

Nobody gets better alone.

An industry built on testing its beliefs
deserves a newspaper that puts it to the test.

Truth Machines

The official publication of Predict 2026

Truth Machines

THE INAUGURAL ISSUE
OCT 2026

ISSUE NO. 1

Welcome to the inaugural issue of Truth Machines.

Truth Machines is a periodical from within the prediction market industry, featuring writing by traders, investors, builders, and researchers.

We believe binary event contracts can reach institutional scale and fundamentally change how people manage risk and think about the future. But not every project in the space advances that goal.

We aim to publish articles that highlight exciting projects, get into the weeds of day-to-day developments across the ecosystem, and ask tough questions of an industry we believe in.

Our contributors' views do not necessarily reflect those of the publication, and we welcome perspectives that challenge our own.

Find these articles with additional content and linked sources online at truthmachines.com.

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YES

Two editorials on new products, people, and ideas within the prediction market industry.

FCMs specializing in prediction markets

JESSE ROSEN

Serious institutional involvement in prediction markets requires serious infrastructure. There is a real need for futures commission merchants (FCMs, the CFTC-registered brokers that hold customer funds and can extend margin) that understand prediction markets and can serve them with margin, trusted unified APIs, and analysis tools.

Many terminals claim to be the "Bloomberg Terminal of prediction markets," but few offer much more than someone could vibecode in a week. Popular features include copy trading, a unified API across exchanges, special order types, and P&L and risk analysis tools.

At best, these are free or affordable tools that help non-technical traders. At worst, they inflate uninformed traders' confidence while charging fees, routing orders slowly through haphazard APIs, and flagging false "arbitrages" between contracts that look alike but settle differently. They could also sell trader data or front-run their users' trades.

Separately, several companies, such as Gondor, Dimes, and Ultramarkets, presently offer leverage on prediction market positions. All of them are built on Polymarket's offshore, crypto-based exchange; none yet serves CFTC-regulated markets. As regulated exchanges have overtaken their offshore, crypto-based rivals in volume, the opportunity for regulated, onshore margin providers is growing. The exchanges themselves are already moving: Kalshi's affiliated FCM registered in March and Polymarket applied for its own FCM license in July.

As of September 2026, every CFTC-regulated clearinghouse still requires event contracts to be fully collateralized, so there is no margin yet for FCMs to pass on to customers. That may change soon: Kalshi's clearinghouse asked the CFTC on September 22 to allow margin on some event contracts, cleared through FCMs, though not on sports, culture or mention markets.

An FCM is well positioned to offer both tools and margin to firms within the trusted framework of US regulation. Once clearinghouses allow margin on event contracts, Kalshi's affiliated FCM, and Polymarket's if approved, may give credit for hedged or diversified positions on their own exchange. An exchange-agnostic FCM has more reason to serve portfolios that span exchanges, with the trading infrastructure to build them. As exchange rules allow, it may also extend credit funded from its own or its investors' capital. Where an FCM holds both legs of a hedge across exchanges, it can lend against its net risk rather than the full value of each position, and offer cheaper capital than lenders who see only one exchange.

Margin on prediction markets can be risky. Binary event contracts can jump straight to $0 or $1. If what was expected to be a cross-venue hedge fails, for example because two venues settle similar contracts differently, and the customer cannot cover the deficit, an FCM may need to write off the loss. If that pushes the FCM's adjusted net capital below the CFTC's minimum requirement (at least $1 million), the FCM can be forced to transfer customer accounts and stop doing business, and may end up in bankruptcy.

Unlike unregulated terminals, which earn fees without bearing any losses, and many crypto lending protocols, where depositors rather than operators absorb bad loans, an FCM covers a customer's unpaid losses from its own capital. The requirements and consequences imposed by the CFTC give FCMs strong reason to match equivalent contracts correctly across exchanges, display risk realistically, and lend responsibly. Because the FCM has skin in the game, it is rewarded for service quality, not just customer acquisition.

Established FCMs are entering the prediction market space, and prediction market companies are registering as FCMs. While experienced FCMs know margin, clearing, and risk, prediction market companies know the contracts and traders. The biggest opportunity, for the FCMs and their customers alike, lies where these strengths are combined.

For the NO editorial, see pages 5 and 6.

"Because the FCM has skin in the game, it is rewarded for service quality, not just customer acquisition."

Jesse Rosen is a prediction-market liquidity provider and co-organizer of Predict 2026.

NO

One in favor. One against.

SafeBets and the manufacturing of credibility

TANNER LUX

If a stranger on the street offered you the prospect of "risk-free" money, you would probably keep walking. Skepticism is a natural defense against untested ideas, products, and businesses, especially when the person selling them promises something for nothing.

Of course, we cannot be skeptical of everything. We need some reason to believe that a new restaurant will not give us food poisoning, that the brakes in a car will work, and that a reported story has been checked before it reaches us. Individually investigating every claim we encounter would be impossible. Going through life trusting nothing would be equally impossible.

To solve this problem, society developed institutions that perform some of the vetting for us. These include government agencies and the press, but also less formal authorities: trade publications, podcasts, professional associations, and industry conferences.

These institutions are supposed to act like a well-informed friend. They can stand between us and the stranger when his claims collapse under scrutiny. When the claims survive scrutiny, they can make a warm introduction.

Unfortunately, some of the institutions emerging around prediction markets have recently shown themselves dangerously willing to make the introduction without first asking the obvious questions. By publishing credulous profiles, awarding keynote stages, and selling sponsorships without meaningful scrutiny, organizations that aspire to speak for this industry are lending their reputations to companies that have not earned them.

SafeBets is a company making a similar claim to our stranger on the street, and provides us with a particularly useful case study on the state of our institutions in the prediction market industry.

What is SafeBets?

I first encountered SafeBets in April of this year at the Prediction Markets Conference in Las Vegas, where the company was a sponsor. I heard its keynote, spoke with its representatives, and interviewed its founder, Alex Konanykhin, in my capacity as a contributing writer for the industry publication Prediction News.

SafeBets describes itself as a "risk-free" forecasting platform. Users do not deposit cash or wager their own money. Instead, they make predictions about financial markets and can receive rewards for being correct. SafeBets says it will identify its most accurate forecasters, aggregate their judgments, and use those signals to trade cryptocurrencies, equities, commodities, and currencies.

If the concept stopped there, it might be an interesting experiment in collective intelligence. It does not stop there.

SafeBets has announced a goal of reaching 200 million users and producing more than $10 billion in annual trading profits by 2030. The company launched publicly in April 2026. It has therefore given itself roughly four years to build one of the largest consumer platforms and one of the most profitable trading operations on Earth. Its public explanation relies on a flywheel business model: more forecasters will create better signals; better signals will produce better trades; better trades will finance larger rewards; and larger rewards will attract more forecasters.

The primary problem with this idea is that SafeBets assumes gathering enough accurate forecasters will produce enormous trading profits. But predicting where a market is headed is not the same as finding a profitable trade, especially at the scale the company projects.

When I heard that pitch in Las Vegas, I regarded it as a particularly absurd projection. Such projections are neither illegal nor uncommon. So I filed away my interview notes, never published the article, and moved on.

Unfortunately, those huge numbers were only where my skepticism began.

Unicoin and an alleged $110MM fraud

SafeBets, as a new company, does not have a record to support its large projections. Its founder, Alex Konanykhin, does have a record —one that includes being charged in federal court by the SEC. Konanykhin is not only the founder of SafeBets, but also the chief executive and board chairman of Unicoin. The SEC alleges that Unicoin and several executives raised more than $100 million from thousands of investors using false and misleading claims.

According to the agency, Unicoin represented that its tokens were backed by billions of dollars in real estate and interests in pre-IPO companies, despite those assets allegedly being worth only a fraction of that amount. The SEC also alleges that Unicoin claimed to have sold more than $3 billion in rights certificates when it had raised no more than $110 million, and that it described its certificates or tokens as "SEC-registered" or "U.S.-registered" when they

were not. The case remains a civil action, and Unicoin denies the allegations, portraying the lawsuit as part of an unjust "war on crypto."

Continued on page 6.

THE POSITION

> *An accusation alone should not make a person untouchable. But a pending fraud case should elicit questions.*

AN EDITORIAL AGAINST

NO

SafeBets and the manufacturing of credibility

CONTINUED FROM PAGE 5

That dispute cannot responsibly be treated as a footnote unrelated to SafeBets. The two ventures share more than a founder.

Unicoin's own annual report says that in February 2026, it agreed to provide SafeBets with a revolving credit line of up to $5 million. In return, SafeBets agreed to issue Unicoin 50 million shares.

SafeBets, in turn, uses unicoin as its network token. Its launch announcement said users would earn unicoins through their forecasting activity and that SafeBets intended to spend between 15 and 25 percent of its revenue purchasing unicoins on cryptocurrency exchanges. The stated purpose of those purchases was to increase the token's liquidity and price stability.

The credibility assembly line

Despite these facts, which should at least prompt compelling answers from SafeBets before anyone promotes it, the company was not merely permitted to buy an advertisement at the Las Vegas Prediction Markets Conference. It was given a keynote slot from which to present itself to people interested in prediction markets as an investment opportunity. The company later used photographs from that appearance in an update sent to people interested in Unicoin.

The pattern continued at one of the iGaming industry's top conferences, SBC Summit Americas in Fort Lauderdale, where SafeBets sponsored, exhibited, and delivered a keynote. A company email advertising the appearance was titled "UNICOIN & SafeBets," leaving little doubt that the two brands were being promoted together.

The organizers of these events may have conducted diligence that is not public. If so, they should explain what persuaded them. Did they examine the $10 billion profit projection? Did they ask how forecasting accuracy would be converted into tradable excess returns at that scale? Did they review the relationship between SafeBets and Unicoin? Did the SEC's allegations affect their decision at all?

An accusation alone should not make a person untouchable. But a pending fraud case should elicit questions.

The press has performed much the same function as these events in bolstering SafeBets' credibility.



"I'd love to keep talking, but at this point I'm just leaking alpha."

Prediction Market Edge published a profile with a headline fit for a movie poster: "He Survived the KGB, Built a $300 Million Empire Before His 30th Birthday, And Now He's Trying to Make Prediction Markets Risk-Free. Good luck telling him it can't be done."

The profile did identify a complication in the "risk-free" claim: users spend gifted unicoins to make predictions, meaning an incorrect prediction may destroy something with potential economic value even if the user never deposited cash. But the article said nothing about the SEC case against Unicoin, even while discussing Unicoin as the source of user rewards and celebrating the biography of the man accused in that case.

SBC News, the media wing of the SBC Summit, later introduced SafeBets as a new contender entering the arena with Kalshi and Polymarket. It interviewed Konanykhin at length about responsible participation, consumer protection, and regulatory distinctions. The article also did not mention Unicoin or the SEC's allegations.

Then there are the recirculated articles that appear to multiply without independent scrutiny.

On May 27, the World Financial Review and Business Insider Africa published highly similar accounts of SafeBets and its parent, Foresight Collective. Large portions follow the same structure and use substantially overlapping language.

That is how the credibility assembly line works. A company makes an extraordinary claim. A conference places the founder on stage in front of the industry. A publication writes a profile. The company cites the profile, photographs the keynote, and presents both as proof on its website and in investment pitches. The next organizer or writer sees the accumulated logos and assumes the vetting has already occurred.

At no point does anyone need to lie. They need only decline to look closely.

What I think institutions owe an emerging industry

Outside of trading prediction markets directionally, I also co-organize Voliti Co's Predict 2026, a conference at the Times Center this December 7–9, and co-edit Truth Machines, the publication you're reading now.

Those roles give me some say in who gets on a stage and whose work gets published, which feeds into the credibility assembly line. I want to use that position to lift up reputable teams and people with fresh ideas, even when I disagree with them. As the prediction market ecosystem grows, I hope other organizations in the space will do the same. An industry promising truth-seeking and accuracy needs to provide transparency and honesty.

WHY INSTITUTIONS AREN'T IN PREDICTION MARKETS YET

The demand is real. The supply isn't.

ADAM SUSSMAN

Operating Partner, Markets & Wealth, Stack VC

"Do not mistake my impatient enthusiasm for skepticism."

Institutions are not meaningfully participating in prediction markets because current offerings are not built to support the regulatory, trading or technology requirements of sophisticated trading desks of a money manager. The demand is tangible, it is the supply that is lacking.

While it would be easy to come up with reasons for why the early movers haven't built institutional-focused products, it is also completely in line with the adoption curve of many market innovations. In the late 1990s I worked at Datek Online, one of the first online brokerage companies which also gave rise to the Island ECN, one of the first automated matching engines.

It took another seven years before electronic trading became a staple on institutional trading desks and only became the dominant execution method in the back half of the next decade.

While it is true that institutional adoption will always lag the more nimble and fickle retail market, the adoption won't even start until the right products are built.

This is where Stack sees a tremendous amount of opportunity to help build durable businesses that will survive the inevitable end to the current hype cycle in sports-related, gaming-adjacent, retail-centric models. It is early days for those markets. There is plenty of time for competition on price and product to produce winners whose names are not yet known. On the other hand, the slow burn of building an institutional business is usually accompanied by more stable flow and market share.

The baseline needs of the institutional market are not rocket science. At the risk of stating the obvious, here are a few.

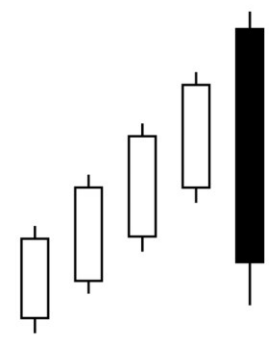
— Deterministic resolution: If contract design does not allow for an unassailable resolution and post-settlement certainty then the contract shouldn't exist.

— Regulatory status: Self-certification is no longer an advantage unless there is certainty on whether the product falls under the jurisdiction of the SEC, CFTC or both.

— Front-office software: Integrations are needed throughout the investment process tech stack including portfolio construction, risk management and trading.

These are not opportunities for differentiation. These are part of the minimum viable product. The list is incomplete and gets longer as we move from private funds to public funds.

At this stage in its lifecycle, it makes sense that prediction markets are not ready for institutional participation. Do not mistake my impatient enthusiasm for skepticism. Event contracts have the potential to change the way we invest in ways we haven't seen since the introduction of futures and options.



Why I care about prediction markets

STU BURGUIERE

Host of Predictable w/ Stu

I've spent most of my adult life in news and commentary: CNN, Fox, BlazeTV, and nearly three decades alongside my friend Glenn Beck. I'm proud of the work we've done together and grateful for the people who have made us part of their daily lives.

I've always enjoyed digging into a story, testing an argument, and helping our audience figure out what matters. Prediction markets give me another tool for that work. They offer a useful way to check competing claims and put the day's news into perspective.

Over the years, I've heard from people who followed elections closely and were blindsided by the results. They cared enough to pay attention. But sorting through everything coming from campaigns, news coverage, and social media can challenge even the most careful observer.

I've been there myself. Having a microphone provides surprisingly little protection from believing something you'd really like to be true.

At What Price?

Imagine a new poll showing a close race. The campaigns find their preferred numbers. A mainstream outlet builds a story around momentum. A partisan outlet reassures its audience. Social media finds the sentence most likely to start a fight. By dinner, you've encountered the same information six different ways, and somehow both candidates are about to win in a landslide.

There's excellent reporting and analysis available. The problem is that it competes with material produced for other purposes. A campaign wants your vote and your donation. A television network wants you watching after the commercial. The person posting in all caps would appreciate a repost. Accuracy has to compete with those incentives. It doesn't always win.

Prediction markets give people a financial reason to challenge the story. If enthusiasm pushes a price beyond what the evidence supports, someone who recognizes that gap has an opportunity. The argument has to survive a question that rarely gets asked on television: At what price?

"At what price?"

That's an important distinction. Almost any outcome can be made to sound plausible. A good storyteller can assemble enough favorable evidence to make you feel confident. Deciding what that outcome is worth requires a more demanding assessment, including the evidence you'd prefer to leave out.

I appreciate having something that makes me do that. I'm much better at spotting wishful thinking when it belongs to someone I disagree with.

The comparison between coverage and prices can be especially revealing. A headline announces a supposedly dramatic development, but the relevant market barely moves. Maybe traders expected it. Maybe the story exaggerated its importance. Maybe the market is missing something. Working through those possibilities gets you further than another argument about whether the news was "devastating."

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Why I care about prediction markets

CONTINUED FROM PAGE 8

"The person announcing a sure thing ought to be able to explain why it's still available for 38 cents."

The reverse is worth watching, too. A price can shift while the dominant story stays the same. That disagreement gives you somewhere to focus your reporting: What changed? Who has noticed? Is the move supported by new information or just a few trades?

That's the kind of coverage I want to produce. The price provides a starting point for questions that might otherwise get buried under the day's preferred argument.

Useful Beyond The Trade

And the usefulness extends well beyond the people placing trades. Kalshi reported in July that roughly three-quarters of its visitors check odds without trading.

That's the use I find most exciting: people turning to a market simply to understand the world better. They can compare the confidence of the coverage with the uncertainty reflected in the price. They can follow a developing story without having to take anyone's declaration of certainty at face value.

The traders do the work of putting a price on the outcome, and everyone else gets to use that information. A person who never buys a contract can still benefit from the research and disagreement behind it.

I'm particularly interested in what happens when a market challenges a story I find persuasive. It's tempting to investigate disagreements more vigorously when they come from the other side. A price sitting there in front of you makes your own assumptions harder to avoid. You can disagree with it, but you ought to have a better explanation than liking the alternative.

Another Way To Follow The News

Markets deserve scrutiny themselves. Traders have biases. Thinly traded contracts can give an incomplete picture. Crowds can get carried away. Attaching a dollar sign to an opinion doesn't grant its owner a sudden understanding of everything. One of my favorite rules in our Predictable Constitution remains: A sure thing always has air quotes.

That's the approach behind Predictable w/ Stu: follow the news through these markets, examine what the prices suggest, and question them when the evidence points elsewhere. Sometimes the market will catch something the coverage missed. Sometimes it will join the excitement and need the same scrutiny.

After a career spent sorting through competing claims, I find the discipline enormously useful. Markets give us a reason to test a story, reconsider an assumption, and pay attention to evidence we might otherwise dismiss.

The next time a campaign, cable panel, or social media account tells you an outcome is inevitable, compare that confidence with the market.

The person announcing a sure thing ought to be able to explain why it's still available for 38 cents.



*"I'm seeing a jacket...
or maybe it's not a jacket."*

Prediction markets beyond sports

TRUTH MACHINES TEAM

If prediction markets are to become tools for institutional forecasting and risk management, their scale outside sports deserves close attention. This snapshot separates the broad Assets category from the other non-sports markets, then compares those markets across venues.

SEPTEMBER 2–OCTOBER 1, 2026

30 DAYS / FIVE VENUES / SPORTS EXCLUDED

Assets dominate

Digital assets account for $6.71 billion of the non-sports total. The broad Assets grouping also includes commodities, indices and company events. Trading in elections and economic releases represents a much smaller share of the total.

REPORTED NON-SPORTS VOLUME



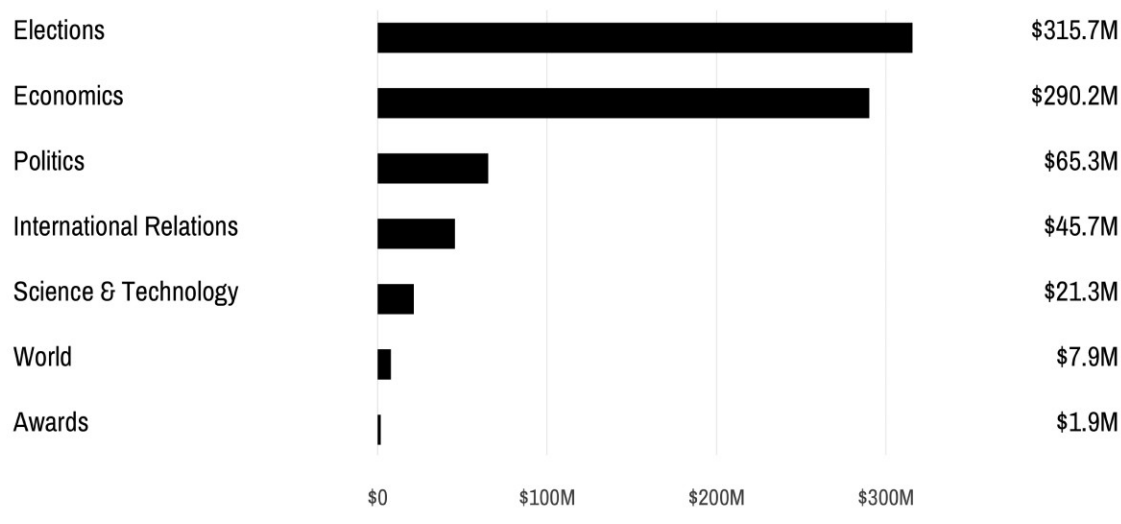
$8.28B

TOTAL REPORTED NON-SPORTS VOLUME

Outside Assets

Elections and Economics account for 81% of the remaining volume. Within Economics, central-bank policy accounts for 94% of trading. Contracts on inflation and other economic releases therefore have much less activity than the category total might suggest.

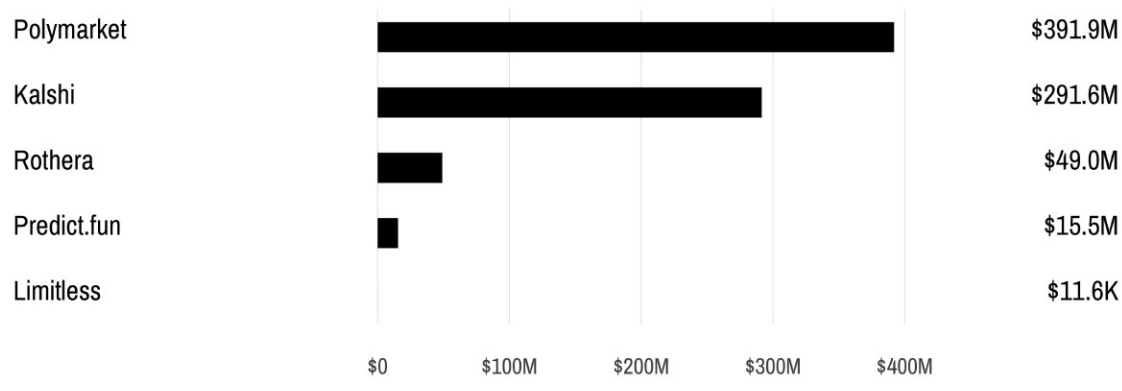
BY CATEGORY / $748M TOTAL



Where these trades happen

Polymarket leads in volume absent sports and assets, while Kalshi leads the broad non-sports total.

BY VENUE / THE SAME $748M



The Scale of OTC Trades Is Ambiguous

The scale of over-the-counter event-linked trading remains unclear. These exchange figures do not establish how much institutions and businesses use bilateral contracts to hedge risk. Some activity may fall outside the exchanges shown here, while other privately negotiated trades execute on an exchange. Certain categories could therefore be larger than these totals suggest, but the size of that gap remains unresolved.

Data sourced from Stack VC: https://markets.stack.vc/

Position limits can keep prediction markets honest

Limiting position size on vulnerable contracts could preserve public forecasts while reducing the reward for changing the outcome.

JESSE ROSEN

My favorite aspect of prediction markets is that they give anyone, especially non-traders, free access to easy-to-understand, well-calibrated probabilities. Expert opinions can be expensive, difficult to digest, and often hard to trust when one does not know a subject well enough to judge how qualified or biased the "expert" is. Prediction markets provide simple probabilities aggregated from many traders. This gives real public value even to markets that are not used for hedging.

That public value is threatened when a market rewards traders for changing an outcome rather than predicting it. I have written previously about how prediction markets can get into trouble with markets on leaders leaving office. Unless the rules carefully specify settlement timing and price for such cases, an unforeseen threat can turn a politics market into a death market. The biggest danger of a death market is that it can effectively put a bounty on someone's head.

Plenty of other prediction market contracts also create incentives to alter the world for profit. While the CFTC prohibits listing of contracts readily susceptible to manipulation, more difficult manipulation will become more common as the financial incentives to cheat grow. Position limits scaled to the manipulation risk of markets and potential harm of such manipulation are a simple solution to reduce this risk.

Beyond obvious insider cases (e.g. the White House teleprompter operator betting on Trump's speeches), we have already seen people with no inside access meddle with reality for profit: a bot inflating Spotify streams, a hair dryer allegedly aimed at a temperature sensor at a Paris airport, and at least one person shouting words at a political event, hoping the mention market subject would repeat them. At least one reporter who refused to change the facts in his article received death threats from traders with money on the line.

As prediction markets become larger and more liquid, the financial incentives to cheat grow. When millions of dollars ride on prediction markets, even ones that do not have a clear business or hedging use case, the payoff from manipulating reality grows with them. Even if compliance teams caught every instance, which they won't, manipulation harms traders and non-traders alike. On September 22, CFTC staff issued an advisory on mention markets warning that they may be presumptively "readily susceptible to manipulation" and can be listed only in limited circumstances. Exchanges should expect similar guidance on other categories of markets as volume grows enough to reward creative manipulation.

One sensible way to curb manipulation while preserving public forecasts is to cap position sizes according to each market's manipulation potential and sensitivity (how difficult manipulation would be, and the consequences of such manipulation).

As a liquidity provider, I have been reluctant to commit to quoting obligations on many markets because someone could build a large position and then alter the outcome. These manipulation cases are rare, but each one can be costly. Even if the exchange catches the manipulator, which is not a given, losses may not be recouped. With position limits in place, liquidity providers like myself could provide deeper liquidity and quote these markets more consistently.

CONTINUED ON PAGE 12

Position limits, continued

CONTINUED FROM PAGE 11

For example, the cap might be $2,000 on a given word Trump will say this week, because it's possible for this market to be manipulated like in the above example of an individual shouting words at a rally. The cap may be lower, at something like $500, for a market such as whether Tim Walz leaves office as Governor of Minnesota before his term ends. These "leader out" markets are interesting and their forecasts are important, but they risk violence through a misunderstanding of the rules even if the rules correctly handle cases of violence.

Where a genuine business use case exists, large hedges could be executed as block trades exempt from the cap, which allows brokers and exchanges to screen customers and monitor for compliance concerns. Block trades also limit slippage, a major problem in markets with thin order books, which are characteristic of these more vulnerable markets because they also tend to have large information asymmetries.

But wouldn't accuracy suffer if traders who know the most about an event can't trade enough to move the market? Surprisingly, position limits do not seem to hurt accuracy. A Vanderbilt study of the 2024 election by Joshua D. Clinton and TzuFeng Huang found that 93% of PredictIt markets predicted outcomes better than chance, compared with 78% on Kalshi and 67% on Polymarket. At the time, PredictIt capped each trader at $850 per market. Today, that cap is $3,500. There are many other differences between the platforms, so we cannot say position limits increase forecast accuracy, but there is not evidence that they harm it.

CFTC-regulated exchanges do already have position accountability levels, above which the exchange may require a trader to explain their strategy or order them to stop adding to the position. On Kalshi, this level is typically $25,000 per strike, though it varies by market (and this $25,000 position accountability level used to be a hard position limit until November, 2024). The exchanges still sometimes also have hard position limits, but those are far higher, such as the $7 million per-strike limit for individuals on some Kalshi contracts. Sharply lowering these limits on sensitive or vulnerable markets could make them less vulnerable to manipulation and scandal, and help them survive regulatory scrutiny.



"The bad news is your review. The good news is you called it."

"What position caps do is remove the lowest-hanging fruit for potential manipulators."

Position caps are not the perfect solution. Coordinated groups of bad actors may accumulate positions beyond the limit in aggregate, or some manipulators may be incentivized by lower dollar amounts than others. Block trade exemptions may also be abused by an individual or company only pretending to hedge. What position caps do is remove the lowest-hanging fruit for potential manipulators, making prediction markets safer for traders and for the world.

Exchanges that want to offer a tradeable market on nearly any outcome should consider this: where there is a risk of manipulation or potentially devastating consequences if manipulation occurs, position limits can reduce an individual's incentive to manipulate the world around them for profit, while preserving the free public forecasts that make these markets valuable.

What is an expert?

EDWIN DORSEY

Experts are commonly defined as people with "a high level of knowledge, skill, or training in a specific field." In reality, experts are often people who sound smart, look good on TV, have a fancy pedigree, and are often incorrect and even incentivized to be incorrect.

"Experts" are motivated by attention, media headlines, selling books, building a social media following, and hobnobbing with the elites. Experts can be captured by the very interests they are supposed to opine on, are often boxed in by past statements, and no longer have the trust of many Americans.

Prediction markets offer an alternative way to identify experts and distribute expertise.

I believe the people best at predicting the future are people with a good track record of predicting the future. These are not the "experts" you find in media; they are the top traders on prediction markets.

If CNN or Fox wants accurate election punditry, they should look at the prediction market leaderboards and interview the likes of lostzemblan, Bernard, and Domer, who have made millions by correctly predicting hundreds or thousands of elections.

Unlike traditional "experts," prediction market traders are incentivized by only one thing: correctly predicting the outcome. Those who have a strong track record accumulate more capital; those with poor track records lose their money. The markets naturally become smarter over time as the smart money compounds and the dumb money doesn't.

This pattern of rewarding correct and punishing incorrect isn't as strong in traditional media punditry. Those who make horrifically incorrect or sensationalized predictions often get even more attention and airtime than those closer to reality. Over time, it is inevitable that prediction market traders will be seen as experts in the fields where they are, well, experts. But unlike traditional expertise, which is monetized through consulting, advising, and book writing, prediction market traders can monetize their expertise in markets that are widely and freely available, easily accessible, and very understandable to all.

Stock markets are another domain in which expertise is directly monetizable, and as a result, the demand for high-quality information is incredibly high. Specialized publications like The Capitol Forum or databases like Tegus can charge customers upwards of $10,000 to access high-quality information on matters relevant to financial markets.

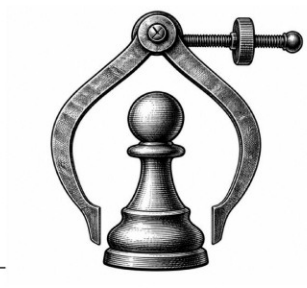
The same demand for high-quality information will be created by prediction markets. Traders earning and wagering millions will want to pay tens of thousands for high-quality journalism and high-quality polling; they are complements, not substitutes.

"Prediction markets offer an alternative way to identify experts and distribute expertise."

Prediction markets lower the bar for who can compete for the title of "expert," make the process for assigning "expertise" more meritocratic, and create a downstream demand for accurate information.

In sum, prediction markets will bring out high-quality information and display it in markets anyone can look to for high-quality forecasts. This information, whether it be the risk of a hurricane hitting your ZIP code, legislation passing in your state, or a war escalating in your country, will help you make more informed decisions.

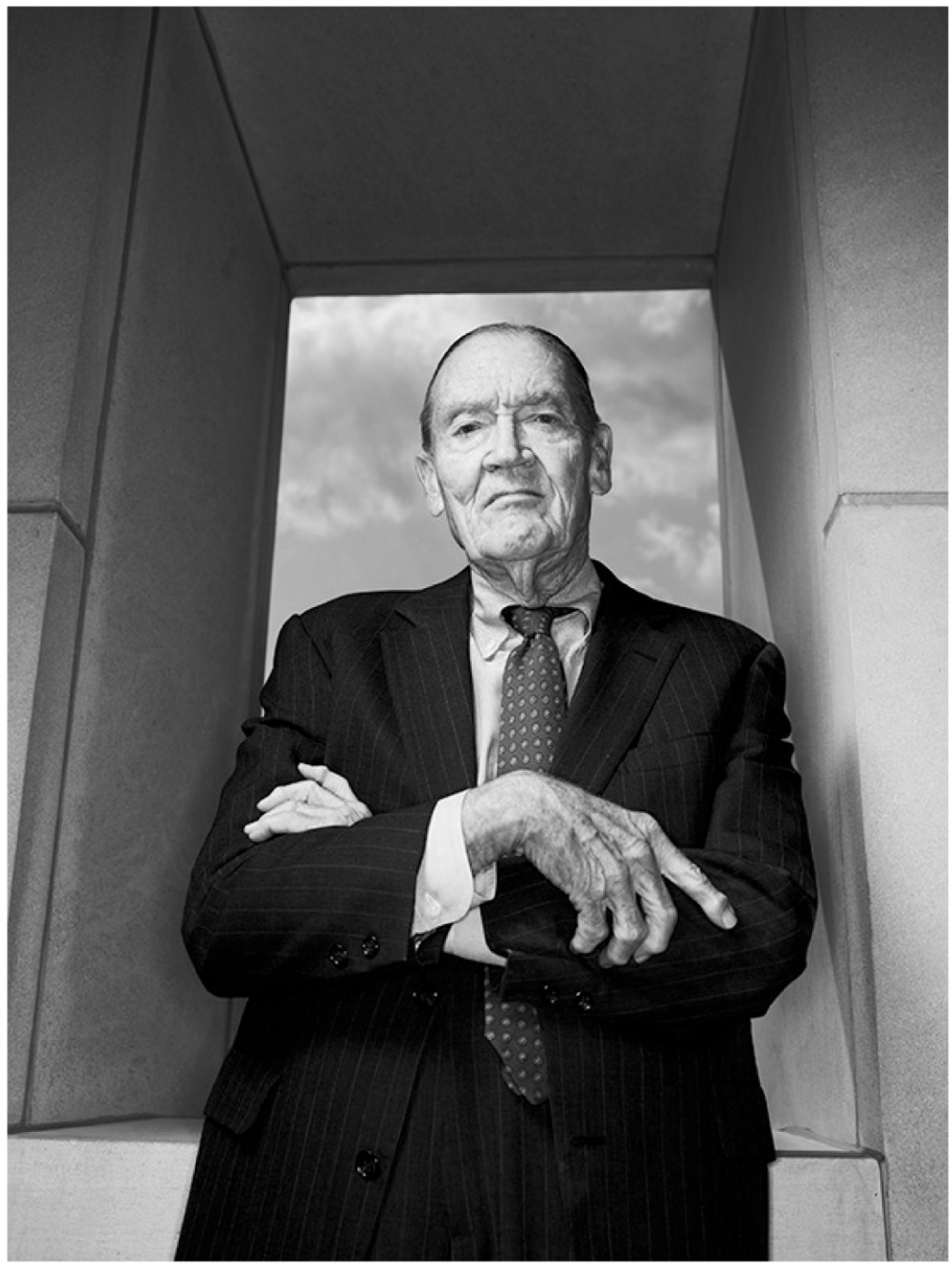
Among their many benefits, prediction markets will help displace fake experts with real ones.



Edwin Dorsey previously built and sold The Bear Cave, a newsletter focused on exposing corporate misconduct, continues to operate several financial media businesses, and is an active trader on prediction markets. Edwin can be reached at edwin@585research.com

What do prediction markets owe the public?

TANNER LUX



John C. Bogle, photographed March 6, 2007.

Bill Cramer / Wonderful Machine · CC BY-SA 4.0

FROM THE SENATE RECORD

S. Hrg. 108–461

OVERSIGHT HEARING ON MUTUAL FUNDS: HIDDEN FEES, MISGOVERNANCE AND OTHER PRACTICES THAT HARM INVESTORS

HEARING

BEFORE THE

FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

JANUARY 27, 2004

Printed for the use of the Committee on Governmental Affairs

The January 27, 2004 hearing examined hidden fees, governance and practices that harmed mutual fund investors. Bogle was among its witnesses.

U.S. Senate · S. Hrg. 108–461 · govinfo.gov

In 2003, revelations of impropriety forced the mutual fund industry to confront whom it was serving. Some firms had allowed favored traders, including the hedge fund Canary Capital Partners, to profit at the expense of ordinary shareholders through arrangements that contradicted what those firms had told the public.

One of the gravest issues was late trading, which allowed Canary to purchase mutual fund shares after the market had closed while still receiving that day's closing price—a privilege unavailable to ordinary investors. As New York Attorney General Eliot Spitzer put it, favored traders were effectively allowed to engage in "betting on a horse race after the horses have crossed the finish line."

Investors pulled money from implicated funds, and the backlash continued into 2004, when Jack Bogle, the retired founder of Vanguard, testified before the United States Senate. In his testimony, Bogle railed against institutions established to serve investors instead focusing on serving the companies managing their money.

"Our industry's future depends on the simple recognition that the management of Other People's Money is a loyal duty and solemn trust,"

Bogle said.

Continued on page 15

What do prediction markets owe the public?

CONTINUED FROM PAGE 14

At a time when it would have been easy to oppose further regulation—to argue that the misconduct of a few bad actors did not justify imposing new rules on firms like Vanguard—he recognized the gravity of the situation and understood that something needed to change.

Prediction markets are not mutual funds, and their operators do not generally manage customers' savings in the manner described by Bogle. But the prediction market industry has nevertheless assumed forms of public trust. Its institutions accept customer funds, establish trading rules, monitor market conduct, and determine how contracts are resolved.

Beyond this, the industry is also being entrusted with something less tangible: the public's understanding of truth. A poorly constructed or manipulated market therefore risks doing more than harming its traders. It can produce misinformation. Consequently, the long-term opportunity for prediction markets carries obligations extending beyond the short-term excitement currently in vogue.

Serious people in prediction markets must focus on supporting responsible, well-regulated institutions; encouraging projects that improve forecasting, market quality, and consumer protection; and, when necessary, making the public aware of actors whose conduct threatens the credibility of the field.

I'm not entirely sure what role the prediction market industry will play in society as it grows, regulation evolves, and perhaps agentic forecasting changes the space.

Timeline

SEPTEMBER 2003–MARCH 2004

03 SEP 2003

The Canary complaint

New York's attorney general files a complaint exposing favored traders' late trading and market timing arrangements.

NEW YORK ATTORNEY GENERAL

28 OCT 2003

The investigation widens

The SEC brings proceedings against Putnam over alleged undisclosed personal trading by portfolio managers.

SEC · RELEASE IA-2185

NOV 2003

"Scandal Tarnishes Mutual Funds"

The Washington Post reports on the scandal and regulators' response.

THE WASHINGTON POST

08 DEC 2003

"The Real Fund Rip-Off"

TIME's coverage turns to the continuing cost of fees as well as the trading abuses.

TIME · DECEMBER 8 ISSUE

27 JAN 2004

Bogle testifies before the Senate

A hearing on fees, governance and harm to investors brings the industry's obligations to Capitol Hill.

U.S. SENATE · S. HRG. 108–461

05 FEB 2004

$225 million and governance reforms

The SEC announces an MFS settlement over market timing permitted contrary to public disclosures.

SEC · RELEASE 2004-14

15 MAR 2004

Bank of America's proposed settlement

The SEC announces a $375 million agreement in principle, subject to Commission approval and final

As we conclude this inaugural issue of Truth Machines, I hope you can keep this question in mind: What is our industry's loyal duty and solemn trust?

Until next time,

-Tanner Lux

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Robin Hanson
George Mason University

Domer
Prediction-market trader

Nicole Kagan
Head of Research, Kalshi

Jacob Fortinsky
CEO, Novig

Brian Jabarian
Scientific Director, Polymarket Institute

Lost Zemblan
Prediction-market trader

John Phillips
CEO, PredictIt

PMT
Streamer & Market Commentator

Oscar Levy
Co-Founder, River Markets

Stu Burguiere
Host, Predictable with Stu

Henrik Boecken
Head of Trading, HJBL.

Eli Goldfine
Author, The Super Cycle

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