



Average exacta, trifecta payoffs have declined steadily over the past 20 years

ADAM COGLIANESE/NRA

A Tough Game Gets Tougher

BY FRANK ANGST

Horseplayers who believe that even when they're winning they're losing may not be far off the mark.

A *MarketWatch* study of pari-mutuel payoffs in the U.S. and Canada since 1995 reveals the average winning exacta payoff has fallen 18% and average trifecta payoff has plummeted 33%. Particularly troubling for players is that even when races of equal field sizes are compared during that time frame, the average exacta payoff has fallen 7.8% and the average trifecta payoff is down 7.9% (see Chart 1).

| What's causing declining exotic payoffs? |

The overall declines point to the importance of field size, which since 1995 is down 4.3% to 7.85 starters per race. For bettors, though, smaller fields at least mean an easier proposition that should result in more frequent wins. It's easier to hit a trifecta in an eight-horse race than in one with 12 starters.

More concerning for horseplayers, track executives, and horsemen interested in growing pari-mutuel wagering—the sport's economic engine—are the payoff declines when field size is eliminated as a factor. With racing facing more competition from other gambling options than ever before, pari-mutuel wagering has

become less attractive.

Experts point to increases in pari-mutuel takeout, the money retained by the sport largely for the track and horsemen; an increased percentage of "smart money" in the pools, including players who set up computer-robotic wagering (CRW) programs using time-tested algorithms to extract value; a more predictable wagering product; and lower minimum wagers as reasons for declining payoffs.

While the experts don't completely agree on the reasons for declining payoffs, they do agree that unless pari-mutuel wagering is made more attractive, it will struggle to attract new players and keep current bettors.

The Horseplayers Association of North America also has tracked winning payoffs and has seen declines similar to the findings

of the *MarketWatch* study, including drops in win, place, and show returns. HANA president Jeff Platt believes increased takeout is a big reason for declining payoffs.

Platt points out that a winning exacta wager that would return \$100 at Belmont Park under its 18.5% takeout would return just \$94.80 at Santa Anita Park, which has a takeout rate of 22.68% (see Table 1). That Santa Anita payoff is 5.2% lower than Belmont's.

Platt's group has brought attention to the detrimental effects of increased takeout for players, most recently in 2011 in California when exacta and daily double takeout was increased from 20.68% to 22.68% and exotic wagers with three or more betting interests went up from 20.68% to 23.68%. Last year HANA members boycotted Churchill Downs tracks when the flagship Louisville track upped its win, place, and show takeout from 16% to 17.5% and all other wagers from 19% to 22%.

"Absolutely as takeout goes up, payoffs go down," Platt said. "There's no way to get around that."

Sanford Orlando Kennel Club general manager Mike Newlin, who has worked in pari-mutuels at horse and dog tracks, believes CRW bettors are acting as an added takeout for most horseplayers. He believes their programs that scan potential payoffs and can fire hundreds of wagers in an instant to act on those findings are an unfair advantage and that they should be prohibited.

However, not only does the industry continue to welcome CRW action, it rewards these high-volume players with lucrative



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Increased takeout, "robot players" present challenges for the average handicapper

rebates (10% or more) that many CRW players acknowledge make the difference between winning and losing. In 2014, robot players accounted for a higher percentage of total handle than ever before, reaching a low-end estimate of \$1 for every \$5 in the pools.

Newlin believes players who once profited or made enough to view their losses as entertainment are being driven from the game. In examining settlements—

winnings that host tracks pay to outlets that wager into their pools—Newlin sees a few CRW players turning profits and nearly everyone else taking it on the chin.

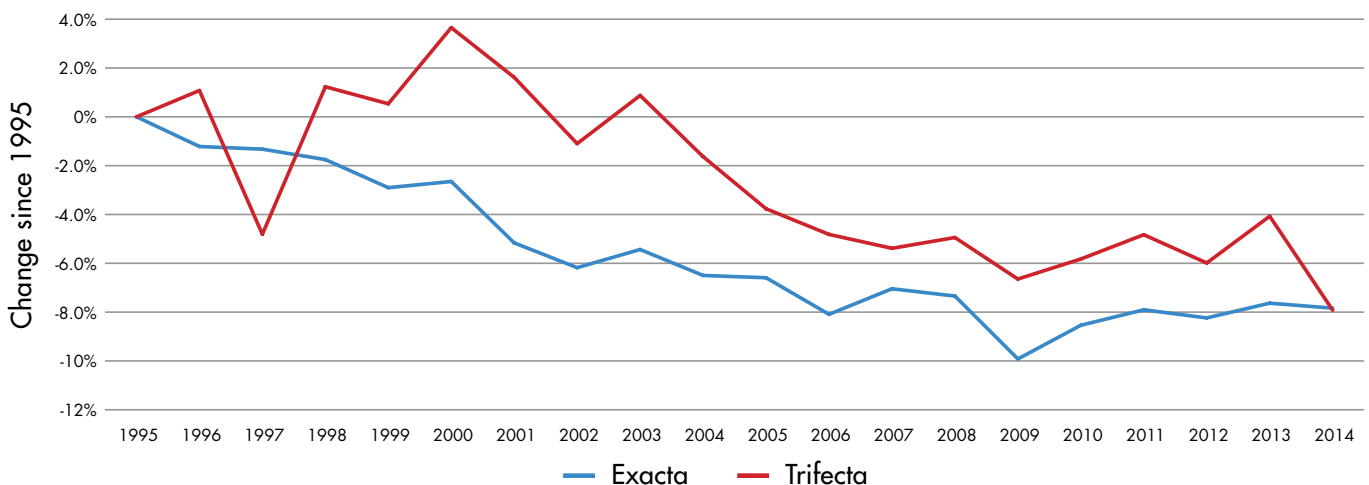
"(They're winning) at the expense of the average Joe handicapper," Newlin said. "It's something that never should have been allowed in the first place, and I don't know how you stop it now, other than individual tracks deciding to stop it."

"Robot players" are found at numerous ADW companies in the U.S. with Racing and Gaming Services and Elite Turf Club being two of the largest. Even track-owned ADWs such as Churchill Downs' TwinSpire.com

CHART 1

Trend in North American Exacta & Trifecta Payoffs, 1995-2014

Based on a composite of payoff averages for field sizes 6-10



and The Stronach Group's XpressBet.com are in on the act. Many CRW players are syndicates. Some are based in North America, but others are international accounts set up to wager into North American pools.

While CRW players pumped about \$2.1 billion into U.S. pari-mutuel pools on Thoroughbred racing in 2014, U.S. handle has declined in seven of the past eight years and the nearly \$10.6 billion wagered on U.S. races in 2014 is down 28% from the \$15.2 billion wagered in 2003. Tracks, especially those without the but-tress of added gaming, have struggled or failed.

Tracks often pave the way for rebates by offering low fees on their signal to high-volume outlets that include CRW players. But beginning Jan. 1 Newlin put a new policy in place that not only required ADW companies to prohibit robot players from Sanford Orlando's pools but required a higher fee, 10%, for the signal. As he expected, Newlin saw few ADW companies willing to accept the new terms, and the track's ADW outlets dwindled from 20 to four. But Newlin already is seeing some positive trends.

"Since we've done this, most of the brick-and-mortar places—the old school places—you see their settlements being more evened out," Newlin said. "In the past, there were five or six ADW outlets that used robotic wagering and had the settlements in their favor more often than not. Those computer-assisted players were scraping money from the average Joe, whether he's wagering \$20,000 a day at an OTB in Connecticut or a \$20 player coming to Sanford Orlando Kennel Club.

"These few ADWs were beating the masses on a regular basis. Over time this just grinds the normal guy out of the game."

Newlin notes that while a 10% drop in trifecta payoffs may not sound like much, it means



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Reductions in total starters and field size may result in more predictable outcomes

TABLE 1

Takeout Rate's Impact on Exacta Payoffs

1. A compelling field of horses attracts exactly \$300,000 of handle into an exacta pool.
2. When the race is made official it is discovered that exactly 2,445 winning \$1 exacta tickets were sold.

Track	Pool Amount	Takeout Rate	Winning Tickets	\$1 Exacta Payoff
Belmont Park	\$300,000	18.5%	2,445	\$100.00
Keeneland	\$300,000	19%	2,445	\$99.30
Churchill Downs	\$300,000	22%	2,445	\$95.70
Santa Anita Park	\$300,000	22.68%	2,445	\$94.80

Courtesy Horseplayers Association of North America

payoffs that should be \$200 are now \$180, shorting players \$20. He thinks if more on-track players and simulcast bettors loyal to the track's signal received that money, it would be bet back into the track's pools—known in the gambling business as churn.

"We're getting the live handle back. We were up 15% in live on-track handle in January while still being up 20% on guest handle. What we are seeing is that our on-track patrons are winning much more often," Newlin said of the new policies. "That settlement money isn't being shipped out to some ADW in Oregon. It's going back to old school ideas—how it worked back then was through churn. Players betting on Sanford are getting a little more back. If they're winning more often, it's going to become their favorite greyhound track."

Two Thoroughbred tracks that have made efforts in recent years to curtail CRW action are Oaklawn Park and Tampa Bay Downs. Since 2007, Oaklawn's trifecta payoffs (when field size is accounted for) are higher than the North American average every year. Tampa's trifecta payoffs were similar to the average but slightly ahead in most years since 2007 (see Chart 2). Exacta payoffs at

Oaklawn and Tampa since 2007 fluctuated above and below average.

Platt believes there should be a place for CRW players. He notes that while it is a different kind of wagering, they are taking a risk with each wager. He believes the game is tougher because the percentage of smart money in today's pools has never been higher, and he said the industry needs to find ways to bring back more casual bettors.

"You go back to the 1990s when there was more on-track attendance and you walked into an OTB or simulcast facility; there was just more people at all of those places," Platt said. "At some tracks, it was a party atmosphere; I know it was at Turf Paradise where I went back then. I'm sure that was the same everywhere.

"You had people betting \$2 on their birthday (numbers). That's how it was when I started betting racing; there was a lot more casual money in the pools. If you look now, the casual money isn't in our pools anymore. It's at the casinos with the same type of atmosphere of 20- and 30-somethings partying, having some drinks, and gambling some money."

Curtis Linnell, Thoroughbred Racing Protective Bureau director of racing analysis, notes a huge reduction in casual money took place in December 2010 when New York City Off-Track Betting closed its doors. That outlet routinely pumped about a billion dollars into pari-mutuel pools—\$750 million even in its final year.

With many New York City OTB patrons approaching race-wagering as one might approach a lottery, New York City OTB also typically registered the biggest losses in the country—providing added value for every other horseplayer.

MarketWatch numbers show exactas were slightly down in 2011-12 but started to come back up in 2013-14. Trifecta payouts were

down slightly in 2011-12, up slightly in 2013, and back down in 2014. With only very knowledgeable bettors in the pools, Platt doesn't see things getting any easier.

"It's tougher than it ever was," Platt said. "Beating the game can still be done, but it's an amazing amount of work. You have to work harder and harder and harder to do it."

Linnell said with casual money from outlets such as New York City OTB drying up, robot players in U.S. pools often are playing against each other. That eventually could impact their model. Some CRW players increased North American play after leaving or reducing play into Asian and Australian pools because of heavy competition among robot players in those locations.

With the reduction of casual money in the pools, Platt believes the impact of CRW and other sharp players is being more noticed as they've come to represent such a large handle percentage.

"You look at Aqueduct (in the) winter, there's no one actually at the races but they do big handle," Platt said. "It's from guys like me who think they know something, other guys who think they know something, computer-robotic players and syndicates, and barns that bet because they think their horse is ready to go."

Smaller issues may also be impacting winnings. Platt believes the reduction in total starters, even beyond field-size impact, has adversely affected payoffs. He thinks this reality makes it easier for top horses to dominate races and easier for players to spot them, resulting in more predictable outcomes.



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Many tracks have lowered minimum wager prices from \$2 to \$1 for exactas and from \$1 to 50 cents for trifectas

"With fewer and fewer available horses, the degree of chaos (unpredictability) in races is being reduced," Platt said. "The more chaos in a race, the higher the average payouts (are) from those races. As you get fewer and fewer horses available, the typical eight-horse field now has less potential for chaos than the field from five or six years ago."

Another factor contribut-

ing to payoff declines is decreased minimum wagers. Many tracks initially offered \$2 minimum wagers for exactas, and for years \$1 minimums were the standard for trifectas. But in recent years tracks have moved to a \$1 minimum for exactas, and many have gone to a 50-cent minimum for trifectas.

The lower minimum prices have proved popular, but they may be resulting in lower relative payoffs because bettors are covering more possibilities on their tickets.

Such reductions to the minimum price of wagers have largely been embraced by bettors, at least the ones that remain. MW

CHART 2

Composite \$2 Trifecta Payoffs: Oaklawn Park, Tampa Bay Downs & North America, 2007-14

Composite of \$2 trifecta payoff averages for field sizes 6-10

