

Tech Speak

Electing to buy

IF ONLY I HAD INVESTED IN President Clinton back on May 1. Back then - it seems an eternity ago - contracts for Clinton in the 1996 Presidential Election Winner-Take-All Market were trading at roughly 60 cents. Since those contracts pay one dollar each if Clinton is elected, I could have made a cool 66 percent return on my investment - or an annual rate of return of more than 130 percent.

Since then, Clinton's election has become almost a sure thing, and the price of the contract has risen to 95 cents. On the other hand, if you are betting Dole is going to win the election, there's never been a better time to buy: Dole contracts are consistently trading at 5 to 7 cents each. If the Republican nominee pulls an upset, happy investors could count on a 2,000 percent return on their investment in less than a week.

In most parts of the country it's illegal to gamble on the outcome of elections, but not in Iowa. There, at the University of Iowa, the College of Business Administration has been running futures markets where the payoffs are determined by the outcome of economic and political events. The markets are open to all and are regulated by the Commodity Futures Trading Commission. The money is all real.

Currently, the Iowa Electronic Markets is running a series of political and nonpolitical markets. Besides the presidential winner-take-all market, there is a presidential vote-share market, where the payoff is determined by the vote split between Clinton and Dole. (On Tuesday, Clinton contracts were trading at 56.4 cents.) There are markets that are charting House and Senate control. And there are markets on expected earnings and returns. One past market has been on whether the price of Microsoft stock would break 140 (it didn't, but the market is still open.)

The Iowa Electronic Markets was started in 1988 by Iowa University professors Robert Forsythe, Forrest Nelson and George Neumann. "We were stunned when Jesse Jackson won the Michigan primary that year, when all the polls had said he had no chance at all. We were wondering how the polls could be that far off," recalls Neumann. "So instead of surveying potential voters, the business professors decided to set up a real market with real money. If markets are efficient systems for processing large amounts of information, which fundamental capitalistic ideology says they are, then a futures market on political events should be able to accurately predict the outcomes of political events - barring, of course, any new information that might suddenly come to the surface.

You can get more information about the market from IEM's home page on the World Wide Web, <http://www.biz.uiowa.edu/iem>. You'll also find price histories for the various contracts, graphs, and instructions for teachers on using the IEM to teach either politics or economics. Be aware, there's a \$500 limit on what you can invest.

Trading is a bit more complicated. You'll need to download and print the IEM's user manual, then use the "telnet" command to link up to the IEM server. And beware: Nothing is encrypted, so somebody monitoring your network connection could easily sniff your password and execute trades on your behalf. Neumann says he's aware of the security problem, but doesn't have the money to do anything about it. That's because Electronic Markets is nonprofit and nonrevenue producing. There are no commissions or service fees for trades. But the University of Iowa isn't going to go bankrupt funding this experiment either: The markets are a true zero-sum game. The only way to buy contracts is to buy balanced portfolios of contracts from the market itself (for example, equal parts Clinton, Dole and "other"), or by buying contracts from other traders.

"People who bought Clinton at 30 cents did very well," says Neumann. "You can make more than \$500 on this - people doubling their money is frequent."

So isn't this gambling? "All investment is gambling," says Neumann.

Well, we knew that.

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