

How betting works – and why the Melbourne Cup skews the odds

October 30 2014, by Michael Rose And Jonathan Borwein



Study the form guide all you like – on big race days, your money’s probably safer in your pocket. Credit: AAP/Joe Castro

Australia's iconic sporting event – the Melbourne Cup – will see more than 100,000 punters pack into Flemington Racecourse this Tuesday, while those at work around the country pause to tune in to The Race.

More than 700 million people worldwide are expected to watch the 154th running of the Melbourne Cup – and it will be all the more exciting for those who have a little money invested in the result.

For those casual punters looking to make their one yearly bet on the

horses, we take a quick look at how the odds and payouts work and what (if any) sensible betting choices can be made.

How odds work

The odds given to each of the 24 horses running in the Melbourne Cup this year (before any scratchings) are typically presented as a *dollar amount*. For example, at the time of writing, Protectionist was listed at A\$7. This means that for every dollar you bet on Protectionist to win, you will receive A\$7 back, should it win. This includes the A\$1 you bet, so your profit will be A\$6 per dollar bet.

To convert this dollar amount to *losing:winning odds*, you can mentally split the A\$7 payout into the A\$6 of profit and A\$1 outlay and read off odds of 6:1. To take another example, Fawkner at A\$8.50 (at time of writing) corresponds to odds of 7.5:1, or 15:2 if we double both numbers to make them nice and whole.

If you'd prefer to convert these odds to *probabilities*, you'll need to add up the two numbers to obtain the total number of possibilities (winning or losing). Protectionist's odds of 6:1 means that he's expected to have 6 losses for every 1 win. That's one win out of (6+1) races, so the probability he will win is 1 in 7. Note that we could have started from the dollar amount – A\$7 – and gone straight to the probability of 1 in 7.

But how are these chances figured out in the first place?

In contrast to games such as Two-Up, where the chances of seeing two heads on a pair of flipped coins can be easily calculated, the situation is far too complex in horse-racing, involving far too many variables for the probability of a given horse's victory to be calculated.

Instead, bookmakers take an initial list of odds – say it's 1 in 24 (or 23:1, or A\$24) for each horse (although the reality is a little more complicated). Then the bookmakers watch how the punters are betting and continually adjust these odds to "balance the books" and ensure a profit. In a nutshell, the more bets a horse attracts, the lower its payout will be adjusted (and vice-versa).

This means that *odds are continually changing* in the lead-up to the big [race](#). For this reason, it's important to know the difference between making a fixed odds bet and a parimutuel bet (also known as a totes bet). Also, for most off track betting only totaliser bets are legal.

In a **fixed odds** bet, the odds displayed at the time you make your bet are locked in for your bet. Although the odds may change later, if you place a bet at A\$7 you are guaranteed a A\$7 payout for every dollar you bet, even if the odds shortened to A\$3 after you placed the bet. (Be assured any legal odds maker knows more about the true odds than all but the most skilled betters.)

In the [2014 Melbourne Cup](#), fixed odds bets can be made when betting on a horse to win or place (in 1st, 2nd or 3rd).

But the fixed odds system cannot be used for more exotic bets – fairly recent inventions to get folks out to the tracks – such as a quinella (picking the horses who place 1st and 2nd) or trifecta (picking the horses who finish 1st, 2nd and 3rd).

In a **parimutuel bet** – also known as a totaliser (or totes) bet – the odds displayed at the time you make your bet are only an approximation of what your payout will be if you win. This approximation improves as the race draws closer.

If you place a bet on a particular horse to win, and it does, you will split

a pool of winnings amongst all other punters who made the same bet. So parimutuel bets are like betting on most state or national lotteries (except that the lotteries keep way more of the money for "good causes").

Why odds are skewed on big race days

The crucial difference between the fixed odds bet and the totes bet is that in the latter, your payout is unknown until after the race is over. Since you are in a betting pool when you make a totes bet, the more punters make the same bet as you, the more ways you will have to split the pool. Hence, if you enter into a totes bet, you will want to avoid what others are doing!

In particular, since there are a very large number of people betting on the Melbourne Cup relative to other horse races, this can lead to some weird skewing of odds.

For example, the payout of the favourite winning gets smaller and smaller as more punters take that bet. If a large number of punters bet on the favourite to win, the payout can actually drop to such a large extent that it becomes less than the payout for the favourite simply placing!

Taking a less common bet (such as betting on your horse to place), which has higher chances of paying out (since your chosen horse only has to finish within the top three for you to collect) then becomes an effective betting strategy. A [Businessweek article](#) explains this phenomena (in the context of American horse racing) in more detail.

Since the payouts in totes bets are an approximation that gets better as the race draws nearer, it's often worth waiting before placing your bet. In contrast, if you really want to back the favourite, perhaps fixed odds are the best way to go (so you avoid your winnings being diluted as more people make the same bet). In that case you'd want to get your bet in

reasonably early, before the odds on the favourite drop too much.

What horse should you bet the house on?

Unfortunately, it takes years of experience and following the progress of the participating horses to have good prospects for betting – and even then, you can only ever have good long-term prospects. Success in any given race is never guaranteed. That said, you can increase your chances of a win by a small amount with a little care – you can certainly get better chances than the random draw of the office sweepstake!

To that end, we'll finish with some advice from the experts, which we'll certainly be following as we make our own bets on race day.

Long-time punter John Beedle of Ashfield offered the following strategy to the novice punter when one of us spoke to him this week:

The most important things to look at are the state of the track, the experience of the horse and the betting [...] once the field is set, look up the [odds](#) in the paper and make your pick from within the top six horses. Don't back the favourite, they rarely win and lots of other punters will be betting on them anyway.

Make sure your pick has already won a race over at least 2,400m (the Melbourne Cup is 3,200m, and some horses just fall to pieces over that distance). If rain falls on the track, make sure your pick can handle a wet track. I'd say place a bet each way (that is, a bet that your horse either wins or places). If you make a bet at A\$4 – A\$7, you probably have about the same chance of winning as the favourite [...] but you stand to gain more money.

Long-time bookmaker Jack Ashman of New Lambton Heights has perhaps the most important advice to offer:

The worst thing a punter can do is to chase their money – that's how they get into trouble. It's a failure of the human brain [...] they think they can get it back but they end up losing too much money before realising it's not as easy as that.

One particular punter lost A\$1,000 on an almost sure thing, which was probably more than he could really afford to lose. Then another sure thing came up, so he put another A\$1,000 on it, and by the end of the afternoon he'd lost A\$6,000. Not good! Set a fixed amount that you're willing to bet and have the discipline to stick to it.

We hope you have an exciting race and a fun afternoon – and remember to gamble responsibly. A A\$10 [bet](#) is more than enough to get the blood pumping as your horse rounds the turn into the final dash ...

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