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Prediction markets explained:

Financial innovation or gambling
risk for sustainable investors?

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Prediction markets are rapidly entering the financial mainstream, allowing users to trade on the probability of real-world outcomes such as elections, sports results, and economic events. However, beneath their growing popularity lies a fundamental question: are prediction markets legitimate financial instruments, or do they function as online gambling platforms? With nearly twenty active U.S. lawsuits and increasing regulatory scrutiny, the answer has significant implications for investors, policymakers, and sustainable investing frameworks.

How Prediction Markets Work: Event Contracts Explained

A prediction market is an online platform where users trade event contracts, simple instruments that allow the public to forecast, hedge, or capitalize on expectations about future events. Understanding how prediction markets work is essential to evaluating whether these platforms function as financial tools or speculative betting environments. Today, the most popular prediction markets are Polymarket and Kalshi.

The majority of event contracts work similarly to basic futures contracts, but with a yes or no twist. Instead of betting on the future price of an asset, participants are betting on whether an event will happen. Each event has two contracts, “yes” and “no”, and together they total \$1.00. If the event happens, the “yes” contract pays out \$1.00 and the losing “no” contract expires worthless. If the event doesn’t happen, the opposite occurs. Prices move based on demand, so a contract trading at 70 cents implies the market thinks there’s a 70% chance the event will occur.

Beyond the standard binary framework, event contracts in prediction markets come in a variety of structures. Some bundle multiple yes no contracts into a single position. For example, a combined market on whether the 49ers, Warriors, and Giants will all win their games on the same day. Others offer multiple choice outcomes, such as predicting which candidate will win an election or which company will report the highest quarterly earnings. Others can employ range based payouts, where traders earn partial winnings depending on where an outcome lands, like forecasting inflation to fall within a specific percentage band.

This design is meant to satisfy the legal definition of a financial swap, requiring a real economic or commercial consequence, which sits at the heart of the ongoing debate over whether prediction markets are legal under U.S. financial regulations or should instead be treated as gambling platforms. Supporters frame prediction markets as tools for aggregating sentiment and improving forecasts, emphasizing research and insight rather than entertainment. Opponents say it is gambling to a T. Regulatory treatment remains

WHAT IS A PREDICTION MARKET?

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inconsistent, leaving the industry suspended in a gray area.

Prediction Markets vs. Gambling: The Key Similarities and Risks

Despite their informational framing, prediction markets do share core features with gambling. The comparison between prediction markets and gambling is increasingly central to how regulators and investors evaluate these platforms.

Participants stake money on uncertain outcomes outside their control. Participation can amplify risk seeking behaviors, speculation, and loss chasing like those seen in traditional gambling today. Although there is not a technical “house” like at a casino or online platforms like DraftKings or FanDuel, outcomes of prediction trades are found to favor a small minority of highly skilled or well informed traders. A Wall Street Journal analysis found that on Polymarket specifically, two-thirds of all profits on the platform go to just 0.1% of accounts. Of those accounts that lose money, the least successful 10% lose an average of \$4,000 each.¹ The odds of being profitable on competing platform Kalshi are not much better. With total trading volume totaling \$24.2 billion on both platforms in April, up from just \$1.8 billion only a year prior, money is practically flying out of the pockets of most users.

Prediction markets also increasingly host contracts that resemble novelty bets. For example, traders wager on whether political or celebrity figures will utter specific words during speeches, an activity described as “mention market bets.” In the month of February, \$181 million worth of mention-market bets were placed on Kalshi’s platform alone.

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Ethical Risks of Prediction Markets for Sustainable and Responsible Investors

» Addiction and Financial Harm

From a sustainable investing standpoint, the ethical risks of prediction markets are becoming harder to ignore. The behavioral risks associated with gambling including compulsive use, financial losses, and speculative behavior are also present in prediction markets, particularly given their user-friendly design and pervasive advertising.

Director of Rutgers University Center for Gambling Studies, Lia Nower, sees it plainly: “The more people gamble, the more activities they gamble on, and the more ways they gamble, the more likely they are to develop a problem.”² The National Council on Problem Gambling (NCPG) reported that nearly 20 million Americans experienced problematic gambling in 2024 alone.³ Nower sees the rise in popularity of prediction markets like Polymarket and Kalshi likely contributing these increasing rates of problem gambling for years to come.⁴

¹ *The Wall Street Journal*. 3 May 2026. *Why Almost Everyone Loses—Except a Few Sharks—on Prediction Markets*.

² *The Guardian*. 19 May 2026. *Gambling addicts are struggling as Kalshi and Polymarket explode in the US: ‘You could be betting your rent away’*.

³ *The Guardian*. 19 May 2026. *Gambling addicts are struggling as Kalshi and Polymarket explode in the US: ‘You could be betting your rent away’*.

⁴ *The Guardian*. 19 May 2026. *Gambling addicts are struggling as Kalshi and Polymarket explode in the US: ‘You could be betting your rent away’*.

» Insider Information and Market Integrity

Recent examples of traders profiting from nonpublic geopolitical information are another test of the creditability of these markets.

Earlier this year, a single Polymarket account won over \$400,000 from bets that Venezuela's then President, Nicolás Maduro, would be removed from office before news of his capture was made public. That account was traced back to U.S. Army Master Sergeant Gannon Ken Van Dyke who just weeks prior was involved in the very planning of Maduro's capture and had signed nondisclosure agreements centered around the operations he is accused to have later bet and profited on. Van Dyke pleaded not guilty to federal charges brought against him.

Another trader, going by the handle "Magamyman" generated a gross profit of \$430,000 by accurately predicting the outbreak of the Iran war and later garnered a profit of \$553,000 on precisely timed contracts tied to Iran's Supreme Leader, Ayatollah Ali Khamenei, shortly before he was killed in an Israeli air strike.⁵⁶ The Israeli police have launched an investigation into the matter after discovering the same account placed bets forecasting Israel would strike Iran on October 26th, 2024, a plan Israeli officials said was formally approved only days before.⁷

These cases raise concerns about fairness, transparency, and the potential for exploitation, but they are just the tip of the iceberg.

A recent 60 Minutes investigation uncovered that nine linked Polymarket accounts won over \$2.4 million by betting nearly exclusively on the actions of the U.S. military. Across more than 80 bets these accounts achieved a 98% win rate including wagers on the exact dates of U.S. strikes, the previously mentioned removal of Iran's supreme leader, and the announcement of a ceasefire. The discovery shocked analysts at data analytics firm Bubblemaps with the CEO stating, "Luck alone cannot explain those numbers".⁸

As a part of the Anti-Corruption Data Collective, Michelle Kendler-Kretsch analyzed Polymarket wagers of more than \$2,500 with less than 35% odds of winning. Despite appearing like a long shot, these bets actually won more than they lost. The resulting report indicated findings of "systemic insider-trading" surrounding betting on U.S. military activities.⁹

With over \$1 billion wagered this year on military related outcomes, this creates not only a problem of insider trading but is also a huge threat to national security.¹⁰ Market signals aren't a one way mirror. If a domestic data analyst can identify suspicious trades, adversarial ones can spot them, too, and plan accordingly.

Are Prediction Markets Legal? Regulatory Uncertainty and CFTC Oversight

Today, the Commodity Futures Trading Commission (CFTC) is the primary

⁵ Middle East Eye. 2 March 2026. Israeli police investigate Polymarket user who correctly predicted Iran strikes.

⁶ NPR. 1 March 2026. Prediction market trader 'Magamyman' made \$553,000 on death of Iran's supreme leader.

⁷ Middle East Eye. 2 March 2026. Israeli police investigate Polymarket user who correctly predicted Iran strikes.

⁸ CBS News. 17 May 2026. Suspected insider accounts net \$2.4 million on Polymarket Iran war bets with 98% win rate, firm finds.

⁹ CBS News. 17 May 2026. Suspected insider accounts net \$2.4 million on Polymarket Iran war bets with 98% win rate, firm finds.

¹⁰ CBS News. 17 May 2026. Suspected insider accounts net \$2.4 million on Polymarket Iran war bets with 98% win rate, firm finds.

federal regulator overseeing registered prediction market platforms, but ongoing state challenges and conflicting interpretations of what counts as “gaming” mean the industry’s long term status is still being defined. At the core of these disputes lies the question: Are prediction markets legal within existing federal and state frameworks, or do they fall under gambling law?

Nearly twenty active lawsuits across the country argue that certain event contracts in prediction markets, especially sports and political outcomes, constitute illegal gambling.¹¹

For decades, states have controlled betting, licensing, and consumer protection rules for wagers placed within their borders. States are arguing that many event based contracts, especially those tied to sports, elections, or entertainment, fall squarely within their traditional authority to regulate gambling. Additionally, according to CFTC Regulation 40.11, the commission prohibits event contracts that reference terrorism, assassination, war, gaming, and illegal activity.¹² With an overwhelming amount of trading activity in the world’s biggest prediction markets involving seemingly prohibitive content, the plaintiffs make a compelling argument.

Conclusion

The ongoing tension surrounding prediction markets highlights the uncertainty surrounding their role in modern financial systems. Even when framed as derivatives or research tools, their mechanics and societal impact conflict with traditional sustainable and responsible investing values. For investors focused on sustainability and responsibility, the industry raises several red flags:

- » Many sustainable and responsible frameworks continue to screen out gambling adjacent activities
- » Association with politically sensitive or controversial markets can create reputational risk
- » The absence of any standardized guidance leaves responsible investors without a clear framework for evaluation

Taken together, prediction markets’ close resemblance to gambling, lack of sufficient regulation and ethical concerns suggest that these platforms may not align with expectations of investors seeking to avoid socially harmful activities. A cautious approach is warranted, as risks associated with prediction markets continue to stack up.

Key takeaway

Prediction markets operate in a zone of regulatory uncertainty – while the CFTC oversees registered platforms, ongoing state lawsuits and conflicting definitions of “gaming” mean their long-term legality is unsettled. With nearly twenty active cases arguing that event contracts (especially tied to sports and politics) constitute gambling, the industry’s future hinges on how federal oversight and state authority ultimately reconcile.

The principle researcher and author of this brief was
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¹¹ NPR. 30 January 2026. *Kalshi in court over 19 federal lawsuits. What’s the future of prediction markets?*

¹² CFTC. *Contracts and Products*.



BLAINE TOWNSEND, CIMC®, CIMA®
Executive Vice President | Director, Sustainable, Responsible and Impact Investing

Blaine's commitment to socially responsible investing began in the late 1980s, researching corporate social responsibility with the belief that investment decisions should reflect broader values. In 1991, he joined the Muir Investment Trust, one of the nation's first environmentally screened bond funds.

He went on to open and lead Trillium Asset Management's California office in 1996, spending over a decade expanding its West Coast presence and advancing corporate engagement efforts. Later, as a partner and senior portfolio manager at Nelson Capital Management, he helped develop sustainable strategies for Wells Fargo Private Bank before joining Bailard in 2016.

Today, Blaine is Executive Vice President and Director of Bailard's Sustainable, Responsible, and Impact Investing (SRII) group. He manages multiple strategies and serves on the firm's investment committees while leading corporate engagement initiatives.

Blaine serves on the Advisory Board of *The Journal of Impact and ESG Investing*, and his insights have appeared in Fast Company, Reuters, MarketWatch, and the *San Francisco Chronicle*. He holds a BA from UC Berkeley and carries the CIMC® and CIMA® designations.



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Annalise rejoined Bailard in 2023 and serves as Vice President, Senior SRII Research Analyst, and Investment Counselor for the Sustainable, Responsible and Impact Investing (SRII) group. As a Senior SRII Research Analyst, Annalise contributes to SRI research, thought leadership, and corporate engagement. As an Investment Counselor, Annalise is responsible for managing client relationships and implementing investment strategies.

Prior to originally joining Bailard in 2017, Annalise spent two years at Citi Private Bank working with ultra-high-net-worth clients. She also spent time volunteering for a microfinance organization in Cambodia. Annalise earned a Bachelor's degree in Finance from the University of Miami, as well as her CFP® certification.



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Senior SRII Research Analyst

Madison first joined Bailard in 2020 as an intern before returning to the firm in 2025, serving as a Senior Sustainable, Responsible and Impact Investing (SRII) Research Analyst. In this role, Madison contributes to company, portfolio, and industry sustainable and responsible investing research, thought leadership, and corporate engagement.

Prior to rejoining Bailard, they were a Consulting Analyst at Deloitte in the Business Technology sector. Madison holds a Bachelor's degree in Psychology from Columbia University and has authored several articles for Bailard, including a piece on sustainable cryptocurrency practices and *How to Make Your Valentine's Day More Sustainable*.

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