Bloomberg Opinion

Money Stuff



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Sports gambling ETF

We talked on Friday about a proposed sports gambling exchange-traded fund. On the one hand: cool. On the other hand: If what you want is "sports gambling in ETF form," this is not quite that. The proposed fund would be managed by a professional sports gambler, who would run a diversified portfolio of 40 to 80 bets at a time. (The bets would be made on Kalshi, or rather, they would be made in the form of over-the-counter swaps giving the ETF exposure to Kalshi event contracts.) If the portfolio manager (gambler) wins, the ETF will go up, which is good for the investors. But the investors won't get to pick the bets, or maybe even know what the bets are.

If you want to buy a sports gambling ETF for uncorrelated returns and dark comedy, this is great. If you want to buy a sports gambling ETF to bet on the Mets, it isn't. I wrote:

> I sort of imagined ... a Knicks Win ETF, or a Jets/Bills Over ETF or whatever, where you could bet on sports in an ETF wrapper. You'd get the fun of sports gambling, but in your ETF portfolio.
>
> But that is very hard to implement in practice: Sports bets mostly resolve quickly, and the main imperative of an ETF manager is to continue managing the ETF. So the implementation has to be more or less like what Subversive and Tidal are doing: a diversified portfolio of sports bets, actively managed by professional gamblers, aiming to achieve long-term capital appreciation.

I wonder if you could do better? I mean, worse. I mean: What about an ETF that just bets on the Mets to win every day? Let's say the "Mets win" contract on Kalshi is trading at $0.33. Investors (?) put money into the ETF each morning if they think the Mets will win. If the Mets win, the ETF more or less triples its money. Investors can withdraw their money the next day, or keep it in to bet on the Mets again. If the Mets lose, the ETF more or less goes to

zero, oops. (Perhaps it bets less than all of its money, to avoid that outcome.) But of course the next day investors can put new money in — at $0.32 per share, or whatever the price is for the "Mets win" contract that day — to make the bet again. You're not aiming to achieve long-term capital appreciation. You are just offering a market-priced Mets bet every day. In ETF form.

This is obviously a bad product, in the sense that its long-run expected value is zero. Not just because it's the Mets, I mean, but the overall expected return on sports bets — after bid/ask spread and other expenses of the fund [1] — is negative if you are betting with no information, and "always bet on the Mets" is a no-information strategy.

But so what? As a *fund* — as a long-term *investment* — this is an incredibly stupid idea, but that's true of a lot of ETFs. Not all ETFs are best thought of as "funds." Some of them are, quite explicitly, *daily bets*. You see this most clearly in leveraged and inverse single-stock ETFs, which are plastered with warnings that you should not passively hold them for long periods: Their long-term return is often negative, but if you are using them for their intended purpose — betting that Nvidia or Strategy or SK Hynix or whatever will be up today — then they work great. As bets.

Similarly, a Mets-win daily ETF is a dreadful long-term investment but could be a perfectly good way to bet on the Mets winning today. You wouldn't buy and hold it; you'd buy it on days you thought the Mets would win and not on the days you didn't, like any other sports bet. Of course, you can just bet on the Mets on Kalshi or DraftKings, but you might prefer to bet on the Mets in ETF format. For instance:

1. You might be an equity portfolio manager at an institutional investment firm, with a mandate to invest in stocks and ETFs but not prediction markets or sports bets. But you think the Mets are a lock tonight. Is buying a Mets ETF a good thing to do, if your mandate is to own stocks? No, no it is not. Might it happen? I mean, some number of institutional equity managers bought Strategy Inc. stock because they (1) wanted to own Bitcoin but (2) weren't allowed to. "Put a forbidden bet in a stock-market wrapper so institutional stock investors can buy it" is not an unheard-of strategy.

2. You might be an individual investor with a stock brokerage account, but you don't want to bother opening an account at Kalshi or a sportsbook. Now you can bet on sports in your brokerage account.

3. You might be an individual investor with a stock brokerage account, but your spouse or accountant or parents might not want you betting on sports. Bet on ETFs all you want though.

4. The tax treatment of sports betting in the US is now notoriously bad, with losses not entirely deductible to offset winnings. I think — and I think Kalshi thinks — that the tax treatment of prediction-market contracts is better, though not everyone agrees. The tax treatment of ETF capital gains and losses is probably even safer.

5. Arbitrage? If the Mets are $0.33 in the ETF and +150 at a sportsbook, you'll want to bet in the ETF, not the sportsbook.

These all seem like possibly real reasons that people might want to bet on the Mets in ETF format. Of course, this is probably a bad product for the ETF manager: The assets under management will fluctuate wildly, there will be a lot of frictional costs, and what do you do in the offseason? [2] An ETF that goes to zero frequently seems like a pain. [3] But for the right price, it might be worth it. And, of course, with the right menu of ETFs. Obviously you would not launch the Mets ETF alone. You'd launch 30 Major League Baseball ETFs, one for each team. [4]

I guess the broad point here is:

- Every possible financial market trade can be turned into an ETF.
- Turning a trade into an ETF has some advantages, in terms of packaging and marketing it to retail investors in a simple well-understood format.
- Sports bets are now financial market trades.
- Therefore every sports bet should be an ETF.

Like, 12-leg in-game parlay ETFs, why not. [5]

A couple of weeks ago, we discussed the US Securities and Exchange Commission's "request for public comment on exchange-traded funds (ETFs) seeking to invest in innovative asset classes or engage in novel investment strategies" (sports gambling). You can submit comments here. I suppose this is my submission.

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[1] The actual Subversive/Tidal ETF doesn't just place bets on Kalshi; it uses swaps with a counterparty to make it more of a, you know, financial markets transaction. (The counterparty can hedge on Kalshi, or at least use Kalshi prices to set its swap price.) Presumably the counterparty adds its own spread on top of the Kalshi bid/ask spread.

[2] A reader emailed to suggest a *New York* sports ETF, that bets on all of the major New York sports teams during their seasons, to keep going year-round.

[3] All of this is very hypothetical, but I feel like if I were doing it for real I might put 90% of the money into the sports bets and keep 10% in cash just so as not to *liquidate* each time I lost. But it's pretty ugly.

[4] Oh, I'm kidding, it'd be way more than 30. You'd do like "Bet the Over on the Royals Game ETF," etc.

[5] Elsewhere, here is a claim that you could have made money by betting on every group-stage game at the World Cup to end in a draw. I don't know if that's true, and if it is true that doesn't mean you can conclude "betting on every group-stage game to end in a draw was a positive expected value trade," or certainly "betting on every group-stage game in the next World Cup to end in a draw will be positive expected value," etc. Still the intuition "draws are systematically underpriced" doesn't seem crazy, and maybe someone should do it as an ETF?