

Melbourne Cup Strategy

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- Economists generally have enough sense to know that they know nothing about horse races. There are people who do. They are called tipsters. Every Melbourne Cup Day, their tips are published in major newspapers.

Today we have taken the tips published in *The Australian* newspaper. There are eight tipsters in all. From these tipsters we construct our most favoured rating. Every horse nominated to win gets 3 points. Every horse nominated to come in second gets 2 points. Horses nominated to come in third get 1 point.

Today the total points provided are: Marmelo 13, Johannes Vermeer 11, Almandin 11, Humidor 7, Red Cardinal 2, Wall of Fire 1, Rekindling 1.

In order to generate the value for each horse, we multiply these points by the odds. The odds in the electronic market at 8.30am this morning for these horses were: Marmelo \$8.00, Johannes Vermeer \$10.00, Almandin \$8.00, Humidor \$12.00, Red Cardinal \$16.00, Wall of Fire \$12.00 and Rekindling \$14.00.

When we multiply the odds by the most favoured rating, the results yield Johannes Vermeer 110 points, Marmelo 104 points, Almandin 93.5 points, Humidor 84 points, Red Cardinal 32 points, Rekindling 14 points and Wall of Fire 12 points.

The most favoured rating, the odds and our calculation of value points is shown in Table 1 below.

Figure 1: Favoured ratings

Horse	Most Favoured Rating	Odds Ratio	Value Points
Johannes Vermeer	11	10	110
Marmelo	13	8	104
Almandin	11	8.5	93.5
Humidor	7	12	84
Red Cardinal	2	16	32
Rekindling	1	14	14
Wall of Fire	1	12	12

Our recommendation this year is for an each way bet on Johannes Vermeer. Remember our recommendation is for the best value bet rather than for the highest probability of winning.

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