The Red House

Efficient Markets, past performance and winning the Grand National

The Efficient Market Hypothesis

Legendary economic professor Eugene Fama is often called the 'father of modern finance' for his development of the EMH. Its essence is:–

- Current prices incorporate all available information and expectations.
- Current prices are the best estimation of intrinsic value.
- Price changes are due to unforeseen events.
- 'Mispricings' do occur but not in predictable patterns that can lead to consistent outperformance.

At TRH we have applied this philosophy to the investment portfolios we have built for clients. Since we started in Q4 2007 over some of the most challenging investment times in memory the EMH has proven itself and we are pleased that our portfolios have performed in the way we expected and we explained to our clients.

But forget all that theory if you are planning a bet on the Grand National this weekend! This market is one of the most inefficient as millions have their one bet of the year and pick a horse based on its name, its colour, its number or what ever comes out of the office jackpot. None of these factors have anything to do with a winning horse but this asymmetry of information is why the bookies nearly always clean up on Grand National day.

To help TRH clients even up the odds I have done my usual study of all the form factors that do affect a horse's performance and from the 40 runners identified my top 5. I would hope one or more of these would appear in the top 5 placings.

Past Performance

So how has my system done in the past? Well every year sine 2009 I have predicted 2 horses that finish in the top 5. But like the active fund managers we avoid in our portfolios I had a bit of luck at the start when tipping the winner of the 2009 Grand National at 100/1! Any client who put their annual fiver on that horse is still very much in profit even if they missed out on the next few years' tips.

But the risk warning still applies. These tips are not guaranteed. They all might fall over the many challenging fences. And I will still leave clients to take a pick from the 5 horses tipped.

A key risk warning - Only bet for fun and with an amount you would be happy to lose. If you want decent long term returns send your money to TRH not Ladbrokes.

Improving your odds of winning

- Bet 'each-way' when the odds on your horse are greater than 6/1. An each way bet is two bets. One to win and one if the horse is placed. So £10 e/w costs you £20. If your horse wins your £10 win bet pays out at 6/1. If your horse places (in most races in the first 3 – but see the next tip below) your

£10 place bet pays out at ¼ of the odds i.e. 1.5/1. As the winning horse is also placed, you collect on both bets. You also get your stake back on a win bet. So a £10 e/w bet on a winning horse at 6/1 pays out - £10 x 6 + £10 (stake) + £10 x 1.5 + £10 (stake). A win of £95. But even if your horse is placed you still collected the second part of the sum i.e. £25. So you are in profit.

Each way betting becomes even more attractive at higher odds. Because of the large field, the Grand National offers more horses at attractive odds than any other horse race.

- Bet with a bookie that pays out down to 5 places. Most high street bookies should pay down to 4 places, most internet bookies pay down to 5 places. These were the odds for the top 5 places in the 2012 Grand National:

  33/1, 16/1, 8/1, 16/1, 100/1

  All of these great each-way bets. 16/1 pays out £210 for a win or £50 for a place on an £10 e/w bet costing £20.

- If you win, take your money out of the account right away and treat your self! Don't leave it for the bookie to use.

Gareth's top tips for 2013

The key form indicators for a winning horse are:–

Age; weight carried; past performance; the going; the jockey; the trainer.

Having analysed all these factors for the 40 runners my final 5 are:–

- Across the bay – 33/1
- Colbert Station – 10/1
- Balthazar King – 16/1
- Cappa Bleu – 12/1
- Chicago Grey – 14/1

I would hope that one or more of these would appear in the top 5. But remember past performance is no guarantee of future success and I am still working!

Best of luck if you have a bet.

Gareth Marr
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