example, it was all about information. Those few trends and systems like teams all blowout losses or shutout losses historically do cover about 60 percent of the time in their next game. And it makes sense because once again it's about motivation. If you get embarrassed even in a preseason game, that coach normally wants to show better in the next outing. So there are some systems that have held up for decades that I use.

But back in the '90s, it was a lot about getting information. You could find under the radar information from local Internet and newspapers in the pre-dawn era of the Internet that was not being factored in by the average bettor or by the oddsmakers. Nowadays there's too much information, as you mentioned Mike. And the analogy I always use is paralysis from over-analysis. And that's another reason I've drifted towards a systematic approach. And I knew when I started looking at the investing world a decade ago I did not want to have to handicap the financials, the fundamentals.

The one difference I'll point out though between the markets, in the sports market and the financial markets, is that it's all price action in the financial markets. Maybe you get an IPO. After an IPO, it's all price action forever. It's buyers and sellers that are dictating what it's in. There's a little bit of market makers, which you guys understand better than I do. But the point spread is different. Yes, they want balanced action. But someone has to put out an opening line and the money does move it, but that's all being based on information. So there is an opinion line. Every point spread is still an opinion at some point by somebody setting it.

Mike: 00:11:36 So this is a quintessential zero/negative sum game. You have your bets. You have a vig. You have a cost of betting. And there are winners and losers on both sides of this that are, I'm assuming, in almost perfect balance. Is that a correct assumption? Or does there a market maker, so to speak? Is the bookmaker actually taking action and hosting that on their books as maybe back in the day a trader would, right? So traders trying to balance the books and will hold an inventory. How does that work in the betting world?

Steve: 00:12:05 There's no question that the betting world is a hundred times bigger of course the market size, but I would say the sophistication is also decades ahead. So it's a good analogy to make about the old days, commodity traders or the local. I mentioned Chicago in the '30s and '40s where a lot of the point spread originated. Keep in mind though back in the '20s and '30s, they had the stockbroker shops. Some of them were illegal and underground just like bookmaking shops. So we've come to a point... We'll talk later in the show about the history and the future of sports betting, but we've come to a real crossroads in the U.S. now the last two years where states can finally legalize sports betting.

Until the last two years, Nevada's been the only state for the last 50 years in the U.S. that had legal sports betting. So unless you're in the State of Nevada, you technically were betting with an underground illegal local bookie or till the last 20 years with a website in Costa Rica or Antigua. So it really has been the wild, wild West. Rodrigo knows this with poker, we've seen that go full circle the last 10, 15 years with the regulation and stuff in the mid 2000s. But, yeah, the similarities are there but there's also a lot of differences. And that of course is one of them.

But the other one is it's definitely not a zero sum game when you really break it down. Commodities stock market, it's zero sum. There's a buyer and a seller, there's a winner and loser on every trade. Once again, the point spread's an opinion. The bookmakers get it right or they get it wrong, could make a big difference. They get the number wrong, the professional sharp bettors like myself are going to hammer it. And keep in mind, theoretically you want to get balanced action because you're risking 11 to win 10, which means if they get balanced action on both sides, they're taking that 10 percent commission. That breaks up, by the way, to four and a half percent house edge.

And for the quants out there I'll break that down real quick. The reason it's not a 10 percent house edge is because you're risking 110 to win 100. And Team B gets $100 bet from each bettor, the sportsbook is taking $220. When one of those wins, they have to give back $210. The 110 investment plus the 100 win. So they're netting $10 on $220 handle. So that comes out to four and a half percent. So that's why they don't have a 10 percent edge, even though your vig is 10 percent.

So the house edge is very small, four and a half percent. Rodrigo's black jack's one percent if you card count it's almost zero. Craps with optimals play is less than one percent. So on the surface that sounds good, four and a half percent. But then you take slot machines, which are an automatic 10, 20 percent quantitative, systematic handle because they're programmed. So sportsbooks have a lot of risk. And then again it's not balanced action. The Super Bowl Sunday is more than they might take in in all sports that month. So they have a bad Sunday in the Super Bowl, they could have a losing February, despite all the other months of the year. It's definitely not zero sum.

Rodrigo: 00:14:32 Not as much liquidity as there is in the markets, so you don't have that law of large numbers there, there's a lot more... The vig has to be higher. And also I imagine the variance is quite high as well for these guys, is it not?

Steve: 00:14:45 Yeah. One thing I've noticed too is over the last 24 years I've been doing this, the point spread has definitely become more accurate. You can always say is it efficient or is it accurate. Well, it's accurate because so many games play within a point or two of the number. And that's what's fascinating to people who look and go, "Wow, that college basketball game had 150 points scored and it was within one point of the over-under." I was like, "Well, what about the NBA. The NBA has 220 some points on average scored and their totals every point you get is worth anywhere from two to four percent in edge. So if you could just get an extra point on every NBA play, side or total, you'd automatically win without even having to handicap." That's how accurate the numbers are. But they hardly ever get balanced action. So almost every game every night the sportsbooks have a liability on one side or the other. And like Rodrigo said, that's why they're charging a 10 percent commission because they have to make up for that inaccuracy overall.

Mike: 00:15:34 My wife constantly points that out to me when we do our annual football picks. You get to pick for the week or you're doing survival pools and whatnot. She always points out, "Look at all these games that half point determines a third of the games every week." It's ridiculous. The half point actually comes into play.

Steve: 00:15:52 Well, something to keep in mind about football because this is a great example. Football unlike any other sport has key numbers because of the way scoring occurs. Now basketball, that's all twos, three pointers. There's no key number. You can make a slight statistical argument from research that the number seven in basketball, obviously football, but in basketball seven some people feel is a slightly key number because it makes a difference when teams start fouling or not with a couple minutes to go to try to stay in contention. So a slightly more statistical amount of games do land on seven in the NBA and college hoops maybe than other numbers, but not enough where it really matters.

But now football obviously it's all three pointers and seven pointers, touchdowns and field goals. So three point games are very common. Seven point games are very common. And Mike with your football background, CFL's a little different of course because they have the one point rouge and they have different extra point. And it has switched a little bit in the NFL, by the way, because teams go for two more now. But the other side of that is that a dead number like five happens more now in the NFL because teams might go for two instead of just kicking that field goal making six or seven. But then again they get to the key numbers more often because they can go for two. So there's two ways to look at it.

But long term about 10 percent of the time in the NFL, a favorite is going to win by three points. 10 percent of the time. So that means one out of every 10 games a favorite's going to win by exactly three points and about five percent of the time they win by exactly seven points. So if you have a six and a half or seven point favorite, a two and a half or three point favorite, there's a 10 to 15 percent chance those games are going to land on the number. And when you have 15 NFL games on a Sunday, and you have maybe three or four of them that have a three point spread because it's such a key number, oddsmakers are hesitant to move on and off of it, there's a good chance every week that a team's going to win by three as a three point favorite. So it looks amazing in hindsight but then when you really start crunching the numbers, you realize how likely it is.

Mike: 00:17:40 Yeah, that's great. Well, again, this comes in the greater concept in my mind is literally probabilistic thinking. So the outcomes I think in markets because it's a bit of a continuous game, it's sort of harder for people to visualize the actual, okay, here's an outcome. The event ended and we have this endpoint to look at. Where the markets become this continuous game. So where's your endpoint, how does that evolve, slightly different but very similar in the stance of you've got probabilities on outcomes and you have imperfect information and you have to make judgments within that imperfect information. And so the process with which you go through making those decisions is incredibly important. And I think that is some of the skill that you're bringing to the table in the sports betting world and with 24 year history of actually being able to be proven and profitable in that domain. To me, it almost defies believability for me. I'm always extremely impressed where you've got this kind of ability to just demonstrate outperformance on a regular basis over a time frame that is absolutely meaningful. This is skill. This isn't luck.

Rodrigo: 00:18:49 Especially with a vig that big, right?

Mike: 00:18:51 Yeah. You don't want to tell the tax guys that because is it taxable in the U.S.? Or how does that work?

Steve: 00:18:57 They're well aware of all that-

Mike: 00:18:57 Are they? Damn. I mean, it's just chance. It's just chance. It's not income.

Steve: 00:19:04 And to be honest, that's the reason why I knew eventually we would have legalized sports betting in all these states. It's too big of a market. It's not nearly as big as the financial market but we've been making Costa Rica and Antigua and these Third World countries very rich the last 20 years. And San Jose, Costa Rica is not only a big hub for the Internet sportsbooks, it's a big technology hub. IBM, other companies are down there. And a lot of that is because in the late '90s, the sportsbook industry started to boom. So it's a huge market.

DraftKings just became publicly traded a few months ago. I followed that stock closely. It's ripped. People have asked me left and right, "what do you think, what do you think." I go, "Look, I can't value the company. They've been private. I don't have any clue. I don't have any numbers to work with." And now with the COVID shutdown, sports have been out of rotation for three months. There's just no way to value them. I think they are a big player in the industry but there's some big boys from England coming over. These sportsbooks have been in England for 80, 90 years. William Hill, 888sport, there's some big ones that are in New Jersey already with DraftKings and FanDuel and MGM's coming in.

I'll tell you the one I think is brilliant is FOX Sports, they've started something called FOX Bet about a year ago. All free, just acquiring users. And of course these companies already have millions of users just from being in the sports world. They just have been licking at the chop for this stuff to open up. But, yeah, the tax revenue is the reason it's happening. Once again, it's like the government finally realized it's everywhere. We're not stopping it, we might as well get our cut of it.

Mike: 00:20:23 Regulate and tax.

Rodrigo: 00:20:24 Can you chat a little bit about those markets that you mentioned, Vegas, the offshore sportsbook, the new U.S. sportsbooks coming in, given the Supreme Court decision? How do they vary in Costa Rica? I have no clue. I don't do sports betting so it's kind of interesting to me. And I think you also had an interesting story about the recent COVID crisis and that Costa Rica was a bit of an opportunity there as well.

Steve: 00:20:49 Yeah. I mean, just going back to the history of the point spread again. As I mentioned, for the last 50 years, Vegas was the only legal game in the

U.S. And you always hear the Las Vegas, the point spread, this and that. And until the '90s, until these offshore sportsbook call centers originated, that was the only place to bet other than an illegal bookie. So Las Vegas always set the number. In fact, to be technical, the Stardust Hotel up until the mid '90s was the originator of the opening line. They were the biggest and baddest sportsbook out there. I was actually in Las Vegas in the early 2000s when they blew it up at six in the morning, so it was a bittersweet moment because I'd gone there in the '90s quite often. That was the mecca of sports betting.

The Las Vegas Hilton, which is now the Westgate, they had a huge super book. Art Manteris started that in the '90s. That was kind of the other big sports book out there. And they had the Hilton Super Contest still, which is the NFL contest where you enter $1500, you pick five NFL games every Sunday, the winner gets the pot. Back in the '90s, that was maybe a couple hundred people, very prestigious, all professionals like myself.

Rodrigo, you'll appreciate this analogy. It's basically become like the World Series of Poker now. You have several thousand people entering it. They have a proxy service where you can sign up in person and have someone put the picks in for you when you're out of state. So the Internet has obviously made that easier for people to find out about it. And I have actually stopped playing the Super Contest a couple years ago just due to the fact it was a crap shoot as a lottery ticket. It just wasn't worth it.

Rodrigo: 00:22:07 Yeah, the numbers have gone way up and you can't play more of it. If you could play that every single day for 365 days a year, you might still have an edge. But the fact that it's once a year and it's 10 X, what it used to be, the chances of you getting paid out on that is just in your lifetime you may get really unlucky.

Steve: 00:22:24 It's the same as the World Series of Poker. The TV boom happened in 2002, really crisp money maker, 2003 I believe, that changed everything. Now for someone who's a professional poker player, Rodrigo, it's actually great because you had so many squares, a term we haven't talked about yet. But the squares that were rushed into the online poker room were easy pickings, and I fiddled with it a little bit for that reason. It's just so time consuming. I've looked into card counting in the early '90s before I became a sports professional and learned to card count, learned the odds on that, and then I just quickly realized what a long, tedious grind that is. And I just couldn't get into poker for that same reason.

But, yeah, there was opportunities there. And I'll bring that full circle to what we're talking about now with this sports betting market becoming legal in New Jersey, 10, 15 other states in the last two years. My home state Virginia just legalized it. It's supposed to go into law actually this

Wednesday, July 1st, it'll be signed into law. I'm licking my chops here like poker 15 years ago because I think it's bringing in a lot of amateur square money. The problem is you have to be in your actual state to bet. So I can't take advantage right now of a line in New Jersey being off versus Virginia.

Although I have a feeling the big boys are probably universalize their lines. They're going to be in all 20 states and they'll just have one set line. They'll be able to pool all their money together. And that's one of the reasons the big sportsbooks for England are coming in because when you get big enough, as Mike mentioned earlier, if you can eventually get enough action and handle and Rodrigo you were talking about this, then the averages start to work for you. You don't get as lopsided on one game because you have so many bets, so many bettors coming in, you can really start getting close to that 50-50 action. You can really start being a true bookmaker and moving the lines based on the action and balancing your book with that 10 percent vig on each side.

But, yeah, in the early to mid '90s, the Stardust set the line. All the local bookies would just copy and follow it. In the late '90s, these offshore books came about. By the mid 2000s, the offshore books basically were the leaders in the industry. Vegas was the followers. And it's been that way ever since. We'll see what happens here with the U.S. books now becoming legal. From what I've seen so far, they're very public and square, meaning the lines are very soft, they're not getting a lot sharp action. And once again the reason is because everybody is set up in Las Vegas. They've been out there for the last 50 years because that was the only game in town. I don't think the sharp bettors are in South Dakota, North New Jersey, that they haven't located here and put shops yet. I think that's something we're going to see very soon. Something that's on my radar.

Rodrigo: [00:24:39] Just to clear up for the audience, for those listeners, if you haven't already figured it out, the squares are the fish. Maybe nobody knows what a fish is. But recreational versus professional.

Mike: [00:24:48] Unsophisticated versus-

Rodrigo: [00:24:50] The fish versus the sharps for those poker players out there.

Steve: [00:24:52] That's a term you don't hear as much as when I first started in the '90s and 2000s. But it was always the wiseguys were the sharp professional bettors who were respected by the sportsbooks who won longterm. So, wiseguys, sharps, professional, all the same thing. Squares, recreational, public, would be the weekend warriors, the guys who are just betting for fun that do not have an edge.

Mike:	00:25:12	I'm betting the Eagles this week. I don't care what the line is.
Steve:	00:25:15	Nothing wrong with that. And that's the other thing to point out, it is a form of entertainment. We talk about the stock market. A lot of these sports bettors are into day trading now because they have nothing else to do. And that's another reason I've been such a proponent of legalized sports betting. Win or lose, if you put down a $20 bet, you get three hours of enjoyment out of watching the Eagles play. And then you have a 50-50 shot of actually doubling your money or you're out the $20. You'd pay $20 to go to a movie for two hours. So it's a great form of entertainment with an upside.
Rodrigo:	00:25:40	There's a positive externality for squares that sharps don't care about. You're having a good time. We don't hang around with my buddies without betting anymore because we just don't have time to follow our teams like we used to. And therefore you don't know enough if you want to make it interesting, everybody puts a bet down, you have something to root for, it's a utility outside of that. And it's created a liquidity in the market that's going to get bigger and bigger, especially now with technology, right? There's a Canadian company that happens to have a fantastic app for just following sports. There's an opportunity there to be able to bet through the app once it becomes legal. And now I can guarantee you once that's on and live, every sport game I watch I'll be betting on.
Mike:	00:26:19	Sport game. I love that. So there's a famous Canadian guy who started Bodog Sports. We had a brief discussion about that. I wonder if you could... I found it surprising. There's a couple things. The sharp money and sometimes the limits that you've received. So, for example, if you're a card counter in Vegas, they can ask you to leave, which is sort of disheartening that in Vegas unless you're a loser, you're not welcome. The whole point of that is that the externality better be that you enjoy the point of gambling, the free drinks, and you actually have to be a loser. So within their right if you're card counting to say you can't be here. So if you can win, you're not allowed to partake, which is interesting. Jersey didn't have quite the same sort of law in place, but I think maybe you can share some points on how you get forced out of some of the dumb books or some of the square books. I think that was a fascinating story.
Steve:	00:27:08	In New Jersey, Atlantic City's always fascinated me in general. It's the late 1970s, so it's a little bit before my time when I was a young and as I started to learn how to card count and pursue this as a 16, 17, 18 year old waiting to become legally able to enter the casinos. I was ready to go when I turned 21. Might have made an appearance or two before then, but we won't talk about that on this show. Being in Virginia obviously,

Atlantic City was very close. In the late '70s, when Atlantic City started, everyone said that was going to be the death of Las Vegas. In hindsight obviously it's comical.

In fact, the whole reason we have legalized sports betting in other states than Nevada right now is because Atlantic City was not successful. And it's funny how everything comes full circle. But they did not elect to legalize sports betting. And up until 1992 when this federal law was passed banning all sports betting in other states, they still had a chance to be grandfathered in. They declined to do it in 1992. One of the reasons was Bill Bradley, former NBA player, was the state senator from New Jersey at the time that pushed the bill through Congress in '92. So when they started to struggle year after year, Trump struggled with his properties there, even he couldn't make money.

What Atlantic City got wrong was that it wasn't a destination spot like Vegas. Vegas relies so heavily on the international crowd, the Asian crowd. And it's just something about Atlantic City that was never the same. You go one block from Atlantic City is very dangerous. It wasn't a good atmosphere. It wasn't safe. So they could never overcome that. So they've been struggling recently. Chris Christie, the Governor for many years, wanted sports betting but he couldn't get past this federal blockage.

And he lost about five appeals and finally got up to the Supreme Court. In December of '17, they heard it. And May of '18, just over two years ago, they ruled in favor of allowing states to legalize it. So New Jersey was ready to go within a month. They had sports betting in the summer of '18. So basically the reason we're going to have it in every state the next five to 10 years in the U.S. is because Atlantic City was not successful. It's an interesting thing because if you look at the sports betting markets versus the financial markets, that's another thing we talked about earlier, there's a winner and loser on every trade in the financial markets. You don't always have that in the sports betting markets, and it's going to be interesting to see with all this new public money coming in.

By the way, Rodrigo, Score is the Canadian company I used to do a lot of TV for them when they had the TV network out there. And I've met a lot of good people from Toronto actually that I still do audio and video segments with. That stock is 60 to 90 cent stock and it really ran. And I found out a few days later from watching CNBC or something, Dave Portnoy, who owns Barstool Sports, is the Davey Day Trader segment they've been running. Apparently that was one of his recommendations and that's why it ran. So once again coming full circle, you're talking about an app which has a lot of potential. A company I've worked with for over a decade and they got caught up in this whole sports trader turned day trader thing, and it was one of the reasons that it ran.

Rodrigo:	00:29:47	I fully subscribe to the fact that the fastest bull market rally seen in history is purely due to the fact that the sports bettors have nothing else to do but to listen to Barstool Sports and bet in the moment that sports go live.
Steve:	00:30:00	Exactly.
Rodrigo:	00:30:01	The market's just going to crash. I'm joking for anybody
Mike:	00:30:04	You heard it here first.
Rodrigo:	00:30:06	Don't take that as any advice.
Steve:	00:30:07	I'll tell you what. You say that with tongue in cheek, though, because I think there is a little something to some of the volatility
Rodrigo:	00:30:12	There may be something to that.
Steve:	00:30:13	Yeah. It's hard to imagine a market as big as the financial markets could be moved because I know how much smaller the sports markets are. So I didn't give it much credence until the last couple of weeks. So we'll see. Speaking about when sports resume, baseball now looks like they might be back in the mix as well, that's mid-July. Both NHL hockey and NBA pro basketball are the last week of July. So anybody out there who wants to track this theory, early August will be when the you-know-what hits the fan if there is any correlation. So we'll see what happens.
Rodrigo:	00:30:39	Very interesting. Yeah.
Mike:	00:30:41	I'd love to jump in just changing gears a slight bit but I'd love to know how the original line gets set. I know we talked about where it's being set, sort of the sharp money is in Central America. But do you have any insights on how do they come up with the line? The game barely ends. The AFC NFC championship is just barely ending, and we've got a line right out of the gate. And oftentimes I find, not always but oftentimes, the line is pretty stable, doesn't move a lot. But I'd love to hear what goes on in the background to make that happen. Do you have any insights on that?
Steve:	00:31:13	That's a fascinating process. I'll go back once again to the Stardust in the 1990s. When I was in college, I used to go out on Sunday night and I'd go pick up some food was my routine. I'd watch all the NFL games and I'd drive out and I could get this A... I'm in Virginia. I could get this AM

station for some reason out of Ohio late at night and they would have the Stardust line it was called. It was a live show from the Stardust in Vegas over an Ohio AM radio station and this was 1994. This was pre-Internet so I couldn't listen to the Internet radio. And they would talk about the numbers they were going to set and then that would actually be the opening NFL line. This was about an hour after the games would end.

And what they had back then was a lottery system. They would have a show on live, talk about the number they would set, and they would have what they called a lottery system. I'm actually having to think back on this because I forgot how it even worked is. And professional bettors would get in line, they'd give them a number, and they'd get in line based on this lottery system. And they could go up there and bet. I think it was a maximum of one or two bets per maximum of $1000 or $2000. And then they'd have to get to the back of the line.

So the Stardust basically was hanging themselves out on purpose because they wanted to have the number corrected before they opened it to the masses. And then all the other sportsbooks would copy it the next day on Monday morning. This worked up until the early 2000s and then by the early to mid 2000s when I mentioned that Costa Rica took over. There's two or three big boys down there that an hour after kickoff on Sunday night would post their numbers. Two or three of them at a time. They might vary by one or so. And the key to all this guys is the limits for low.

I'll put this in perspective. On an NFL Sunday, and it's based on the uncertainty by the sportsbook. And that's another reason you can look at what sports are beatable. If you want to just figure out which sport you want to beat, look at the limits. NASCAR, one of my specialties, I don't release it really to my clients because the market is too small, but I do a NASCAR TV show. I like watching it. I actually enjoy it. Maybe it's a $500 maximum bet. But if I was to release that to a couple hundred of my clients, first of all they couldn't handle the market, I would move the line too much. I realized this decades ago. And the NFL in perspective is maybe a 50,000 bet on Sunday they'll take. But on Sunday night the week before they'll take 1000.

So the limits are two percent of what they might be on game day because first of all they want to get the soft numbers corrected. They'll take a little bit of a hit. They'll let some people win long term because they're having a more accurate number for the other 99 percent of the bets that week. And also because information isn't known yet. The closing line is the most accurate line all week. And when I used to do my research decades ago I was always like should I be using the opening line, the middle line, the closing line? Theoretically, you really should use the middle line because that's what people can play. But it varies all day.

And I didn't know this as an amateur, but there's no question you use the closing line over the opening line because it factors everything. And just an extreme example, but say LeBron James gets injured two hours before the game or is sick and doesn't play. The line's going to move eight points. So if the Lakers were a 12 point favorite, they're going to be a four point favorite at game time, that's the accurate line because he's not playing. So run your research and whatnot you want to use the closing line.

But another important factor about the closing line is called beating closing line value. This is how you can tell if you have a long term edge. If you want to know if you can do this professionally and long term, track your bets all season, look at the number you're playing middle of the day whenever you play the game, and then compare it to the closing line. And if you're beating the closing line more times than not, then you have an edge. Historically our plays beat them anywhere from one to two points, which is tremendous. And that is the Holy Grail of sports betting is beating the closing line long term.

Mike: 00:34:34 Love it. So maybe that actually dovetails well into some of the key concepts of how you take the sort of probabilistic framework that you're using in order to make your decisions. And what's the process and the discipline that's required to be sharp money regularly for 24 years? There's a lot of that that's going to be coincident with being a good investor longer term. What's your mindset? What are the key factors that you use or what are the key variables that you are targeting?

Steve: 00:35:04 Well, I think you guys can relate to this being systematic investors and traders. And Rodrigo with your poker background, you're well aware of the concept of tilt. Going on tilt, of course, is when you have a bad bead, you have the hand that should win, some guy stays in when he shouldn't and he draws the lucky card on fifth street on the final card. And you see it all the time. They call it going on tilt. And it's because emotions play a role. And that's why when I got into the financial side of things, I knew 100 percent certainty I did not want to have to handicap the financial markets for that reason.

Sports betting's tricky and that's what really does separate the long term winners from the losers. It's emotion because as you said earlier Mike, you have a three hour window, you win or lose 100 percent. You have a bet the stock goes up or down at most maybe five percent in a day, and that's an extreme day. You still have 95 percent of your money even if you have a terrible losing day. You still have 95 percent of your investment the next day. In sports, you either have 100 percent of it or you have zero within three hours. So money management is not …

Mike: 00:36:00 The juice, the juice.

Steve: 00:36:00 The juice. Technically you have 91 percent because if you're risking 100, you're one in 91 with that 10 percent vig so. We talked about that earlier and Rodrigo you said it was a big number to overcome. Theoretically if you hit 52.38, 52 and a half percent... Actually 52 and a half percent you win because it's 52.38, and that's at laying 11 to 10. Something to keep in mind with these sportsbooks and the Internet in recent years, a lot of them have what they call reduced juice where you can lay minus 105 each side. You only have to hit about 51 and a half percent to break even.

And that's not even factoring in that you can shop around and find better odds in every sportsbook. So now you factor in three or five sportsbooks, it's kind of like a trend following system where you put non-correlated assets and you diversify, you branch it out. You take five sportsbooks, you shop for the best number, by default you're going to get an extra couple cents less in juice or an extra half point on the spread every game. You're almost are break even right now, without any handicapping. And now you throw a little bit of an edge, and I feel like I have more than just a little bit of an edge, but you throw a little bit of an edge, you actually have an edge.

And I put this article up on my website back when I started ProSportsInfo.com in 1999. This was the first article I put up and it's still on there. And the only changes that I've had to make over 20 years was I said "Shopping for line value, it amazes me how someone will spend hours shopping to save a couple hundred dollars on a VCR or a television." I had to update that about 10 years ago. Someone pointed out to me that it was still saying VCR on the website in the late 2000s, so I think I put CD player. And then I had to update that a couple years later as well. The concept's the same.

It's three things in order of importance. Money management, and this applies to the financial markets. And the absurd example I give if you could pick 99 percent winners and still go broke because if you bet 100 percent of your bankroll on every play, you go 99 and one, you're broke. So that's an absurd example but it hammers home that money management is number one, no debate.

Number two is shopping for line values. I just said it. You have five or 10 sportsbooks, by default you will get the best line on every game. You could flip a coin and you will have a statistical edge that season betting on sports. So it amazes me my whole business side of this is based on selling information and selections to people. It's the least of the three things that's important. Yet I can't make somebody manage their money correctly. I can tell them how to do it but that can't make them do it. I can't make them go out and get two or three sportsbooks accounts. Most of them have one. So they're at the mercy of the line. They might get a good line on one game. They might not on another. And it kills me to see that, but that's just the reality of the situation. So of the three things, picking the winner's the third most important thing.

Rodrigo: 00:38:25 This reminds me of... you remember that Joel Greenblatt example you used to use, Mike? That little book.

Mike: 00:38:30 The Quantitative Book that Beats the Market, something like that.

Rodrigo: 00:38:33 Yeah. So he had it... I'm sure it's on his website, maybe he still has... where he said, "Look, here's my magic formula. I will run it for you. You just give me the money. I'll trade it. We're good. Or I could give you the signals and you can go ahead and do the trades yourself." And so they track this and while the people that did it themselves end up having a pretty good result, they underperformed the S&P. And the people that gave him the money outperformed the S&P during that period. And it really is about you can provide all the information, all the services to somebody, but those small things like you said shopping the line being one of them, making sure you're staying disciplined being another. These are the tough things.

I've known very brilliant people who understand poker from a mathematical perspective that simply cannot control themselves going on tilt. They can play really well for weeks on end and then they have a bad run and give it all back and more the week after because of the emotional side. And in investing it's the same way, especially during this COVID period. You saw... there was a chart yesterday on Twitter showing the amount of people 30 percent or something of TD Ameritrade investors went to cash at the worst possible time. So this emotional side plays anything that has only small edge will always get you into trouble if you're not super disciplined about the process and then handle your emotions. It's 100 percent sure.

Steve: 00:39:52 Talk to guys every week will go four and two on an NFL Saturday and Sunday combined. On average... by the way, one of the reasons I release less plays than ever, when I started, I put out anything with an edge because I was playing it. And you can't give people too much rope. They'll hang themselves. And that's what I've come to realize is that you can't give someone five or 10 plays even if I personally am doing it because you're going to have a one and nine, a two and eight day, it's going to happen. And they're going to be ruined. They won't live to fight another day at that point.

Mike: 00:40:20 I want to jump on that a little bit and go a little deeper because you did talk about shopping the line for value. We have talked about selections and picks and how you could have an edge. And finding a sharp book that gives you the real edge, and then trying to compare that information. And then we talked about money management. So let's dig into that because I think what you're getting at is, okay, I've got this one and nine day but I didn't manage my money properly so I've got the gamblers' risk of ruin. Let's dig into the money management a little bit. How do you suggest people do that when they're taking their bets? How much of their bankroll should they be betting? Walk me through that.

Steve: 00:40:51 I keep it so simple for people. KISS, keep it simple stupid, right? And in this industry…

Mike: 00:40:55 You're talking to me. You're talking to the appropriate people. You got the right audience right here. I'm right here.

Steve: 00:40:59 You're about 99.9 percentile higher than most of the people I deal with so that's a compliment. It's also not a compliment. I just say three percent of bankroll. I've come to realize it's the simplest way. And Rodrigo, the Kelly Criterion of course transfers to both sports betting. And that's another thing. We talk about the history of the sports spread in the '40s, 1950s, Kelly Criterion was a guy working for AT&T or Bell Atlantic and was actually to overcome statistical noise on a phone line, or something. And the gamblers ran with it. And of course Ed Thorp in the early '60s, the card counting, so '40s, '50s, '60s was a heyday for this stuff.

And wouldn't all three of us have loved to have been alive back then and taken advantage of this before the general masses caught on. But the Kelly Criterion, I think three percent of bankroll is like if you only have a 53 percent win percentage. So I'm very conservative on that. I honestly can target 55, 50 percent, six percent long term. I think the Kelly comes out to about seven percent. I rate my games three, four, five percent of bankroll. I don't even release four or five percents anymore because the problem I found even though I think a game is worth five percent is maybe the strongest play I've seen that month, it's just gotten more of a mathematical edge. People don't play it as a five percent. Because you're given them three percents all week. They get a five percent then it becomes a 20 percent play to them. So it just there again I err on the side of caution because I want everyone to live to fight another day because I know how statistical runs can go.

But, yeah, I keep it simple. I say three percent of bankroll. And if a game has an edge we use it. We might play two or three games only on a Saturday or Sunday when there's 50 on the board. But I've found that works very well. The win percentage will be a little higher and that's the most important thing because these still are recreational players who are looking to have fun first and they want to have an edge also. And the way I look at it, they have a fighting chance if they follow what I tell them. Hopefully some of them do. And the ones that do have been with me 10, 20 years. And they treat this as a form of investment. I don't want to sound insane here but if you look at three percent of bankroll, you pick up 20, 25 units, that's a 70, 75 percent return on investment in one year. That's the good news about rolling it over every three hours. It can be bad news when you go on a cold streak but when you get hot you can compound money very fast.

Rodrigo: 00:43:00 Very interesting.

Mike: 00:43:01 It reminds me of vol sizing because he's talking about the bet sizing. It's like a volatility sizing based on the outcome. You've got to take all the bets, you should be taking all the bets, don't try to cherry pick them or you end up-

Steve: 00:43:13 Yeah. That's such a great point. I wouldn't have thought to bring that up. I was going to say earlier about someone will call me after a four and two week and then they lost. And I'm like, "How the hell did you lose? We went 67 percent, four and two." I mean obviously it's six games, but if you go 67 percent you'd be a millionaire within a year. And you transfer that over 17 weeks, you're hitting 67 percent, you're going to retire. "I tripled up on the Sunday night game, the final play." So it's all money management. Or we go three and three, you get ruined. I'm like "You lost a teeny bit of... We broke even basically." They're like, "Well, I tripled up on the Monday night game because I didn't want to have to pay out that week." So they go from maybe owing $10 to several hundred dollars. The cherry picking is a great analogy, though, and I wouldn't have thought of that.

That's another thing is we go four and two. "I got killed this week." "And how'd you get killed?" "Well, I didn't play that game because you're on that team that's oh and 10 and I just couldn't trust them." Those are the games I love, by the way, when nobody wants to play them. But, yeah, people don't get out of their own way. So my good longterm clients have been with me for decades. They set it and forget it. They take five minutes a day. They get my updates which are sent by email. And they make the plays. And it's that simple. Now I do put analysis with my games, as you mentioned earlier. The reason I do that is I have professionals using my service and they do want to pick and chose, and there's nothing wrong with that. And I like people to be able to get multi uses out of the service, so I back it up with analysis more for those who are doing their own handicapping. So there's nothing wrong with doing it that way, but you have to be responsible.

Mike: [00:44:33] It's amazing how you provide the analysis in some cases that's not going to be useful. It's that old... I'm sure you're familiar with the horse handicappers and they give them a limited amount of information and they were so accurate. And then they give them more information, they became no more accurate but they became more confident. Right? They weren't more accurate, they were more confident in what they were suggesting. So you give them much more information and they end up saying they would pick the same winner but they would directionally be more confident because they had this information. And the reality was the information wasn't providing extra edge, wasn't acretive. So it's really like this is a great behavioral discussion because it just goes to show the reliability of the behavioral vulnerabilities that humans have when we come to probabilistic thinking. It is just everywhere.

Steve: [00:45:21] Realistic expectations, too. And you guys run into that all the time, I'm sure. If you had 60 percent, and I've had seasons within a sport... I'm not going to do it over 700 plays a year. I'm not going to hit 60 percent. I don't want to. I'd rather hit 56 percent over 700 games than hit 60 percent over 50 games. You're going to make more money net on an NFL or NBA season with 50 or 60 games. I bet several years I've hit over 60 percent over a smaller sample. But if you ask the amateur bettor, not only do a lot of them not like 60 percent, they won't even want to use you. But some of these guys think 70, 80 percent because as you said earlier, Rodrigo, like the movie with McConaughey, the boiler room mentality, they tell them they've got lots of the century, they're saying 70, 80 percent's their win percentage. I will say it's gotten better.

That's a big change, by the way guys, from when I started in the '90s. I was competing against that in the '90s. The amateur, the square, is much more sophisticated and knowledgeable and informed than ever in history. That's one good thing about the information being widely available. And I think there's less people now that fall for that. There's still some that do and that's just human greed, and that's another thing we can always dig into. But, yeah, right now, I do think the expectations have become more reasonable which is a good thing for some of ...

Rodrigo: [00:46:27] Well, I think it's happened everywhere, right? The Internet's done that in poker as well. Everybody I speak to plays a little bit of poker, knows a little bit of the game, has improved. They're not complete fish. And in investing you've seen more and more people just realizing that if you're not the shark at the table, you're the fish. And if I'm the fish, I might as well just buy passive, long term, low cost. Work on my low cost. Make sure that I'm not making any decisions whatsoever and hopefully try to just be the house, garner the global growth over time. You are seeing a lot less people making tactical errors in the market.

But at the same time you just see it on Twitter right now. A lot of people have made money in the last three weeks because there's been moves in equity markets without the need for leverage that have provided you outsize returns if you got the right move. And this is the type of stuff that gets people overconfident. They haven't realized that they weren't making big bets. I mean, the truth is that the market's volatility is kind of like how you should think about bet size. The volatility of the market is going up and down a half a percent a day. And you're placing the same amount of money at play most of the year. You're getting one type of bet. But if the volatility of the market all of a sudden is five, six, seven, eight times higher than it was any other day, it's moving up and down five percent a day, you're placing a much bigger bet than you think you are. It's basically the equivalent of levering your portfolio five times the previous year when it was much calmer.

And so you have this massive levered opportunity and this ridiculous outside rebound from the market and you participated in it, this is the type of stuff that makes people be like, "Well, I can do this on my own. I don't need any advice. I don't need to think about. I've got this covered." And then they extrapolate their bankroll to at 3X my returns in the last three weeks and therefore I'm going to be a millionaire in about two and a half years. And they're going to start placing the same amount of bets in their portfolio, eventually they get caught. That overconfidence element plays across in all of these.

Steve: 00:48:25 Well, it's the short term thinking. That's the thing. And Mike referenced that earlier. It's so hard to be a long term investor in the sports market where everything is decided in a three hour window. And just statistically speaking you're going to have hot and cold streaks. So like you said Rodrigo, you go 5 and 0 that week and "Man, what do I need Steve Merril for? Steve Merril went three and two." Which is 60 percent by the way. I'd be retired by now if I hit 60 percent long term. And there's always that mindset. One thing I want to bring up too though is the difference between the financial markets and the point spread. It made me think of this as you were saying it is momentum is a serious investing tool where you can ride price action. Sports it's totally different.

We have what's called chasing steam and back when the wise guy... they're called wise guy moves... in the '90s you would see the odds screen just light up and all the lines would move a point or so at the same time. And that's because the big betting syndicates were hitting the game and they'd play them all at different locations to get the bet in at the line. And a lot of places move on air which means they'd actually move their point spread without action because they know that sharp money came in somewhere, like the Stardust for example. And then you have people what we call steam chase, that's called steam move when it would happen. The steam chasers would jump in because that is the correct side to be on, but the problem is they're getting it after the fact. So they're playing a game that the pros just played at minus three in the NFL at now minus four. That's a 10 to 15 percent disadvantage, as we talked earlier, because three and four are both key numbers.

It's the same thing in stocks obviously. You jump on after Warren Buffett announces he's on a stock or something. The difference though is that it's a longer term hold in the stock market and momentum does work as you guys know with trend following and other things. And that's one difference I've seen in the sports market is that price action, it's so important shopping for that line value as we talked earlier. And that's one thing that's a little different.

Mike: 00:50:04 Right. It's more of a discrete event rather than a continuous event. So you've got this discrete event which leads into another thing we haven't talked about yet. I want to get to this which is insider information. Put a marker on that and come back to that. So you have this discrete event which impacts something that's a three hour event that doesn't have the opportunity to have momentum. So you get Warren Buffett decides a few years ago airlines are hot and he's going to get into airlines. So he gets his position and then he tells you. And so you're following sharp money. And that sharp money has the ability to continue its steam, if you will. It has the opportunity to …

Rodrigo: 00:50:37 Yeah, I think infusion theory …

Mike: 00:50:39 Yeah. The continuous event rather than the discrete event.

Rodrigo: 00:50:40 It goes from the backend of the newspaper to the frontend over … and all that.

Mike: 00:50:44 Correct. So I get that. But now we have that steamed line where the smarter money came in for a reason. They have a car parked out at LeBron's parking lot and they saw him twist his ankle as he walked to his car. And they're like, "Dude, get us off this line or get us on this line." But the construct of inside information in sports betting is so interesting, it's so different the way that they've started to hide the NFL players when they go in the injury tent. So they're looking at them now and we don't want that information out there, and so that's been more of a handicap.

Maybe you can talk about sports betting inside information, how it differs, and shed some more light on that.

Steve: 00:51:21 The NFL injury report's a great analogy, by the way. The whole reason the NFL injury report exists is because of sports betting. I don't know exactly when it started. I'd say maybe the 1980s, because I've been doing this since the mid '90s and it's been around ever since I've been a professional. But the reason the NFL started the injury report 30 some years ago is because they didn't want inside information. They wanted everything on the out and open. So they came out with this silly system where you're out zero percent, 25 percent doubtful, 50 percent questionable, 75 percent probable. And Bill Belichick who's-

Mike: 00:51:49 I love it. I was going to say him.

Steve: 00:51:50 Exactly. He's the most brilliant coach ever, tactician. Like him or hate him, you got to admit he does things differently and he wins. And he puts 20 or 30 guys on there every week. I've always told my associates, if I was an NFL coach, and I think my next gig might be game plan theorist or something for an NFL team. When you go for two, when you don't because they make so any statistical mistakes in games. But the first thing I would tell them is first of all put everybody down at 50 percent every week as questionable and then you don't have to worry. So I think Belichick's got into some trouble for basically doing that, which I love.

The injury report in the NFL was kind of a half-ass measure to keep gamblers at bay or inside information. And this is back in pre-Internet era, keep in mind. So I don't think it really serves any purpose nowadays. The bottom line with any point spread is if there's value. People will ask me, "The next week, Alabama, LSU, the biggest game of the year, top two teams. Who do you like?" I go, "Well, I need to see the point spread. I like either team. It's that simple." If either team is plus 10 I like them because I make the game a pick them. So it's like nobody looks at it that way but professionals. It's all about line value. So, yeah, most of the time when a game is being steamed for minus three to minus four, that's just because the professionals thought the line should be five. Their way strategically to play it.

So 99 percent of the time it's just mathematics. And did used to have a situation in the '90s and early 2000s where people would get injury information and stuff, local city information, before the bookmakers. But I think everybody's connected now. I think the bookmakers get it as quick as anybody. And once again, there might be one or two sharps that get a bet in real quick because they see something on ESPN but the bookmakers are in the process of taking that game off the board at the same time. So, yeah, most of the steam action now is just mathematics.

The insider trading analogy I love because over the years I've come to realize that I'm a libertarian. And I guess when you're in an industry for 25 years that's legal in England for 100 years, legal in Nevada, but evil in the other 49 states, you realize how silly that is. And it's not hurting anybody. I should have the right to do what I want with my hard earned money if I want to risk $20 on an NFL game. So I'm not a big fan of government overreaction. This is the only time in my life I've actually said legalize and regulate it because the regulation is the lesser of the two evils in this case, even though I think there's way too much regulation.

But libertarian tilt, I've never fully understood insider trading. Because if you really look at it from a macro perspective, the smart money should have an edge. I think personally, and I'll let you guys weigh in, insider trading makes the markets more efficient because it quickly puts a price where it should be. And because somebody does know more, I think they should benefit. And that's how it is in the sports betting market. If I find out if I'm a trainer on the Lakers and I see LeBron twist his knee, I tell my friend, I don't think there's anything wrong with it. That line's going to move eight points. I deserve to have an edge. I had a smarter bet than the average public and the line is now more accurate because of that. So, yeah, your take on that would be interesting.

Rodrigo: 00:54:37 I think the risk in both scenarios is the risk of corruption. The risk of actually getting to the source. If you allow insider information to happen and you are a person that consistently has that insider information, you're incentivized to cheat, you're incentivized to have somebody that you can give and disseminate that to. And if it's legal, then you're going to have more of it. If there is a penalty for a CIO not putting out the numbers out there, or a whatever, a physiotherapist in a team. Right now, there's no law against it except maybe you'll get fired from your job, but there's no law against it. And there's probably more people able to play some sort of insider information. And so the question is at which point is it good balance between minimizing the chance that you're going to corrupt a high school basketball kid or a college kid versus the benefits of being a libertarian and allowing things to happen as they happen? And the lines will get brighter as you get closer to the day.

Steve: 00:55:31 Mike, before you weigh in, too, I just want to point out that there's a big difference between I think having insider information in sports and game fixing. I think there's very few opportunities by the way where there's any insider information in sports because everything is so public now. We've talked about with the Internet and the media chat rooms and the 24/7 news cycle. I say maybe one time a month you would have a situation where somebody really got privy to an injury. And the market is so much smaller, I don't think it matters one way or the other. It's pennies in the pot overall.

But now game fixing obviously is totally different. And to be honest, professional sports bettors like myself and the sportsbooks, the sharpest of the sharp, we never know about it. Because when a game is fixed, it's a 19 year old college kid who they're giving $2000 under the table to miss some free throws and win by 12 instead of 14 as a 13 point favorite. There's may two local guys and maybe two students in the whole world that know about that. And when this has happened over the years, it remains underground.

Back in the '90s, Arizona State got caught because after numerous illegal bets, the guys got greedy, went to Las Vegas, and Vegas knew this was square money betting the limits. Line was moving, they kept betting the limit with no regard. The professionals actually started betting the other side because they didn't know. They thought there was value. They pulled the game down, called the PAC-10 conference at the time, they go in halfway through the game, tell Arizona State, "We know something's going on." They go out end up covering and winning. The guys lose their bets and get arrested. And this is because of regulation in legal sports betting. So another reason I'm a big proponent by the way of legal sports betting in all these states.

But, yeah, the insider trading thing is different because it's a much bigger marketplace, it could happen daily at every company basically. There's somebody that's got insider information. My theory, and I might be wrong on this, let me know what you think, I feel like even if that CEO has that information, he's going to move that price. The price is going to be more accurate sooner. And it'll be more efficient. But I might be missing something on that.

Mike: 00:57:13 Well, so what's the primary directive of this objective? It is to create a more efficient market. I think there's a slight difference in the fiduciary role that individuals play and the ranking of that fiduciary role. So we add some stirring of the pot this year in January and February where government officials were briefed on the COVID opportunity for it to impact markets, and I'm not sure of the details, I'm not suggesting anyone is guilty or innocent. There was some things that happened where they eliminated investments that they had with information that they were privy to because of their fiduciary position, their sort of position within democracy. And that fiduciary responsibility to their contingents. And should they be able to act out of turn.

Where's the fiduciary responsibility that you might have conflict with you're going to get into the lifeboat first? When the ship's going down, the captain goes in the last lifeboat. There's the rub and there's the conflict. It's what is the level of market efficiency, are you in a position where you shouldn't be taking advantage of that because we've all seen the movie

Wall Street when they're looking at how much stuff is coming out of the factory. That's not insider information. That's information. And you're allowed to use that information as a sharp participant. You're not allowed to take information that you're privy to that you wouldn't be privy to in any other way and then act out of turn.

Rodrigo: 00:58:34 If you're in a position of power, you want to be able to disseminate that information as a public good to the broadest amount of people as possible. This is why periods of blackouts before a big announcement for a new company. And similarly if you are a public figure, and you have insider information, the fiduciary duty in that case is not to profit at the hands of... well, not to profit before that information is disseminated broadly for the rest of the population. In that one, it just looks bad. I don't know of how legal it is but.

Mike: 00:59:03 Well, it violates the fiduciary role that you might hold.

Rodrigo: 00:59:05 It does.

Mike: 00:59:05 So what you're trying to do is you're trying to encourage and build trust in the market. And that's what the injury report did in the NFL. They're trying to encourage some amount of information sharing. It's kind of funny. I think it was in 2000. So before the year 2000, those research analyst calls that companies have were only for the research shops. They had preferential information access up until the year 2000. So Merrill and Bank of America and all, they would be participating in a management call. Those were not broadcasted widely. Myself as an individual investor was not invited to those. Those had to be put through the lens of the investment firm, which then they could prepare their books for their opinion of that research. There was an unequal playing field pre-2000. There probably still is to some degree.

But the point is to get lots of confidence in the marketplace. The quick adoption of new information to get the line right, that benefits the marketplace. Get that line well established with all the available information. And I think the regulation that you're talking about coming to bear in the regulation of it, the taxation of it, brings a higher level of scrutiny to it. It's harder for those forces that might be a little bit more nefarious to have those impacts.

I do remember... Are you familiar with the study where they looked at all those NCAA games where they were supposed to win by something like 20 or more and they looked at how it was statistically significant as to how many times they weren't winning by those numbers? And how they're like "Seems fishy." I don't think anything was proven but it's a really interesting topic that I think has got a lot of angles to it and I think you really want a trustworthy market where you've got the most information and the sharpest line possible. And whatever the rules that come out of that, that's the rules that should be in the domain that you're dealing with.

Rodrigo: 01:00:55 Another interesting aspect of is in everything we do there's arbitrage opportunities. Arbitrage meaning that you can place a bet in a certain way where you're guaranteed to get paid out. How can you arbitrage sports gaming? I know we talked a little bit about this before but.

Steve: 01:01:11 Yeah. It's just pure math once again. It's something that doesn't work as well as it used to. In fact, in my heyday when I did this 15, 20 years ago, it was like shooting fish in a barrel. You would have two or three point line differences at different sportsbooks. Just to put that into perspective, we'll use the NFL, you get a team at minus two and a half, and take the other team back at plus three and a half. As we said earlier, there's a 10 percent chance that game lands exactly on three with the favorite winning. You do the math. That's a huge... it's called a middle. The game lands on three, you've middled the game. Probably the most famous... wasn't really... now if you saw it, if you take plus four and a half minus four and it lands on four, you're siding it because you're pushing one and winning one. But if you win them both, you're middling it. And there used to be opportunities every day in every sport to find two or three point differences up until the early 2000s with the Internet casinos. And even in Vegas. Now everything moves at the same time. About 10 years ago it all stopped.

One thing I am noticing a little bit with these new sportsbooks in New Jersey and the other states is I'm seeing more of a line gap between what I consider the sharp consensus number like offshore and in Vegas compared to these local states. And I can only assume that's because first of all I think they're getting mostly public money. As I said earlier, I don't think the professionals are set up there yet to arbitrage to take advantage of it. And also I think they just don't have enough action where they're moving the lines as much. That is something I'm keeping an eye on. But, yeah, back in the heyday, '90s, early 2000s, you could play both sides and once again lock in a mathematical edge.

Take it another step further like baseball which is a money line sport or hockey. Say there's a team that's minus 130 favorite plus 120, they might have it the other way around in another sportsbooks. So you could take both teams at plus money. That's a 100 percent guaranteed profit. With middling and siding, you could go through some runs where you don't win. You're taking minus two and a half and plus three and a half, you're still risking 110 to win 100 on each of those. So if you don't... so 90 percent of the time you're going to lose money because if it's not going to land on three you're going to lose 10 percent. But when it lands on three, you win 200 percent and that happens 10 percent of the time. So we all know that's a good long term expectation. But when you're getting plus 120 plus 120 on both teams at different books, that's a guaranteed profit. Not as much money, but it's a guaranteed money maker. So, yeah, it's the same thing and there again, the bigger the market gets, the more efficient, the more liquid it becomes, you see less of those. And I've definitely seen less of them the last 10, 15 years. Really where it's not even worth the effort to try to find it anymore.

Rodrigo: 01:03:26 But we did talk a bit about the convexity of playing the options market in the markets in our business. And you actually came back with an interesting story about horseracing and the idea that you can almost find that level of convexity, small trades, small losses, small gains, and then have a big payout, kind of like what you get with certain structures and straddles and so on in the options market.

Steve: 01:03:50 The more I thought about it, Rodrigo, the option market is probably more similar to the actual futures market in sports betting where you bet on a team to win the Super Bowl in September. Say you get the Patriots at a five... well, not anymore, but they would have been the favorite for years at five to one. Now it's the Chiefs, 49ers, teams like that. So say Kansas City's five to one now, that's kind of like a call option on the Chiefs. You're betting 100 to win 500 and it pays out at the end of January or early February after the Super Bowl. So you're money's tied up for five months but you have a five to one return. And then you could take the real out of the money call options on my local team, the Redskins who are the worst team in the NFL now. Another bad team like say the the Cleveland Browns over the years and the Bengals, you get them at 200 to one. You're betting a dollar to win 200. Your money's tied up for five months.

Now, horseracing takes it to the extreme because most people bet Win, Place, or Show at five to one or three to two. But the guys that I know that are professional horseracing bettors that do this daily where you make your money is you find the overlays in these pick three, pick four pools where you have to pick the winner for three straight races for a pick three or a pick four you have to have the winner for four straight races. And it's the same thing with the daily fantasy sports at DraftKings. You enter 100s of lineups for $1, $2 each, and you round-robin all the combinations. You key some particular players in the fantasy or you key a couple horses you like. And then you take the random variance of the ones you don't have an opinion on and you throw them all in different lineups. So you have 100s and 100s of $1 trifecta tickets. A low trifecta pays 6000. Some of these can pay 60,000, 70,000 when one of those out of the money horses hit, and that's actually what you want to happen because that's where the overlay is. And the more I thought about it, I would have said that's like an options market. It's almost like an angel investing trend following on steroids because-

Mike: 01:05:30 It's tail hedge. It's tail hedge.

Steve: 01:05:32 You're trying to hit one out of 60,000. You make money if one of those hits. And it's rough. You talk about going on tilt. These guys that do this for a living, they have stories week after week where they have a pick four ticket going into the fourth race that's alive and the horse that would've paid a $1 ticket pays 30,000 and he loses by a nose, he loses by an inch. So it's not for the faint of hearted. It's not for the recreational live and die three hour bettors for sure.

Mike: 01:05:58 That requires a systematic approach and a bankroll that considers the money management. Key money management because you got to play them all, you're going to be a loser on a lot of them, and then you're going to have these massive payoffs. It really is the same profile as a tail hedge type protection strategy in the market. You're just getting eaten away, getting eaten away, and then bang, lightening strikes. And you've got positive expectancy.

I always kind of thought those... my perception... misperception obviously, when you're at the craps table. If you play the line, there's some good value there. But when you play like give me a hard 12, you're not getting good value there. And I always kind of thought of the long shots in the horseracing world being more akin to those. It's interesting to me that that's not actually the case. You can pair these things up and they're actually undervalued not overvalued. It's really kind of neat.

Steve: 01:06:45 I'm not an expert like the guys I know. I think most of the long shots probably are bad bets. Keep in mind, the one thing about horseracing, the reason I never could get into horseracing with my sports background is that it's paramutual. The whole key as we've talked about other than money management, the whole key to winning longterm in sports betting once again if you're just tuning into the show people, it's not picking the right team. That's third. It's shopping for line value. And I keep hammering on that.

You can kind of say that in the financial markets about getting the right play. You buy low, sell high. But you have a lot more variance there because you can ride momentum and whatnot. In sports, it's cut and dry. If you don't get that half a point, you don't play the game anymore. The line has moved, you're done. You're not on that play anymore. There's that fine of a line where you're talking about only a three or four percent edge.

But with horseracing, what I can never get into is it's paramutual which means the odds change. So you don't know what your odds are until post time. So you could really like a horse at 10 to one. It doesn't matter when you play it because it's only what the odds are at post time. And most of the sharp money for that reason comes in one minute before post time. And all of a sudden if that is the sharp play, you don't know if it's going to be six to one, five to one, four to one, and maybe you don't like it anymore. So for me personally I think that's a reason it's very hard to win. And that's another reason picking individual horses isn't what these guys do, I think. And if a horse is at 60 to one and goes off 60 to one, there's a reason it's 60 to one, and it's probably never going to win. If there was value, then it's going to be 20 to one by post time, and maybe you don't like it anymore at 20 to one. So it's an interesting aspect of horseracing-

Mike: 01:08:08 Great. Love it.

Rodrigo: 01:08:09 So guys I've got to do something highly unorthodox and leave in the middle of a podcast because I guess we're here for an hour and 20 minutes.

Mike: 01:08:16 Well, let's wrap it. I think it's good. We should wrap. We covered a ton of stuff and-

Steve: 01:08:20 We could always do episode two in a few weeks. In August when the market crashes, have me back on and we'll talk about the sports bettor aspect.

Mike: 01:08:26 I want to leave people wanting a little more, for sure.

Rodrigo: 01:08:29 Yeah.

Rodrigo: 01:08:29 All right. Well, Steve, fantastic insight man. That's really, really fun stuff. I think we're going to have you on for sure as sports betting comes back on line and we see the dynamics between sports and markets. I'd be curious to have you back on to see what's happening.

Steve: 01:08:44 I agree. I think it's going to be real interesting to see what kind of response the sportsbooks get also when this money comes back-

Rodrigo: 01:08:49 And as legalized gambling gets bigger and bigger, right?

Steve: 01:08:52 People are itching to bet again as we've seen with the markets and it'll be really interesting in August I think to see what happens.

Rodrigo: 01:08:57 Thanks for coming on, man. Appreciate it.

Steve:	01:08:59	Thanks guys. Enjoyed it.
Recorded Audio ...:	01:09:01	Thank you for listening to the Gestalt University podcast. You will find all the information we highlighted in this episode in the show notes at investresolve.com/blog. You can also learn more about ReSolve's approach to investing by going to our website and research blog at investresolve.com where you will find over 200 articles that cover a wide array of important topics in the area of investing. We also encourage you to engage with the whole team on Twitter by searching the handle @investresolve and hitting the follow button. If you're enjoying the series, please take the time to share us with your friends through email and social media. And if you’ve really learned something new and believe that our podcast would be helpful to others, we would be incredibly grateful if you could leave us a review on iTunes. Thanks again and see you next time.