

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.

WSJ.com

POLITICAL EXCHANGE | NOVEMBER 4, 2008

Market Watcher's Guide to Election Day

By DAVID ROTHSCHILD and JUSTIN WOLFERS

As election watchers turn to biting their nails in anticipation of tonight's returns, here's a quick review of what political prediction markets -- including [The Journal's own fantasy prediction market](#) -- are telling us to look for.

Prediction markets don't really expect this election to be close. Barack Obama's stock has risen in recent days, and he is now [rated a 90% chance](#) to win, after holding steady at about 85 % for most of the week. But we think this understates the true chances. Given the [bias these markets typically exhibit](#) against favorites, he may be as much as a 98% chance to win.

Nonetheless, these markets will bear close watching during Election Day. Here are three ways the markets can help make sense of real-time results:

- **Exit poll rumors.** In 2004 the early exit polls were leaked, and the market moved sharply in response to this news -- even as the major networks refused to report on this development. As it turned out, those exit polls provided a false signal.

Access to exit polling has since been significantly tightened, reducing the chances of a leak this year. Still, rumors will swirl and the markets remain a useful way of sorting out whether these rumors are credible.

- **Voter turnout.** New prediction markets [linked to turnout](#) will provide a way to aggregate the dispersed stories we will be hearing from all corners of the country. So far, volume in this market has been fairly weak, but what little trade there is suggests that it is probable that turnout will [exceed 60%](#) (but 65% turnout is [unlikely](#)). If turnout soars, this is likely good news for Sen. Obama, who is favored among younger voters and minorities who tend to vote less regularly. High turnout may also suggest that the substantial Democratic investment in [increasing voter registration](#) is paying dividends.

- **Early notice on key states.** We will be keeping tabs on the [state-specific markets](#) so as to better understand what is driving the headline numbers. Expect the networks to be reluctant to "call" a state on the basis of exit polls that are anything other than conclusive. By contrast, traders will respond immediately to any news, permitting a useful assessment of how persuasive the exit poll data are.

Hour-By-Hour Guide

In the [2006 election](#), we observed the prediction markets moving sharply for the winning Senatorial candidates at least half an hour before the major networks

discussed the trends. We expect the networks continue to be excessively conservative, saying little, even as the balance of probabilities becomes clearer. Traders will not be so constrained.

For those who will be following the scores in real-time, here's our hour-by-hour viewing guide (all times Eastern Standard):

- **Approaching 6 p.m.** Voting closes in most of Indiana, and we will be waiting to see whether exit polling data will become public even as voting continues in the city of Gary. Sen. Obama has [about a 38% possibility](#) of victory in this traditionally red state. Any indication that he's still holding strong is a bad sign for John McCain in this must-win state.
- **Approaching 7 p.m.** Virginia, Georgia and Indiana will be closing their polls. Virginia, currently rates Sen. Obama an 86% chance to win this large state. Virginia is a useful bellwether for the validity of pre-election polls, and an Obama hiccup in this state could provide the first hints of a Bradley effect. By contrast, an Obama victory in Indiana, or even keeping the election close in Georgia (where he is rated a [25% chance to win](#)) would send Sen. Obama's stock soaring. If this occurs, the networks -- looking to build tension -- won't call the election, but traders will call the race immediately, potentially allowing market-watchers to begin celebrating, or drowning their sorrows.
- **Approaching 8 p.m.** Pennsylvania's polls will close. If all of the states are lined up from most likely to go Obama to least likely, Pennsylvania is the pivotal state that puts each candidate over the line. Yet, at just over a [90% chance for Obama](#), the markets are skeptical that Sen. McCain has made this traditionally blue state competitive. Any sharp movement in the Pennsylvania market will be paralleled by an equally sharp shift in the chances of an overall Obama victory.

Those election-watchers who want the tension to continue past 8:30 p.m. should be cheering for an uptick in Sen. McCain's stock in Pennsylvania. If this doesn't occur, then the only real questions will be whether we are looking at an Obama landslide.

Missouri -- whose polls also close at 8 p.m. -- is a useful indicator of just how strong Sen. Obama's support is. Markets currently rate Missouri [a tossup at around 50%](#). If Sen. Obama wins, we expect him to ultimately prevail by as many as 200 electoral college votes.

- **Approaching 9 p.m.** Attention will focus on Colorado, which had been rated the pivotal state for most of October. In mid-September the markets rated Sen. Obama a 55% chance to win Colorado, giving him the slightest of leads in the electoral projections. By the end of September, his stock had risen to 70% and was approaching 80% by mid-October. Colorado is currently rated a [90% chance to vote Democratic](#). Unless Sen. McCain sweeps every state in which he is currently favored, then Colorado is a must-win for him.

Senate Races

At this point, attention may well shift away from the presidential race and towards Congress. Markets suggest it is a near certainty that the Democrats will maintain control of both the [House](#) and [Senate](#). But there are some interesting Senate races that remain significant.

There are four races we will follow closely.

- **North Carolina.** The race between Republican incumbent Elizabeth Dole and Democrat Kay Hagan which is leaning [over 80%](#) toward the Democratic challenger.
- **Minnesota.** The race between Republican incumbent Norm Coleman and the Democratic challenger Al Franken is currently [rated a tossup at 50%](#). If the other races go as expected, a Franken victory would give the Democrats 59 votes in the Senate (including independents).
- **Kentucky and Georgia.** These two races represent long shots in the Democratic attempt to capture a 60-seat filibuster-proof majority. The Democrats have about a [27% chance](#) of taking Georgia's and a [16% chance](#) at a victory in Kentucky, where Senate Minority Leader Mitch McConnell is the Republican incumbent.

And for the true political aficionados, a reminder: the 2012 Presidential election is just 1,463 days away and [the markets are already open](#).

David Rothschild and Justin Wolfers are PhD student and associate professor, respectively, in business and public policy at the University of Pennsylvania's Wharton School. Write to Justin Wolfers at predict@wsj.com.

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved
This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com