

# KIM: Super Bowl bets illustrate important investment concept

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INVESTING

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In terms of living up to the hype, the Seattle Seahawks' 43-8 demolition of the Denver Broncos in Super Bowl XLVIII was a bust. Betting on the Super Bowl is one of Americans' favorite pastimes. Though the game was a snooze, this "game-within-the-game" illustrates an important investment concept.

The University of Chicago is known for its Nobel Laureates, but sports betting wouldn't be what it is today without an innovation by one of its lesser-known lights, Charles K. McNeil (Ph.B. '25).

McNeil's strong analytical ability enabled him to earn a living as a professional gambler, or "sharp." His innovation was the "point spread." He analyzed competing teams to predict the difference in score.

According to The University of Chicago Magazine, McNeil believed while traditional odds-based wagering could "confuse casual gamblers, limit interest in lopsided games, and tilt action toward the favored team, the point spread encourages betting on both sides." The spread or line handicapped every game to create a theoretically equal chance that either team could win, which served the bookmakers' interests in both the volume and balance of bets on a given game.

With the NFL's juggernaut offense (Denver) against the elite defense (Seattle) and folk hero (Peyton Manning) against villain (Richard Sherman), this match-up was tailor made for generating gambling interest.

Las Vegas sports books' initial "line" was Seahawks minus 2 (i.e. Seattle was favored to win by 2 points). Seahawks bettors would "give" two points, meaning Seattle would have to win the game by more than 2 points to "cover the spread" and win the bet. Meanwhile, Broncos bettors would "get" 2 points, meaning even if Denver were to lose, if it was by less than 2 points, they would "beat the spread" and still collect.

The goal for a sports book is to set the line so an equal amount is bet on the favorite and underdog. The winning and losing bets effectively cancel each other out and the house pockets a fee of about 10% (the "juice") from the winning bets. Within minutes, so much was bet by Broncos fans that the sports books were forced to flip the line to Broncos minus 2.5 to attract offsetting wagers on Seattle.

Gamblers wagered a record \$119.4 million on the game, with the sports books pocketing an unprecedented \$19.7 million profit. The expected offsetting bets on Seattle never materialized, so the books were overweight with losing bets on Denver. This marked the 21st time in the 23 years Nevada has tracked the Super Bowl as a separate entity the "house" won.

Sports wagering and investing are similar. Teams are like stocks and the line is the current market price. Legendary investor Howard Marks said, "no asset is so good that it can't become a bad investment at too high a price." Conversely, "there are few assets so bad that they can't be a good investment when bought cheap enough."

"Sharps" make cold, unemotional evaluations of whether the line overvalues or undervalues a team's prospects. "Squares" bet on their favorite team or a popular quarterback, regardless of the line. Betting on the Super Bowl is for fun. When you're investing for keeps, make sure you're a sharp and not a square. And remember, you want to "be the house."

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