

NEXT Perspectives

# THE GREAT DIVIDE

Prediction Markets and  
Online Sports Betting  
The Winners, the Losers, and  
How to Navigate a New Frontier

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# FOREWORD

Sonja Lindenberg (Lead Researcher, NEXT.io)



There is no single answer when it comes to the state of prediction markets. Instead, there are competing viewpoints, fresh datasets appearing by the day, and a steady flow of commentary trying to make sense of it all. The sector is evolving in real time. Everyone, from operators to regulators to investors, is watching closely and adjusting their assumptions as they go.

When we began working on this report, the speed of change felt daunting. Any deep dive risks being overtaken by events. But that uncertainty is also what makes this space so fascinating and worth exploring because no matter what the future holds, there are already important lessons to be learned.

For context, this report looks at how we arrived here. We ask when gambling first had its true “finance moment”, and look at the competitive landscape, from the dominant incumbents shaping early liquidity to, more importantly, the new wave of builders driving the next phase of the market. Far from the headlines, a wave of start-ups is quietly building highly specialized products and B2B infrastructure. What is emerging is not just a new vertical, but a dynamic product category rapidly fragmenting into distinct niches and sub-markets.

We explore the regulatory and investment dynamics that will shape what happens next. Questions around classification, oversight and jurisdiction are central, not peripheral. They will influence who participates, how capital is deployed and whether this sector scales sustainably. While prolonged legal uncertainty is a major risk, our experts believe that prediction markets could evolve into a high-engagement product category that sits alongside, and potentially competes with, traditional sportsbooks.

In a space where insights and speculation often overlap, we have brought together a range of perspectives to help frame the discussion. Our sources draw comparisons to the early crypto cycle, reflect on how to reach Gen Z audiences, tell us why all this is a great product for betting syndicates, and weigh the commercial upside against the structural risks of operating in an environment still seeking regulatory clarity. The question running through all of this is straightforward: what does all that mean for online sports betting?

For their time and insight, we thank DJ Hennes, Scot McClintic, Andrew Gonzalez, Shaun Kelley, Bruce Merati, Jeffrey Haas, Evan Meyer, Andrew Kim, Todd Phillips, Daniel Wallach, Will Martin, Amit Mahensaria, Enda Kendrick, Sebastien Sabic, Sabin Brooks, Alfie Arrand, Mark Philip and several other participants who preferred to remain anonymous.

# STATE OF PLAY

## A Market Under Construction

Prediction markets are expanding at breakneck speed, but the foundations beneath them remain anything but settled

“The only ones who seem to make money from prediction markets at the moment are lawyers.” It’s a biting assessment from one industry insider, but not an entirely unfair one, given the flurry of lawsuits, regulatory challenges and unresolved legal questions that have accompanied the sector’s explosive rise. Few verticals in the gambling world have expanded as quickly, or as contentiously.

Trading volumes on prediction market platforms have risen from less than \$100m a month in early 2024 to more than \$13bn in December 2025. And all this expansion is happening despite a fundamental ambiguity: is it actually gambling? CEOs in the space are careful with their words, preferring “trading” or “predicting” over the legally loaded language of betting when describing this new product category.

So what exactly are prediction markets? A new industry, a niche vertical, a financial services product, gambling, or something else entirely? A new asset class, perhaps, or even a tool to forecast the future? Some even whisper about using prediction markets to guide corporations, governments, maybe even entire countries.

### Born in the USA

For the gambling industry, the challenge is figuring it all out. Analysts are cranking out research reports at a feverish pace. Sector experts and critics flood LinkedIn with hot takes. Every comment from Kalshi CEO Tarek Mansour makes headlines in *Bloomberg*, the *Financial Times*, and beyond. In short, prediction markets are no longer a curiosity, but no one quite agrees on what they really are. It’s chaotic, it’s confusing, and, for many, it’s irresistible.

Prediction markets, as betting exchanges, are not a US invention. They have existed in other countries for years, quietly shaping how people trade on outcomes. But in the US they have captured attention.

And maybe, it’s exactly the kind of market the country has been waiting for: a place where information, incentives, and human curiosity collide in the most unpredictable way.

Back to the lawyers: lawsuits are piling up. On one side, advocates argue that prediction markets are financial instruments, derivatives regulated at the federal level by the Commodity Futures Trading Commission (CFTC). On the other, critics contend that certain contracts, particularly those involving sports, should be treated as gambling, which, since the repeal of PASPA, falls under state regulation in the US.

In February 2026, the CFTC moved to defend its authority over US prediction markets amid rising state-level legal challenges, filing a friend-of-the-court brief. Chair Michael Selig said these markets have faced heavy litigation, prompting the agency to assert its exclusive jurisdiction. This follows a warning from the Securities and Exchange Commission (SEC) that some contracts could fall under its oversight. A Supreme Court ruling may ultimately be required.

Prediction markets could transform sports betting in ways few anticipated. Or they may prove to be a bubble waiting to burst. Many experts believe the opportunity is real. The more pressing question is who will ultimately prevail: early prediction market pioneers, established sports betting incumbents, cautious entrants testing the waters, or the innovators building the next generation of tools and platforms?

**Meredith McPherron**  
CEO and Managing Partner,  
Drive by DraftKings



Prediction markets have reached an inflection point. Seeing \$1.3B+ traded on Super Bowl Sunday alone made it clear this is no longer niche, it's becoming a real, investable category. What's driving it isn't hype, but the convergence of adoption, liquidity, and an emerging framework under the Commodity Futures Trading Commission.

## Pioneers and Followers

By the end of 2025, the US prediction market landscape was dominated by a handful of heavyweights. Exchanges Kalshi and Polymarket, the modern pioneers founded in 2018 and 2020 respectively, remain the industry benchmarks. On the crypto side, Crypto.com entered early, while Bank of America (BoFA) has since dubbed these platforms the sector's "big three." With much of Polymarket's revenue still generated outside the US, Robinhood has emerged as the true power broker, funneling the majority of US volume to Kalshi and helping shape the broader industry.

For much of that time, the broader betting industry watched from the sidelines. As recently as a year ago, Meredith McPherron, CEO of DraftKings' venture capital arm Drive by DraftKings, described prediction markets as engaging but questioned their ability to scale. She suggested that the binary structure is of limited appeal to bettors compared with parlay products driving growth in US sports betting. In February 2026, McPherron wrote on LinkedIn that prediction markets had reached an inflection point, and the VC firm was actively seeking to partner with teams who understand not just what is possible, but where value truly accrues.

She wasn't the only one to shift her view. During its Q2 2025 earnings call, the CEO of FanDuel parent Flutter Entertainment, Peter Jackson, described prediction markets as a "fast-moving space" the company is "watching very closely," citing Flutter's exchange experience through Betfair but stopping short of committing amid ongoing regulatory uncertainty.

However, by the end of 2025, FanDuel and its closest rival DraftKings had gone all in. They exited the American Gaming Association (AGA) as their decision to enter sports prediction markets put them directly at odds with the AGA's position that such products should be regulated as gambling and subject to sportsbook-style licensing. For the AGA, prediction markets are a regulatory threat; for its two largest members, they have become a strategic priority.

## Vocal Critics

Most critics in the gambling industry view prediction markets as the biggest threat to consumer protection. They point to practices like marketing gambling as investing, skirting responsible gaming rules, enabling manipulable markets, and partnering with questionable influencers. Others in favor of prediction markets argue that customers want them, and that the risks, including investments being lost entirely, are no different from those in other forms of trading. Meanwhile, some prediction market operators insist they are applying the same safeguards used in their sportsbooks.

At the same time, states remain cautious: those that already tax and license betting are reluctant to give up revenue, while those without legalized gambling worry prediction markets could act as a backdoor to wagering.

The sector's heavy focus on sports has already prompted legal action in several states, with licensed operators warned that venturing too far into this gray area could carry serious consequences.

Meanwhile, tribal operators remain staunchly opposed to prediction markets, seeing them as a direct competitive threat that sidesteps the infrastructure and regulatory frameworks the industry has developed over decades.

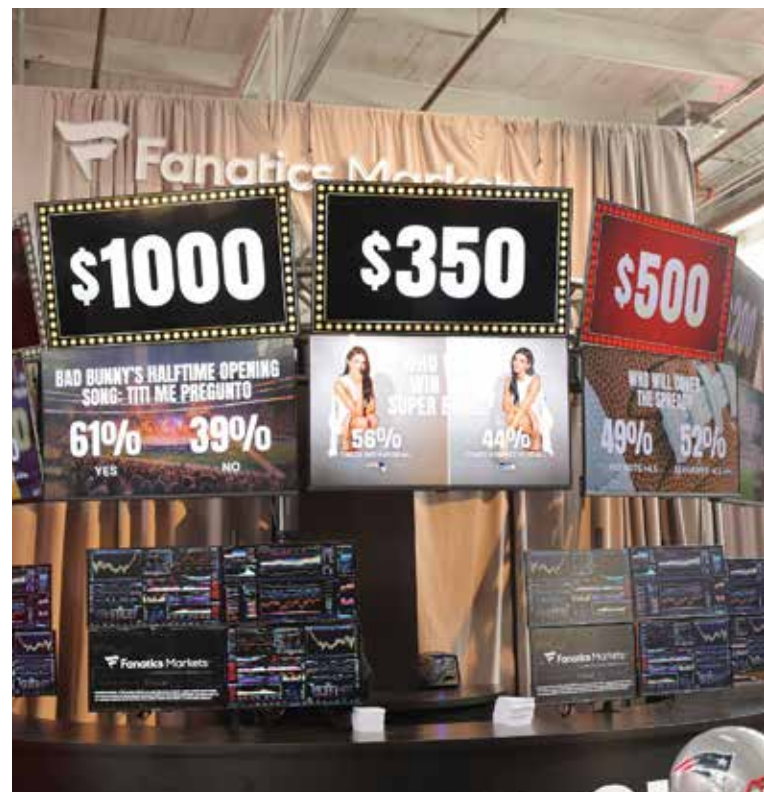
As a powerful lobbying force, tribes are widely regarded as the sector's toughest adversaries, perhaps even stronger than states or regulators, and are expected to continue resisting any efforts toward legalization or wider acceptance of prediction markets.

### DJ Hennes

*Advisory Managing Director, KPMG US*



More than 90% of current volume in the market is in sports, and it's primarily retail-driven. The big questions our clients are asking are: what will that mix look like in five years? Will politics, climate, financials, or corporate events take up more share? And will institutions start participating in a more meaningful way? I think the answer to both is yes.



## Market Integrity

Concerns about market integrity reverberate across the sector, especially after a high profile trade tied to the arrest of Venezuelan President Nicolás Maduro in early January, prompting US lawmakers to push for tighter oversight amid fears of insider trading and ethical conflicts. However, many industry participants argue existing laws already cover such conduct.

In January, CFTC Chair Selig ordered staff to draft a formal rulebook and withdrew previous advisories and proposed bans on political and sports contracts. However, NEXT.io experts caution that meaningful regulation is still years away. In the meantime, the CFTC can influence the market through litigation, public guidance, and jurisdictional statements, but formal rules that provide lasting clarity remain distant. The agency's position may carry some weight if a case eventually reaches the Supreme Court, yet even then, experts caution, its view would not be legally binding.

## Innovation and Product Development

A central question for the industry is how innovation in prediction markets will develop. According to our sources, the introduction of combo bets, which are parlay-style wagers, marked a pivotal moment, signaling to the gambling industry that prediction markets could emerge as serious competitors. While the binary nature of prediction markets can limit their appeal compared with the variety of traditional sports betting, prediction market experts believe there is room for innovation within this structure.

One possibility is introducing leverage into binary contracts which allows growing demand for a "yes" outcome to amplify potential returns while capping losses, similar to spread betting.

Beyond these developments, the prediction market space is being reshaped by a new wave of start-ups experimenting with a wide range of innovations. These include precision markets that predict exact outcomes, trend-focused platforms linked to virality or social sentiment, and chat-based integrations that let users trade directly through messaging apps like Telegram.

## The B2B Opportunity

Meanwhile, the B2B side of prediction markets is emerging as a key driver of growth and innovation. Increasingly, platforms are shifting away from building and managing markets end to end, instead leveraging shared infrastructure that provides regulatory compliance, liquidity access, and the core mechanics of trading. Behind the scenes, sophisticated tools, ranging from bots that automate arbitrage to aggregator platforms that consolidate multiple markets, are enhancing execution and scalability, making it easier for third parties to launch and operate their own products.

## From Retail Growth to Niche Markets

Liquidity is critical for prediction markets: both buyers and sellers must be present on every contract to ensure smooth trading and timely cash-outs. Strong retail adoption has helped resolve the traditional chicken-and-egg problem faced by exchanges, determining whether users or liquidity should come first, while also attracting betting syndicates, who often act as market makers much like they do on betting exchanges.

This dynamic could lead to verticalization, with some segments evolving into products tailored for sharp sports bettors, a customer base traditional sportsbooks typically prefer to avoid, while others may develop into broad, general-interest markets.

The biggest risk, many believe, is that some contracts could start to resemble traditional casino offerings too closely, which could trigger regulatory scrutiny and put the sector's rapid expansion at risk.

## Too Big to Fail?

Regulatory uncertainty is the biggest threat to the vertical. Experts warn that the "Wild West" phase of prediction markets is unlikely to last forever. In the US, legal analysts suggest a potential middle ground where the CFTC's authority is limited to contracts that qualify as derivatives, leaving other markets, such as parlays, under state control. A broader compromise, such as states refraining from intervention in exchange for taxation, seems unlikely because regulators appear more focused on maintaining control than generating revenue.

For the first time in years, the gambling industry feels genuinely unsettled. New players, many from outside the traditional gaming world, are bringing fresh ideas to a sector long criticized for resisting innovation. Some now ask whether the prediction market space already sees itself as "too big to fail." History offers a stark warning. Poker's 2011 "Black Friday" in the US, which shut down major online poker sites and led to criminal charges, demonstrates that regulatory risk is never far away.



# NEXT.IO

## DASHBOARD

### Market Snapshot

#### Global Transactional Volume

 **2024:** \$15.8bn

 **2025:** \$63.5bn

 **Growth:** +400% YoY

#### Monthly Volume

 **Early 2024:** <\$100m

 **Late 2025:** >\$13bn

 **January 2026:** \$26.09bn

#### Weekly Record:

In early 2026, the market sustained multiple weeks with over \$6bn in trading volume.

#### Peak Single-Day Activity:

Kalshi reported a single-day record of over \$1bn on Super Bowl Sunday (8 February 2026).

#### Driven by:

Sports contracts, US election cycle, retail brokerage distribution

#### Market Opportunity

 5–10% of US sports betting could migrate

 Implied revenue pool: \$2bn–\$5bn

#### From Billions to Trillions

A report by Keyrock/Dune forecasts that market volume will increase fivefold in 2026 versus the 2025 run-rate, reaching **\$25bn in weekly trading volume**. This implies an annual total of **\$1.3tn**, closely aligning with Eilers and Krejcik Gaming (EKG)'s **\$1tn** trading volume potential for the sector.

#### Long-Term Forecast

Analysis by Citizens Financial Group forecasts the industry could generate over \$10bn in annual revenue by 2030, roughly five times its current size.

#### Sources:

Eilers and Krejcik Gaming (EKG): US Prediction Markets: How Big, How Fast, What's Next; Citizens: How Prediction Markets Will Transform Price Discovery and Risk Management in Capital Markets; Keyrock/Dune: Prediction Markets: The Next Frontier of Financial Markets; Certik: Skynet Prediction Markets Report.

## Prediction Markets at a Glance

### The Strategic Landscape

|  <b>Pillar</b> |  <b>Who leads?</b>                                                                      |
|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Regulatory Advantage                                                                            | <b>Kalshi</b>                                                                                                                                                            |
| Crypto Liquidity                                                                                |  Polymarket                                                                             |
| Infrastructure stack                                                                            |  crypto.com                                                                             |
| Retail Distribution                                                                             | Robinhood                                                                              |
| Sports Audience                                                                                 |   |

## The Regulatory Battle

### Core Question:

Are prediction markets:

#### A. Derivatives

Regulated federally by the CFTC

OR

#### B. Gambling

Regulated state-by-state

### Current Reality

- CFTC permits self-certification of contracts
- 10+ states issued cease-and-desist orders
- Tribal gaming authorities strongly opposed
- Supreme Court involvement is expected in 2027–2028, potentially sooner

## Risk Scenario

If sports contracts are shut down:



Estimated  
-80% volume  
impact

If federal pre-emption holds:



Nationwide  
scaling



Institutional  
capital inflow



Structural  
integration  
with finance

## Product Dynamics



### What Works

- Binary simplicity (Yes/No pricing)
- Intuitive probability framing
- Social + news-driven engagement
- Gen Z-oriented UX
- Odds often closer to actual probability than sportsbooks



### What's Challenging

- Liquidity fragmentation
- Parlay construction at scale
- Fee transparency
- Responsible gaming gaps
- Insider trading concerns

## The Big Themes



### Market Capture Phase

High growth. High valuations. Economics remain unclear. Consolidation is likely.



### Finance Framing Unlocks Capital

VC funds can back “financial products” but not gambling. Capital is flowing accordingly.



### Distribution Over Exchange Technology

If exchanges become commoditized, the real competitive edge shifts to who owns the customer relationship.



### Sports as the Trojan Horse

Most current volume comes from sports. The long-term thesis combines macro trends with financial hedging opportunities.



### Massive B2B Opportunity

Prediction markets are moving from niche products to a core layer in financial and gaming platforms, driving demand for dedicated B2B infrastructure.



### Verticalization in Play

NEXT.io sources track over 100 specialized prediction markets, with several of them serving clear customer bases, such as professional sports traders.



### The Supreme Court Will Set the Ceiling

Experts anticipate a likely review in 2027–2028.



### Regulatory Complexity outside the US

In most European countries, commodities and derivatives fall under financial regulators, while sports, politics, and novelty markets are governed by gambling authorities.



### Decentralized Uptake

Outside the US, prediction markets mostly operate through crypto-based and decentralized finance structures and are gaining traction in regions such as India, South America, and Nigeria.

# INSIGHTS FROM THE BLASK INDEX

## Tracking the Rise of Prediction Markets

The Blask Index illustrates a marked shift in the prediction markets category over the past year. From steady growth of 1.7 million in January 2025 to 2.3 million by September, the category entered a hyper-growth phase in October 2025, reaching 4.65 million, and soaring to 8.58 million by January 2026.

Polymarket drives this expansion, mirroring total category demand and reinforcing its role as the defining brand. Kalshi shows promise as an emerging challenger, contributing to overall depth but remaining far behind the leader. The remainder of the ecosystem, including Myriad, Manifold, PredictIt, IBKR, and Crypto.com, represents a fragmented long tail. While these platforms remain active participants, their share of incremental demand is minimal. For now, they do not meaningfully influence overall category growth or competitive dynamics, underscoring the structural advantages enjoyed by the top two players.

The acceleration captured in Q4 2025 suggests more than short-term spikes. Demand trends point to an early-stage growth cycle likely to translate into higher transaction volumes and monetization across platforms in 2026. This reinforces the strategic advantage of leading operators and highlights the structural shifts shaping the category's competitive landscape.

## What is the Blask Index?

The Blask Index measures total interest in a country and how much of it each brand holds. It rests on the Share of Search relationship between branded-search share and market share (typically ~80–90% correspondence, with a leading indicator effect). Because search often precedes market share moves, the index is an early read of brand and category growth or decline. All data are semantically expanded, intentfiltered, normalized, and de-noised to ensure cross-period comparability and to minimize distortions caused by domain shifts, mirrors, clones, or noncommercial search spikes.

## Insight at a Glance

### Hyper-Growth Trigger

The prediction markets category entered a structural acceleration phase in Q4 2025, nearly quintupling total indexed demand in just four months.

### Category Dominance

Polymarket captures the majority of incremental growth, defining the category and driving nearly all expansion.

## Challenger Spotlight

Kalshi demonstrates steady upward momentum and increasing market relevance, yet Polymarket remains significantly ahead at approximately three times the size.

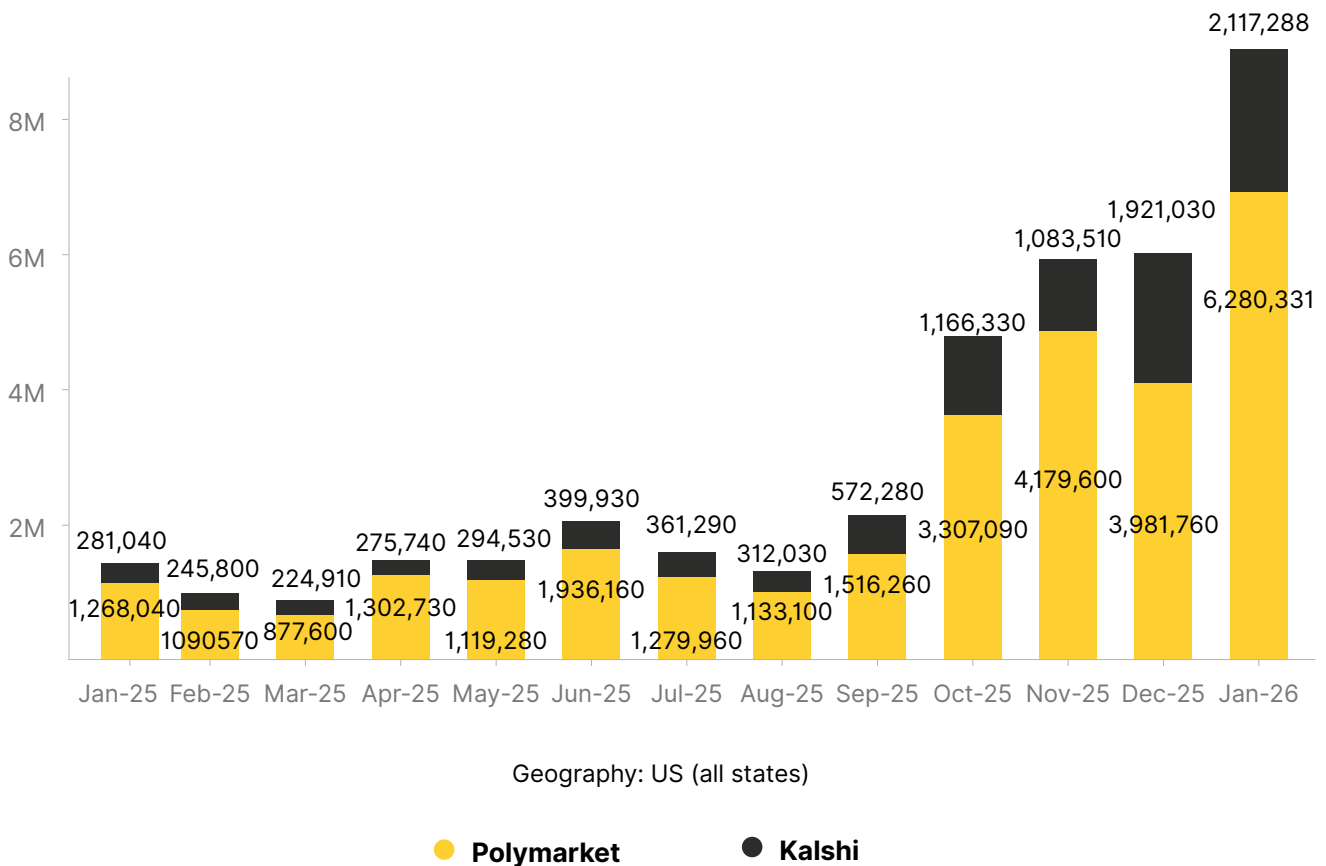
## Fragmented Long Tail

Other players remain small contributors with limited influence on overall category growth.

## Forward-Looking Signal

Search-based demand suggests that transaction volumes and monetization will likely accelerate in 2026, reinforcing structural advantages for incumbents.

## Blask Index Highlights: Prediction Markets



### Total Blask Index:

**~1.7M**

Jan 2025:

**~2.3M**

Sep 2025:

**~4.65M**

Oct 2025:

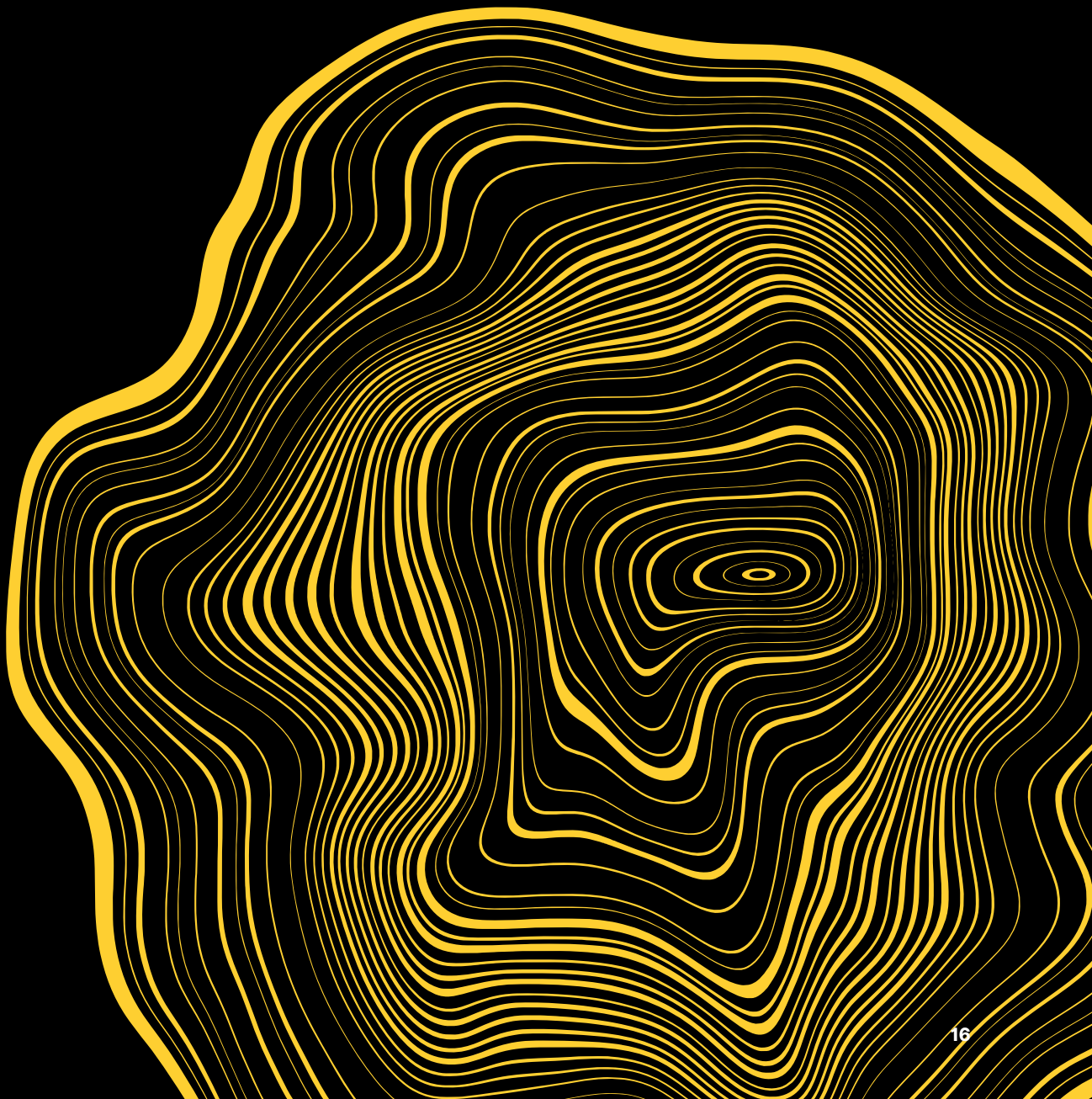
**~8.58M**

Jan 2026:

# PREDICTION MARKETS: THEN AND NOW

## | An Emerging Vertical with Deep Roots

From medieval wagers to 18th-century London coffee houses, from Intrade's boom-and-bust to the crypto-native evolution of Polymarket, we trace how centuries of informal betting gave rise to event-contract markets.





**Ron Pollard**

## | The Front-Page Gamble

London, UK, 1960s. Ron Pollard was not your typical odds maker. At Ladbrokes, he had carved out a rare dual expertise: a deep understanding of financial markets and a keen sense of public relations. As the company's odds maker and public relations director, he was responsible not only for calculating probabilities, but also for shaping how bets were perceived.

Pollard, who died in 2015, is widely credited with publishing the first bookmaker odds on the outcome of a political election. In 1963, he began accepting wagers on the next leader of the Conservative Party and subsequent general elections. What made his approach revolutionary was not merely the novelty of political betting, but his recognition that no market could flourish in public obscurity.

To make it work, he secured the front page of London's Evening Standard, publishing the odds where tens of thousands could see them, a move that must have come with a very hefty price tag. By placing betting information in a mainstream newspaper, Pollard transformed a niche pastime into a visible, legitimate market. The public endorsement of a respected media outlet gave political betting credibility it had never enjoyed before, laying part of the foundation for modern prediction markets.

## | The Origins of a Vertical

Today, many in the gambling industry describe prediction markets as an emerging vertical. Yet, Pollard's story is just one example that shows the concept has deep historical roots.

In the UK, Betfair is often cited as the closest modern parallel to today's prediction markets. In the US, the UK, and beyond, industry observers are approaching the new segment not with alarm, but with curiosity.

Developments happen at breakneck speed, which is juxtaposing given the long history that underpins this market.

Betting on papal elections dates back as far as 1503, when Cardinal Francesco Piccolomini defied early odds to become Pope Pius III. Bookmakers reportedly got it right, though the secrecy of conclaves, their rarity, and the quiet politics behind them have always made forecasting perilous, yet irresistible. Papal betting thrived for nearly a century until Pope Gregory XIV issued *Cogit Nos* in 1591, threatening excommunication for anyone wagering on papal elections or a pope's lifespan. In retrospect, papal betting may have been the world's first true prediction market.

## | Bigger than Wall Street

By the 18th century, political wagering had moved beyond the Vatican. London coffeehouses became informal hubs for election betting, while in the United States, presidential election wagers evolved into a socially accepted pastime.

At their peak, trading volumes occasionally rivaled Wall Street, and centuries before Pollard, newspapers like *The New York Times* published market odds almost daily. These markets were taken seriously as measures of collective political judgment. Their disappearance after 1940 reflected not failure, but the rise of opinion polls and alternative gambling options such as horse racing.

### **Robin D Hanson**

*Economist, author and  
associate professor  
of economic George  
Mason University*



The idea that betting is uniquely problematic because it is “zero-sum” does not withstand scrutiny. In relative terms, most financial market activity is also zero-sum: when you trade, you are effectively betting that your asset or strategy will outperform someone else’s. While underlying assets such as stocks may appreciate over time, outperformance relative to the market necessarily means someone else underperforms. The key distinction is not zero-sum mechanics, but transaction costs. In a world without fees, many trades would be zero-sum; once costs are introduced, they become negative-sum for participants on average. That applies equally to betting and to currency or asset trading. Historically, betting markets have appeared more punitive because transaction costs were high, often due to legal restrictions and bookmaker margins. As platforms reduce fees through scale, technology, and regulatory clarity, betting markets increasingly resemble financial exchanges in economic terms rather than standing apart from them.

## **Academic Experiments**

Prediction markets returned to public consciousness in the 1980s through academic experiments. The Iowa Electronic Markets (IEM), launched in 1988 at the University of Iowa, demonstrated that market-based predictions could rival traditional polls. The Commodity Futures Trading Commission (CFTC) neither explicitly allowed nor prohibited such trading but issued a letter stating that, as long as no participant held more than \$500 in the market, no enforcement action would be taken. IEM also pioneered 0–100 pricing: winning contracts paid \$1 per share, losing contracts paid \$0.

Technology steadily lowered the cost of running markets, but legal restrictions often lagged. Between the 1990s and 2000s, academics and technologists experimented with corporate and public markets, believing collective intelligence could outperform experts. Inside corporations, prediction markets were trialled to forecast sales, product launches, or project deadlines, but many faded under legal and compliance pressures. One academic who has spent decades studying prediction markets is Robin D. Hanson, a professor at George Mason University. His research focuses on how prediction markets can aggregate dispersed information and improve decision-making in policy, business, and governance. Hanson introduced the concept of “decision markets” and later developed “futarchy,” a governance model in which policies are chosen based on prediction market forecasts of their expected outcomes. “I’ve always known that legal barriers would be the central challenge in this field. That’s been true for centuries and remains true today,” he told NEXT.io. “Betting is generally illegal by default, unless it’s reclassified as something else, something seen as socially or economically valuable, even if it functions like a bet.”

## | A Target of Lobbying Efforts

The Hollywood Stock Exchange (HSX) illustrates these challenges. One example of the regulatory challenges in this space is the Hollywood Stock Exchange, which faced opposition when it sought to commercialize. Initially a play-money market forecasting movie box-office performance, it was acquired by Cantor Fitzgerald in 2001, which envisioned transforming it into a legitimate futures exchange. However, the film industry successfully lobbied Congress to outlaw real-money movie markets. Similar interventions had occurred earlier, such as the US ban on onion futures in 1958.

Cantor Exchange, HSX's modern successor, later became one of the few US-regulated venues allowed to offer binary options on forex, gold, and weather. Around the same time, the North American Derivatives Exchange (NADEX) was founded as a direct-to-retail exchange, becoming the first CFTC-regulated prediction market. NADEX offered contracts on financial indicators such as the Consumer Price Index and later became the legacy exchange acquired by Crypto.com in 2022.

## | Market Validation

Through the 2000s and 2010s, platforms like Intrade attracted global attention but remained constrained by regulatory uncertainty. Its abrupt shutdown in 2013 following US enforcement action proved the concept worked, even if infrastructure, liquidity, and legal clarity were lacking.

PredictIt, a nonprofit educational platform operated by Victoria University of Wellington in New Zealand, launched in 2014 to allow US users to trade on political and financial events.

Backed by Aristotle, Inc., it navigates US laws through a CFTC no-action letter, limiting each question to 5,000 traders and \$850 per participant. While these early platforms demonstrated the concept, many lacked the technology, liquidity, and regulatory frameworks necessary for broad adoption.

## | Gambling's First Finance Moment

The Covid-19 pandemic created an unprecedented convergence of gambling and finance. With professional sports suspended and stimulus checks flowing, retail investors poured into markets, treating trading with the same risk appetite once reserved for betting. Dave Portnoy, founder of Barstool Sports, became the emblematic figure as "Davey Day Trader," turning social-media stock picks into a spectacle.

Portnoy's antics helped spark the retail frenzy that culminated in the meme-stock phenomenon of early 2021, when investors coordinated online to drive up heavily shorted shares such as GameStop and AMC, rattling hedge funds and redefining market engagement. What began as a pastime for bored gamblers quickly evolved into a watershed moment for self-directed investing.

"It's the combination of no sports—you can't bet on that—and you can't go outside. There's a lot of people sitting in front of their computers who ordinarily can't be day trading. For a gambler, investing has a ton of similarities," Portnoy told *CNBC* at the time.

## Moving into the Mainstream

Building on this appetite for risk, prediction markets entered a new phase. Blockchain technology enabled faster, lower-cost markets with automated settlement and outcome resolution. Polymarket, launched in 2020 by Shayne Coplan on the Polygon blockchain, exemplifies this evolution, offering markets on elections, geopolitics, and current events largely outside US regulatory oversight.

Regulated players also entered the fray. Kalshi secured CFTC approval to operate as a Designated Contract Market for specific event contracts, similar in concept to the Hollywood Stock Exchange, though without the same fierce lobbying opposition.

What made these markets viable from the outset was a ready-made consumer base: retail traders and young investors accustomed to financial risk through stocks, meme markets, and social trading. Smartphone apps, easy access, and the normalization of online financial activity meant that “trading” sounded professional and sophisticated, appealing to a demographic that previously associated the same behaviors with betting.

As one industry insider put it: “The shift in language matters. Rich people trade; poor people bet. Capital markets are a profession. Bookmaking is not.”

Today, platforms such as Polymarket, Kalshi, and Crypto.com represent a new generation of prediction markets tapping this engaged, financially curious audience. While their architectures differ, collectively they show an industry finding real product-market fit. Wider distribution, improved technology, and blockchain’s global reach make these markets more scalable than ever, though regulatory uncertainty remains the sector’s biggest challenge. The mainstream prediction market category is still barely two years old, underscoring just how early this market remains and how much about its ultimate direction is yet to be determined.

By the way, prediction markets can be wrong. In 2025, for example, they predicted with relative certainty who would be the next pope. Polymarket traders tipped Vatican Secretary of State Cardinal Pietro Parolin, while Kalshi users backed Filipino Cardinal Luis Antonio Tagle. Chicago’s Robert Prevost? A 1–2% long shot. When Prevost emerged as Pope Leo XIV, most traders were left scratching their heads, though a few presumably walked away rich.

### ← Post



**Dave Portnoy** ✓  
@stoolpresidente



**\$RTX** comes out of the scrabble bag. Smush letters and buy it. Give it a try Ron, you might not bankrupt your clients. **#DDTG**



# MARKET INSIGHTS

## | The Race to Own Prediction Markets

Prediction markets are evolving into a tightly interwoven ecosystem where partners often become competitors, and the question of a lasting competitive edge remains unresolved. As the sector becomes more crowded, the fight for liquidity, regulatory advantage, and distribution is intensifying. We look at these developments and ask: where is the moat?

Andrew Gonzalez's first lessons in betting didn't come from crypto charts or trading algorithms. They came from his father, who taught him that numbers, nerves, and luck all mattered. Today, Gonzalez calls his father's approach "old school." Now in his twenties, he is building his own start-up, ParlayX, and raising a pre-seed round for an aggregation layer for prediction market platforms, a unified API and execution infrastructure designed to connect all markets into a single system. His vision is to build the infrastructure layer on which the entire prediction market ecosystem will build on.

Since 2021, Gonzalez has been immersed in crypto. While studying economics at UCLA, he began working in venture at Inception & M31 Capital, before moving to Trading Operations at Flowdesk in New York after graduating. Young, determined, and full of energy, he describes the space as a gold rush, packed with start-ups and fresh talent.

Investors and insiders already call the market saturated. Many prediction platforms look and feel the same in a landscape of copy-and-paste designs. "There's a lot being built, but not much real differentiation because everyone is stuck on the same limited or otherwise nonexistent infrastructure", Gonzalez says. So, even amid Gonzalez's excitement, one question looms large: what truly protects a business from being copied?

## Searching for the Moat

The prediction market space has grown crowded. Competition has intensified since Kalshi brought the concept into the mainstream, framing it in the US as a regulated financial product rather than gambling. Today, entrants are coming from every corner of the broader speculative economy: sportsbooks defending market share, pure-play prediction platforms chasing category dominance, and fintech companies looking to expand engagement and monetization. Each group is leaning on its own structural advantages, whether that is existing liquidity, regulatory experience, distribution, or capital access.



**Andrew Gonzalez**

Analysts broadly agree that the industry is still in an early phase of its lifecycle. Bank of America characterizes the current environment as a "classic land grab", marked by high valuations, unclear unit economics and aggressive competition on pricing and incentives. Historically, such periods are often followed by consolidation, as growth slows, capital becomes more selective and only a small number of platforms prove capable of sustaining liquidity at scale.

Others argue the market is already maturing. Volumes have surged dramatically in just a few months, the market structure is solidifying, leading platforms are pulling ahead, and institutional interest is starting to take shape. But who will ultimately come out on top, and what will give them the edge? Is it technology, market resolution, liquidity, or distribution? In Warren Buffett's terms, again, where is the moat?



## The Exchange-Led Mainstream Move

Kalshi's early regulatory win is widely seen as its core competitive advantage, but it was anything but obvious at the time. Founded in 2018 by Luana Lara Lopez and Tarek Mansour, the company spent years pitching a vision many investors considered unworkable. "We spoke to Kalshi back in the day, but we did not invest," one prominent iGaming-focused VC told *NEXT.io*. The consensus was: this will never get regulated, and even if it does, it'll be too slow and too niche to scale.

That scepticism persisted until 2020, when Kalshi became the first platform approved by the US Commodity Futures Trading Commission as a Designated Contract Market (DCM), with its own clearing arm, Kalshi Klear, registered as a Derivatives Clearing Organization (DCO). The dual license, exchange and clearinghouse, placed Kalshi inside the same regulatory architecture as traditional futures markets, creating a barrier that rivals would struggle to replicate.

Polymarket's path to a similar competitive set-up was messier, but arguably just as consequential. Founded in 2020 by Shayne Coplan, the platform initially embraced a fully crypto-native model, settling contracts on-chain via smart contracts and oracles, without a central counterparty or regulated clearing function. That approach helped it scale globally, but also drew regulatory fire. In 2022, the CFTC fined Polymarket \$1.4m for offering unregistered markets and forced it to block US users. "At that point, most people wrote them off as permanently ex-US," one executive told *NEXT.io*.

However, Polymarket doubled down offshore, building liquidity and brand dominance during events like the 2024 U.S. presidential election, before executing a strategic pivot. In 2025, it acquired QCEX, a CFTC-licensed derivatives exchange with an affiliated clearinghouse, giving Polymarket regulated exchange and clearing capabilities overnight. The deal cleared a path back into the U.S. and transformed Polymarket from a regulatory outlier into Kalshi's closest structural peer. *Forbes* dubbed Coplan "The Prince of Prediction," and by early 2026, the company was reportedly valued at more than \$12bn.

While it is still early days, Polymarket's US re-entry has been more measured than some anticipated, with an initial app offering a limited set of sports-related event contracts and plans to expand into politics, crypto, and other verticals over time. Across the industry, the focus now is on what comes next and how the competitive landscape could shift in the months ahead.

## Will Exchanges Commoditize?

Industry experts increasingly view prediction markets as a layered ecosystem. At the top sits the customer-facing broker, owning distribution and wallets. Beneath is the exchange layer, the DCM, handling trade matching and clearing. Supporting both is market-making, which provides liquidity and maintains spreads.



**Luana Lara Lopez, Tarek Mansour**

Across *NEXT.io* interviews with founders, investors and market makers, a striking consensus emerged. Over time, experts believe, the exchange layer itself is likely to be competed down. Matching engines and clearing rails are essential, but rarely defensible. Price competition is relentless. Equities provide the canonical example: once trading became electronic and liquidity deepened, fees collapsed toward zero. By contrast, controlling the customer relationship can compound value: platforms can monetize deposits, cross-sell higher-margin products, and use prediction markets to drive engagement within a broader financial or media ecosystem.

Retail brokerages with embedded distribution, such as Robinhood, may emerge as the most powerful actors. Robinhood's users already trade equities, options, and crypto. It controls vast volumes of low-cost retail flow. Customers already have funds on deposit. Onboarding friction is minimal. During the week, users trade equities, options and crypto; on weekends or around major events, sports and political markets slot neatly into the same behavioral loop. In a commoditizing exchange environment, that kind of embedded distribution may prove to be the deepest moat of all.

**Shaun Kelley**

*Gaming, Lodging &  
Leisure Equity Research,  
Bank of America*



Our baseline view is that there is something very real here. There's a genuine use case, real demand, and an emerging market structure around event contracts. In some academic contexts, prediction markets have existed for over 20 years as tools for aggregating the wisdom of crowds. That value predates their intersection with sports and gambling.

At the moment, this market shows all the signs of an early-stage land grab. That's typically followed by a shakeout. You have high valuations, unclear unit economics, and intense price competition. Everyone rushes in, raises capital, and chases growth. Then reality sets in and only a handful of players emerge as long-term winners. The real question, whether this is a bubble or something structurally durable, comes down almost entirely to regulation. The regulatory backdrop is still fluid.



## Infrastructure as Leverage

Several players are attempting to straddle both sides of the value chain. Crypto.com was among the first consumer fintech brands to enter US prediction markets at scale, launching a fully CFTC-regulated derivatives offering at the end of 2024. But its strategy extends beyond retail.

Through its affiliate, Crypto.com Derivatives North America (CDNA), the company has positioned itself as a wholesale infrastructure provider. CDNA operates a fully centralized, regulated stack: a Central Limit Order Book (CLOB)-based exchange, permissioned market creation, and real-time settlement using official data feeds, with the entity serving as both exchange and clearinghouse. Crucially, that same regulated liquidity pool can power Crypto.com's own consumer product while also being integrated to third-party front ends.

This model, featuring one regulated core and many distribution partners, mirrors how liquidity is intermediated in more mature asset classes. Front ends compete on brand, UX and audience; infrastructure providers compete on uptime, spreads and regulatory credibility. Crypto.com has onboarded several partners, including Truth Social, MyPrize, Hollywood.com, Underdog and Fanatics. For these companies, outsourcing the exchange layer lets them bypass years of licensing and heavy capital investment.

In early February 2026, Crypto.com also launched a new in-house sports prediction brand, OG, focused on sports event contracts. Industry observers see the rebrand as a way to sharpen its positioning, since the Crypto.com name can be harder to market effectively within the prediction markets space.



## The Power-Broker

If infrastructure providers are one pole of the market, Robinhood represents the other: distribution at overwhelming scale. The company has already demonstrated its ability to shape outcomes. Bank of America estimates suggest Robinhood accounts for roughly 60% of Kalshi's trading volume, effectively determining where liquidity congregates. That influence has only grown as Robinhood has moved from partner to partial owner of the stack.

Its acquisition of MIAX Derivatives Exchange (MIAXdx), completed alongside Susquehanna International Group, gives Robinhood its own CFTC-licensed DCM and DCO. While the company has said it will continue to offer Kalshi markets in the near term, the rebranding of MIAXdx as Rothera, with a launch targeted for Q2 2026, signals a clear strategic direction: vertical integration once product-market fit has been proven.

Owning the exchange layer confers both economic and strategic advantages. It captures a larger share of fees, allows tighter control over market listings and innovation cadence, and reduces dependence on third-party venues. Less visibly, it also expands institutional connectivity. As Citizens analysts note, MIAxdx gives Robinhood a bridge to asset managers, market makers and other brokerages.

In the near term, Robinhood is likely to route orders across multiple venues to ensure best execution as its own exchange scales. Retail users, after all, are not choosing exchanges; they are choosing contracts. But as liquidity concentrates, the gravitational pull of distribution becomes self-reinforcing. The implication is subtle but profound. In a commoditising exchange environment, platforms that control distribution decided where liquidity congregates and which players survive consolidation.

**DJ Hennes**  
Advisory Managing  
Director, KPMG US



We've gone from essentially one prediction market to roughly a dozen. It reminds me of the post-Dodd-Frank era, when swap execution facilities exploded in number before consolidating down to three or four with meaningful volume. I think we're in a similar cycle.



## The Sports Betting Incumbent Challenge

Given prediction markets' proximity to sports wagering, the two largest U.S. sportsbooks, DraftKings and FanDuel, entered the prediction markets space to defend market share and extend customer engagement beyond traditional betting.

DraftKings launched DraftKings Predictions in December 2025. The platform connects to multiple exchanges, including CME Group, and plans to integrate Railbird Technologies, a recently acquired federal exchange license holder, to ensure liquidity, market depth, and long-term innovation.

FanDuel followed shortly after with FanDuel Predicts, also in partnership with CME Group. Leveraging its existing KYC framework and CME's regulatory infrastructure, FanDuel initially launched in five states but subsequently made the platform available in all 50. However, both FanDuel and DraftKings do not offer contracts on sporting events in states where they already provide licensed sports betting.

Interestingly, both FanDuel and DraftKings ultimately draw on the same liquidity pool through CME. While they compete for customers on the front end, the shared backend liquidity creates an unusual dynamic that resembles a quiet partnership beneath the surface.

Both platforms bring established customers and credibility to the space, but they now face a classic incumbent challenge.

Sector experts warn that this may not be the first time that established players fail to maintain their advantage when new challengers appeared. They highlighted that when the US sports betting market opened post-PASPA, legacy casinos were bypassed by digital-first operators like DraftKings and FanDuel because these companies already controlled pre-funded users and could onboard quickly.

Prediction markets may follow a similar trajectory. Robinhood combines equities, crypto, options, and cash management with prediction markets, creating a more comprehensive financial ecosystem. While DraftKings and FanDuel retain deep sports audiences, new entrants with broader financial ecosystems could siphon liquidity and engagement away.

## The Next Iteration

Meanwhile, the next wave of prediction market entrants is already lining up, defined by digital-first, crypto-native strategies. Coinbase plans to launch its “Event Center” in Q1 2026, while Kraken has explored prediction markets through its futures division. Platforms with established infrastructure and existing user bases, including Coinbase, Kraken, and post-MIAXdx Robinhood, are well positioned to consolidate liquidity, potentially drawing volume away from smaller, non-regulated operators.

Success inevitably attracts imitators, raising concerns that a flood of entrants could repeat the sports betting customer acquisition wars of 2018–2020. Analysts warn that oversaturation in the US is a real risk in prediction markets. Most experts agree that durable advantage lies less in technology than in the three pillars of customer access, regulatory licences, and liquidity. Platforms controlling all three are structurally stronger, though the hierarchy remains unsettled.



## An Industry's Best Guess

Most experts speaking to NEXT.io agree that Kalshi's regulatory head start gives it clear staying power. Polymarket's outlook is more mixed: some analysts highlight its first-mover advantages, while others note that its CFTC-regulated product struggles to differentiate itself from its decentralized international platform. Crypto.com brings both innovation and capital to the table, but limited brand recognition, while the effectiveness of its recent rebrand remain uncertain.

DraftKings and FanDuel continue to lead in sports engagement and compliance, while sources suggest Robinhood's broader financial ecosystem could offer stronger user lock-in and deeper liquidity. "I believe there's room for all the main brands," one executive said. In the US alone, there are now a dozen serious prediction markets vying for market share, but how many more the sector can sustain remains an open question.

Meanwhile, new platforms continue to launch both inside and outside the US, showing that momentum in the sector remains strong. Yet growth is likely to be uneven and turbulent. Ultimately, market evolution may favor verticalization and specialization, which could define long-term success and reveal the sector's ultimate moat.

**Mark Phillip**  
CEO, MetaBet



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From my personal experience in Texas, where traditional sports betting remains illegal, interest in prediction markets still feels surprisingly low. The sports fans I speak to either wait until they are in Las Vegas to place bets or ask friends in other states to do it for them. Very few realise that prediction market products are even available. Some have heard of Kalshi, but almost none are aware of DraftKings Predictions or FanDuel Predicts. Brand awareness, at least in my circles, is minimal. Despite the online buzz around awards markets like the Emmys or Golden Globes, real-world penetration here seems tiny. In a state larger than Australia by population, that suggests we are still very early in the lifecycle.

# REGULATORY INSIGHTS

## Prediction Markets and the Shifting Lines of Regulation

For many in traditional gaming, the rise of prediction markets was not just rapid but unexpected. By the time the broader industry grasped their regulatory positioning and potential scale, the foundations had already been laid.

"It's complicated." Few phrases better capture the current state of prediction market regulation in the United States. Court battles are unfolding across the country over whether prediction markets should be regulated at the federal or state level, and, more fundamentally, whether they constitute gambling at all. What began as a niche financial experiment has, in less than two years, become one of the most disruptive forces facing the US online betting industry.

The legal ambiguity is more than a technical debate. It is what allowed prediction markets to grow largely outside the traditional gambling framework and why much of the industry failed to grasp the scale of the shift underway.

### | A Storm No One Was Watching

The US gambling industry is no stranger to regulatory conflict. From the protracted battle to legalize and regulate online betting to the repeal of PASPA in 2018, clashes with lawmakers have been a constant feature of the sector's evolution. More recently, sweepstakes gaming became the latest flashpoint, drawing sustained opposition from much of the regulated industry and consuming significant political capital.

But while operators and trade groups were focused on fighting sweeps, another transformation was quietly taking shape. In the span of just 18 months, prediction markets evolved from a niche curiosity into a credible challenger to the industry's established order.

"We thought exchanges might work in the US, but the general expectation was that they would roll out in a fairly traditional way: regulated state by state," one C-level executive told NEXT.io. "The assumption was that you'd see futures-style exchanges in states like New Jersey or Colorado, broadly following the sports betting model, with legislation moving in that direction. Instead, what Kalshi did was effectively throw it up in the air and see if it would fly at the federal level. I don't think anyone predicted how quickly this would explode."

Executives at the American Gaming Association (AGA) have since acknowledged that the shift caught them off guard while they were focused on sweepstakes legislation. Speaking at an industry conference, AGA vice president of government relations Tres York reflected on the speed of the change: "Since the presidential election, the winds have changed. What a difference a year makes," he said.

At the heart of the debate is a deceptively simple question: are event contracts financial instruments, overseen at the federal level by the Commodity Futures Trading Commission (CFTC), or are they a form of wagering, subject to state gambling laws?

The stakes are enormous. A derivatives classification would allow prediction markets to scale nationwide under a single federal regime, attract institutional capital, and potentially position themselves as data providers to regulated financial entities. A gambling designation, by contrast, would force operators into a fragmented, state-by-state licensing system, sharply limiting liquidity and constraining long-term growth.

**Daniel Wallach**

*Founder, Wallach Legal*



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This will boil down to whether the courts believe that Congress intended for the Dodd-Frank Act to upend state sports gambling laws — a questionable premise given that sports betting was legal in only one state (Nevada) when Dodd-Frank was enacted in 2010. The key issue is congressional intent. And is there any specific or clear language in Dodd-Frank indicating that Congress intended for sports gambling to be conducted on derivatives markets? There isn't. The idea itself is preposterous, but it has taken root because of creative lawyering and statutory ambiguity.



## What Exactly Are Prediction Markets?

What exactly are prediction markets? For some, “prediction market” is little more than a made-up term. “You could call literally any market a prediction market,” one critic told *NEXT.io*. “When people buy stocks, they’re predicting the price will go up. When they sell, they’re predicting it will go down. If they believed the price would rise, they wouldn’t sell.” By that logic, event contracts are no more novel than stocks, bonds or options and calling them prediction markets is “just clever marketing.”

Prediction markets themselves are not new. They have existed for decades, largely flying under the radar. The modern inflection point came in 2020, when Kalshi received approval from the CFTC to operate as a Designated Contract Market (DCM). Progress remained measured, however, until 2024, when the company attempted to list election-related contracts, prompting intervention from the CFTC, which instructed Kalshi not to proceed. Kalshi responded by suing the regulator, and the dispute ultimately reached the US Courts of Appeals.

## Legal Battles and Regulatory Perimeters

The appellate court granted a preliminary injunction allowing Kalshi to continue offering the contracts while the case was reviewed. Legal experts speaking to NEXT.io emphasized that the court did not rule on the underlying legality of the contracts themselves, even though Kalshi later characterized the decision as a formal endorsement.

However, after the 2024 presidential election and the inauguration of President Donald Trump in January 2025, the new leadership at the CFTC chose to drop its opposition. With no final ruling issued, Kalshi was left free to continue listing the contracts, effectively clearing the path for regulated political event contracts to continue operating at the federal level.

The regulatory perimeter expanded again in September 2025, when the CFTC issued guidance on sports-related event contracts. While stopping short of full evaluation, the guidance confirmed that exchanges could list such contracts via the agency's self-certification process, allowing them to go live within 24 hours unless the regulator intervened.

For context, self-certification is not unusual. Congress rewrote the Commodity Exchange Act in 2000 to allow exchanges to list contracts without prior approval, provided they certify compliance with the law. In practice, however, the CFTC rarely conducts proactive reviews and typically intervenes only if concerns or complaints arise.

**Bruce Merati**

*CEO and Founder BetEx*



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This is fundamentally a fight between state and federal authority. The platforms are proxies. The Commodity Exchange Act was never designed to cover sports betting. Suggesting otherwise is absurd.

Sports betting has always been a states' rights issue. If you accept that sports betting is gambling, and historically, US law does, then it falls outside the CFTC's remit. The platforms are pushing the envelope because the worst-case scenario is simply being told to stop. In the meantime, they've acquired millions of customers.

Prediction markets, in their pure form, can have informational value. But they are not a mass-market business. Nobody is lining up to bet on year-end interest rates. Sports is different. Sports is emotional. That's where the volume is.

## The Most Vocal Critics

Federal permissiveness, however, has collided head-on with state authority. Since the repeal of PASPA, states have controlled the regulation of gambling within their borders. Today, 40 states plus Washington DC allow some form of legal sports betting, with 32 offering online wagering. They have become some of the most vocal critics of prediction markets.

By early January, regulators in 10 states with mobile sportsbooks issued cease-and-desist orders to Kalshi and similar operators, arguing that sports-event contracts constitute unlicensed bookmaking. Seven states were engaged in active federal litigation, while Massachusetts and Nevada had initiated state court actions. Moreover, Native American tribes in California and Wisconsin have also filed suits seeking to block prediction-market activity.

## A Proxy Fight?

Experts say the argument resembles a proxy fight, highlighting a fundamental tension between federal oversight and state sovereignty. Prediction market operators argue that they are federally regulated, claiming state laws do not apply. The central legal question is federal preemption. Does the Commodity Exchange Act entirely preclude state regulators from overseeing federally regulated DCMs, even when these markets overlap with areas traditionally governed by states? In plain terms: when a prediction-market contract resembles a sports bet, does federal law give the CFTC sole authority, or can states still intervene?

A related dispute hinges on whether sports-event contracts qualify as “swaps”—financial instruments squarely under the CFTC’s jurisdiction. Under the Act, a swap is a financial instrument that pays out based on the occurrence or non-occurrence of an event tied to a financial, economic, or commercial consequence. Exchanges contend that major sporting events do have economic implications, influencing broadcasting revenues, sponsorship deals, and concession sales. States counter that most outcomes, such as final scores, lack the kind of direct financial exposure required for a derivative.

## Definitions and Interpretations

“The states are taking a very narrow definitional approach,” one legal expert told *NEXT.io*. “A game happens—that’s the occurrence—but the score itself isn’t. That argument has worked so far.” Others argue courts should weigh the broader economic impact of sporting outcomes rather than isolating technical definitions. Critics also question whether these contracts function as derivatives at all. “Derivatives exist to hedge risk,” one expert explained. He added that no one suffers economic loss if a team scores three touchdowns instead of four.

Many believe the ultimate question will turn on congressional intent, specifically whether the Dodd-Frank Act of 2010, which amended the Commodity Exchange Act, was ever meant to supersede state sports betting frameworks. Several lawyers pointed out that there is no clear statutory language indicating that Congress intended sports gaming to take place on derivatives markets.

## From Industry Adoption

Not everyone in the gambling industry opposes prediction markets. For major betting brands, the appeal is clear. Sports betting is legal in 40 states and Washington, D.C., with 32 offering online or mobile wagering. Yet it remains prohibited in several highly populous states, including Texas, California, and Georgia. Texas and California alone account for roughly 20% of the US population. Under the current state-by-state licensing system, these are vast markets that traditional sportsbooks simply cannot reach.

However, prediction markets offer a federal workaround. That is why companies like DraftKings, FanDuel and Fanatics are embracing the model, even though this has put them in direct conflict with several state regulators and saw them exit the AGA. As one industry source put it, they are willing to “burn the boats” to access customers otherwise locked away.

Others argue they have little choice. Unlike the incremental changes seen with Daily Fantasy Sports (DFS) and sweepstakes, which, as one source pointed out, were never a real threat to online sports betting, prediction markets are existential to their

business, directly impacting revenue streams. However, prediction markets require operators to have a product ready, because “if it does legalize and they are not there, it’s existential.”

### Jeffrey Haas

*Managing Director, ID8 Global Gaming Accelerator, Venture Partner, Dreamcraft VC, and active advisor*



Companies expanding prediction markets into new jurisdictions need a pragmatic view of existing regulations. In most of Europe and beyond, the rails are already laid: commodities and derivatives sit with financial regulators, while sports, politics, and ‘novelty’ markets generally fall under gaming regulators.

Operating compliantly isn’t a mystery box. It’s a matter of engaging competent counsel, mapping existing policies, creating strong compliance frameworks, and submitting to oversight. It is always easier (and MUCH cheaper) to walk through the front door and ask for permission than to beg for forgiveness.

That is why the prevailing global approach feels like such a crazy cocktail of arrogance, ignorance, and recklessness.

To date, international enforcement has been ‘light-touch’—blacklists, ISP blocking, and cease-and-desists—but relying on that status quo is dangerous. This isn’t the old offshore gambling world where anonymous principals count

Lambos and play NLHE heads-up for rolls on a cozy non-extradition island. Major prediction market operators are US companies with highly visible executives. They appear to be complacently relying on outdated ‘Point of Supply’ legal rationales. I have to wonder if they check extradition treaties before booking travel?

While I’m not a lawyer, the illegality of political betting in places like Taiwan, France, Hungary, and Portugal seems unambiguous—yet we aren’t seeing geo-fencing, or geo-segmented product offers. Similarly, American operators offering 15-minute Bitcoin markets in the UK are likely violating laws which prohibit facilitation of retail trading of binary options. They are either ignoring good legal advice or taking advice from lawyers who are completely detached from reality.

Maybe the ‘Wild West’ era has more runway—at least until 2028—but this looks like an extraordinary commercial opportunity burdened by an entirely unnecessary layer of jail risk.

## To Industry Backlash

Tribal leaders and gaming associations see something more troubling. They argue prediction market operators are marketing gambling as an “investment tool,” blurring the line between wagering and finance while bypassing responsible gaming safeguards. Unlike licensed sportsbooks, prediction platforms are not required to offer self-exclusion tools, fund problem-gambling programs or undergo financial suitability reviews.

Tribal representatives have also voiced concerns about losing hard-won protections. “Our responsibility is to protect our communities and defend tribal sovereignty,” one tribal gaming leader said. “Prediction markets, with limited oversight and crypto-based funding, pose real risks.” The AGA and the Indian Gaming Association (IGA) have jointly urged Congress to intervene, warning that platforms now offer complex multi-leg wagers and niche propositions, including collegiate athlete transfers, without meaningful regulatory review.

Sources speaking with NEXT.io, meanwhile, think that the tribes in particular will play an important role in fighting prediction markets. “Tribes understand federal law better than states do because they’ve been dealing with it for decades. Tribes won’t sit this out. Nevada, California, and Florida will lead the resistance,” the person said.

## Taxation & Consumer Protection

States with sports betting legislation have opposed prediction markets in part because they do not want to jeopardize a valuable source of tax revenue. For platforms regulated by the CFTC, the taxation landscape remains uncertain. There are no specific state taxes beyond ordinary income tax on winnings, and experts told NEXT.io that it is unclear how the IRS will classify these transactions.

“They may view them as sports bets and apply the gambling loss deduction cap, but it’s uncertain. Right now, these platforms likely just pay standard corporate income tax,” one legal expert said.

Consumer protection is another key concern, particularly around insider trading and market manipulation. Sector experts note, however, that insider trading is explicitly prohibited under the Commodities Exchange Act. Meanwhile, companies in the sector have recognized the need to self-regulate. Many online sports betting operators that now offer prediction markets have expanded their responsible gambling rules and standards to also cover their prediction market offerings.

**Andrew Kim**  
*Partner, Goodwin*



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I think it will be a while before we see any meaningful CFTC regulation in this space. Formal rulemaking takes years. That’s not to say the CFTC won’t be active. The agency can have an immediate impact on the prediction markets industry by making its voice heard in ongoing litigation and by defending its jurisdiction, and it might even signal what a comprehensive regulatory framework could look like. We may get hints and public guidance providing some sense of direction. We already have Chairman Selig saying that the agency won’t engage in merit regulation. But we are a long way away from lasting and binding rules that provide real regulatory clarity, and the future-proofing that Chairman Selig hopes to achieve.

**Todd Philips***Assistant Professor,  
George State University*

Congress intended derivatives to be used for hedging real economic risk. For genuine hedging to exist, there must be an underlying economic exposure. With sports contracts, that exposure simply does not exist. No one suffers a real economic loss if a football player scores three touchdowns instead of four. That is not how the real economy functions. If there is no hedging function, then Congress did not intend for such contracts to fall under the Commodity Exchange Act.

The CFTC's announcement that it will engage in rulemaking may lend some support to prediction markets, but it is unlikely to be decisive. It comes too late to materially influence many of the cases currently before the courts of appeal. It could carry more weight if a case eventually reaches the Supreme Court, but even then, the agency's view would not be legally binding.

## Market Entry

According to sources familiar with the sector, more companies are actively exploring entry, drawn by the promise of a new financial frontier. One observer explained the dynamic:

"What drove the recent growth of prediction markets? From a venture capital perspective, look at who's funding the recent rounds. Some of the most well-known VC funds in the world.

They generally can't or don't invest in gambling directly, but since prediction market companies are being viewed as financial services, these funds can participate. Their check sizes, combined with modeled industry growth, are driving enormous valuations. I think that combination creates a really interesting dynamic."

Just a year ago, many potential entrants remained in a "wait and see" posture, cautious amid regulatory uncertainty and ongoing legal questions. Today, the conversation has shifted decisively toward execution: how to enter these markets and which regulatory pathway offers the optimal balance between speed to market and long-term economics. The introduction of combo bets—same-game parlay-style contracts—in fall 2025 further accelerated interest, as traditional sportsbooks began to feel the competitive threat.

For existing operators with a customer base, the recommended path is often to enter as an intermediary, such as an introducing broker (IB) or futures commission merchant (FCM), rather than building or acquiring a Designated Contract Market (DCM) and running a clearinghouse independently. Each approach carries trade-offs. Constructing a full exchange infrastructure takes time, and legal experts warn that going solo carries significant risk. While timelines for registering a DCM have dropped dramatically—from around two years to just a few months—acquisition remains capital-intensive, with costs for smaller exchanges starting at roughly \$100m. According to NEXT.io sources, major betting companies are actively exploring multiple options in parallel, with legal teams evaluating several scenarios before settling on a final strategy.

That openness is not universal. Some brands, including major land-based casino operators such as Caesars and MGM, face significant constraints on their ability to participate. Sources say they have been warned that involvement in prediction markets could put their state gambling licenses at risk.

For both commercial and tribal casinos, the concern extends beyond sports wagering. Many view it as a broader existential risk. If the CFTC continues its largely hands-off approach, allowing DCMs to self-certify contracts without pre-approval, it is widely expected that someone will test the boundaries by creating casino-style gaming contracts. Experts warn that such a move could trigger heightened regulatory scrutiny and “make it extremely difficult for the sector to argue that it’s trading and not gambling.”

**Scot McClintic**  
Chief Operating  
Officer, Fanatics  
Betting and Gaming



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Prediction markets naturally face scrutiny around certain contracts and potential manipulation. First, trading on inside information is illegal, just like insider trading in financial markets.

Second, we don’t offer every possible market. If something doesn’t meet our standards or align with consumer trust principles, we simply won’t offer it.

Third, responsible risk management is a key differentiator for us. We’ve extended our responsible gaming framework into Fanatics Markets. Limits set in the sportsbook carry over to prediction markets and vice versa. We strongly believe in proactive self-regulation rather than waiting for government intervention. Whether it’s gambling or trading behavior, protecting our customers is critical.



**Michael Selig**

## CFTC Rulemaking

In January, newly appointed CFTC chair Michael Selig signalled a major shift in the regulatory debate. He ordered staff to draft a formal rulebook for prediction markets and withdrew both a 2024 proposed ban on political and sports contracts and a 2025 staff advisory cautioning registrants against offering sports-related markets. “Prediction markets are not new,” Selig said. “They have operated within the CFTC’s perimeter for more than two decades. But uncertainty has not served the public interest.” He pledged to establish “clear standards” and announced closer coordination with the SEC on financial product definitions.

In a subsequent statement, Selig adopted an even firmer tone, saying: “The CFTC will no longer sit idly by while overzealous state governments undermine the agency’s exclusive jurisdiction over these markets by seeking to establish statewide prohibitions on these exciting products.”

Meanwhile, lawyers speaking to NEXT.io said CFTC guidance could lend additional support to prediction markets, but it is unlikely to be decisive in the near term. Any rulemaking would come too late to meaningfully influence many of the cases already working their way through the federal courts of appeal. It could become relevant if and when a case reaches the Supreme Court, but even then, the agency's view would not be legally binding.

## Supreme Court Outlook

The US Supreme Court may soon be called upon to weigh in on prediction markets, potentially as early as 2027 or 2028. Such involvement typically hinges on a so-called circuit split—a disagreement among federal appeals courts—but to date, no appellate ruling has been issued on the merits of these cases. With litigation pending across multiple circuits, divergent outcomes remain likely, though Supreme Court review is still speculative until the lower courts deliver their decisions.

For stakeholders in the betting and gambling sector, the uncertainty is tangible. Beyond the Court, a change in administration could usher in new leadership at the CFTC or other regulators, triggering a sharp policy reversal. Experts warn such a shift could target sports-related contracts, potentially shutting them down overnight and reducing trading volumes by as much as 80%.

## Potential Compromise

The “Wild West” phase of prediction markets, experts say, is unlikely to last indefinitely. But what might a compromise look like? Some observers distinguish between a legal middle ground and a practical settlement. A middle-ground scenario could see the Supreme Court rule that federal law preempts state law but only for contracts that qualify as derivatives.

Certain contracts, such as parlays or player props, might fall outside that definition, leaving states free to regulate them.

A more practical compromise, such as states agreeing not to intervene in exchange for taxation rights, appears far more elusive. It would require new legislation, and regulators remain uncertain whether licensing prediction markets is even feasible. According to conversations with industry insiders, one source believes there is little appetite for compromise: regulators want control, not just tax revenue.

## International Expansion

A pressing question for the prediction market industry is whether expansion beyond the US is feasible. While some analysts argue that these platforms will remain primarily a US story, others caution against underestimating America's capacity to disrupt global markets through capital, scale, and entrepreneurial drive. Similar skepticism greeted US sports betting in its early days, when few anticipated the dominance of parlays, market concentration, and the DraftKings–FanDuel duopoly that now defines the sector.

Prediction markets are already active outside the US, with platforms like PolyMarket leading the way. Experts predict further international expansion, though the US regulatory model as derivatives overseen by a financial regulator is unlikely to translate directly. Western Europe's mature, tightly defined frameworks present significant challenges. Outside the US, crypto-based and decentralized finance structures may offer a more viable path, according to sources speaking with NEXT.io.

Industry insiders report that they are actively engaging with regulators in Europe and Asia. The UK Gambling Commission, for instance, views prediction markets as a gambling product requiring a license—a stance echoed by regulators in Germany and across much of Europe. Operating without the appropriate licence carries clear legal consequences. Experts note that their own test revealed that consumers can access US platforms from jurisdictions

without licenses, including Denmark, the UK, and Ontario, Canada. While individual users may not technically violate local law, operators themselves breach multiple gaming and financial regulations, including accepting bets on markets that contravene local statutes. Some compare the current situation to the early 2000s in the US, when gambling executives faced criminal charges while operating in a legal gray zone, assuming eventual regulatory legitimization.



# PRODUCT INSIGHT

## | What Works, What Doesn't, and What Might Be Next

Ask industry executives about prediction markets and you will get two sharply different answers. Some see a regulatory workaround dressed up as trading. Others see a structural shift that could reshape online sports betting. The truth lies somewhere in between, but what actually makes prediction markets succeed or fail as a product?



Amit Mahensaria, based in Bangalore, has tracked 140 active prediction markets in the past 18 months alone. Now he is building Pred, a sports-focused prediction market designed specifically for professional traders. With nearly two decades of experience in venture capital and technology entrepreneurship, Mahensaria brings a founder's perspective shaped by both failure and success. His first venture folded in 2011. His second, an edtech platform launched in 2014, was acquired for \$20m by Upgrad. Today, he is applying those lessons to one of the most debated segments in digital markets.

In India, Probo once grew to become the country's largest prediction market, even surpassing Polymarket by some measures, before the government banned real-money online gambling. Probo ceased its real-money operations in August 2025. Yet entrepreneurs like Mahensaria continue to build for the global market. While regulation is often cited as the sector's primary constraint, he argues that its grip may be loosening. Larger, better-capitalized operators are entering the space with experienced teams and stronger compliance capabilities. "It's no longer a young boys' club," he said. "Serious operators with serious funding are building in this market. Regulation will evolve, and the big players will adapt."

For Mahensaria, the real differentiator is product. He believes the market is moving decisively toward verticalization and specialization, as broad, general interest platforms give way to more focused offerings. In his view, general prediction markets are only the first iteration of the model. The next phase will be defined by category-specific platforms built around distinct user segments, deeper liquidity in narrower markets, and sharper product design tailored to particular trading communities.

His argument points to a wider question facing the sector. If regulation is gradually maturing and capital is entering the space,



**Amit Mahensaria**

then the real determinant of success may not be legality or funding, but product-market fit. The key questions become: who is this product really for, why do users choose it over a sportsbook, and what innovations lie ahead?

## Customer Demand and Strategic Imperatives

First things first: customer demand is real. Several senior sportsbook executives acknowledged that user interest preceded corporate strategy. As one executive told NEXT.io, internal discussions frequently revolved around a Venn diagram. On one side were traditional sports bettors. On the other were users drawn to prediction markets, often via crypto-native platforms or trading apps. The overlap represented both opportunity and risk. "We don't build products without product-market fit, so we asked our customers directly," the person said. The feedback was unambiguous: a segment of users wanted access to event contracts. "If we didn't enter, they would go elsewhere," the executive said.

For publicly listed operators, investor scrutiny likely intensified the pressure to enter the market. As platforms such as Kalshi and Polymarket gained visibility and volume, analysts and investors began questioning why established sportsbooks were absent from the category.

Even where executives avoided publicly framing their entry as defensive, investor scrutiny almost certainly accelerated strategic decisions.

The strategic logic was straightforward. Prediction markets might not cannibalize core sportsbook revenue in the near term, but ignoring them risked leakage of high-value users and narrative disadvantage in capital markets. Share price volatility following entry suggests not all investors were convinced. Internally, however, many operators appear to have concluded that participation was preferable to ceding ground.

## Simplicity as a Product Advantage

From a product perspective, one of prediction markets' strongest advantages lies in simplicity. Binary contracts structured around yes-or-no questions reduce cognitive friction. Instead of navigating dense odds boards, multiple bet types, and pricing formats, users trade probabilities. A contract priced at 62 cents implies a 62% probability. The mental model is intuitive.

For experienced bettors, traditional sportsbook interfaces are manageable. For younger cohorts raised on trading apps and swipe-led social platforms, they can feel cluttered and opaque. Prediction markets abstract away some of that complexity. Prices fluctuate dynamically based on supply and demand rather than being presented as fixed margins set by a bookmaker. Participation resembles trading rather than staking against a house.

Framing also matters. Markets are built around questions users are already asking. Will a candidate win an election? Will the Federal Reserve cut rates this quarter? Will a team make the playoffs? The product taps into ongoing conversations rather than requiring users to decode pricing mechanics. This reduces psychological barriers to entry and broadens potential demographic reach.

**Will Martin**  
CEO, VANT



Much of the conversation focuses on pricing. But it's not just about offering the best price, it's about what price represents. In prediction markets, price is probability: a contract trading at 40 cents implies a 40% chance. Traditional betting platforms might express that as 6/4, 2.5, or +150, formats many casual users struggle to interpret intuitively.

Expressing price as probability brings clarity. It turns price from a betting mechanic into an expression of belief. And when price equals probability, movement tells a story. Rising probability signals growing confidence; falling probability signals doubt or new information. Users aren't just consuming odds, they're debating belief.

It's also not only about being right, but about being right early. There's reputational value in identifying an outcome when the market prices it at 25% rather than 75%. That ability to spot mispriced probability before the crowd creates engagement beyond financial return. Prediction markets don't promise certainty. They make uncertainty visible and give people a way to participate in it.

## Liquidity: The Structural Constraint

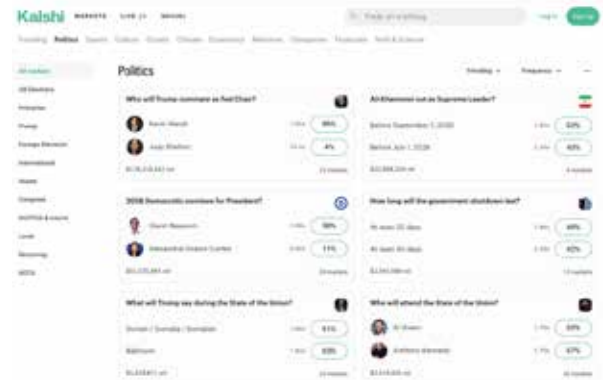
Despite the simplicity of their front-end interfaces, prediction markets rely on a structurally complex backend. Liquidity remains the central challenge. In theory, these platforms function as peer-to-peer exchanges, matching buyers and sellers of event contracts. In practice, organic liquidity rarely grows fast enough to sustain a healthy market. Lessons from UK betting exchanges illustrate the risk: without sufficient depth on both sides, price discovery stalls and user experience suffers. US prediction platforms have navigated this challenge more successfully than traditional betting exchanges by using mechanisms such as automated market makers, incentive structures for early participants, and curated contract offerings to maintain liquidity and keep markets active.

Institutional market makers frequently provide two-sided quotes, ensuring that retail flow can execute efficiently. This model supports continuous pricing but subtly changes the idea of crowd-against-crowd trading: in many cases, retail participants are interacting with professional liquidity providers rather than fellow casual users, a dynamic many are unaware of.

For professional bettors and traditional betting syndicates, this structure is highly attractive. Sportsbooks routinely limit or restrict profitable customers, but prediction markets allow capital to scale more freely when liquidity is available. Several industry sources describe event contracts as a release valve for sharp money constrained elsewhere. In this sense, prediction markets function simultaneously as a retail acquisition tool and a professional trading venue.

Yet liquidity challenges remain. Multiple executives told NEXT.io that despite improvements, companies continue to struggle.

Launching a prediction market is not the same as running a sportsbook: the dynamics of liquidity are fundamentally different.



**Amit Mahensaria**  
Founder PRED



Looking five to 10 years ahead, I see sports as a verticalized play. Think of it like buying lenses; you wouldn't buy your spectacles from Amazon because it's a specialized experience. Sports exchanges are similar: they are a completely different set of activities from general-purpose prediction markets. Even though general prediction markets currently do a lot of volume through sports, the long-term value lies in verticalization. Live sports move at a very high speed and the current platforms are not designed for this.

This space is extremely early, and while it's uncertain how things will unfold, I see parallels with crypto perps exchanges. People had initially declared category winners in dydx and GMX, and today they are no longer even in the top five!

## A Bifurcated User Base

These constraints have shaped the user base into two distinct cohorts. One resembles traditional sportsbook customers, including users in large US states where regulated sports betting remains unavailable. Their behavior mirrors conventional betting patterns, focused on sports and high-profile events. The other segment consists of quantitative traders, hedge funds, and analytics-driven participants who approach event contracts as an alternative asset class, akin to options or futures.

At present, most betting operator-led offerings skew toward retail engagement. Sports dominate volume because they provide frequency, emotional engagement, and clear narratives. They serve as the onboarding funnel. A user who trades a contract on a playoff outcome may later experiment with political or macroeconomic markets.

The longer-term strategic upside, however, likely lies beyond sports. Event contracts tied to interest rates, regulatory approvals, geopolitical developments, or commodity prices carry genuine hedging utility. For these markets to support institutional exposure measured in millions rather than thousands, liquidity must deepen substantially. Retail flow remains critical in bootstrapping that depth, but professional capital ultimately determines robustness.

Distribution plays a decisive role. Platforms integrated into existing trading ecosystems can accelerate onboarding more efficiently than standalone exchanges reliant on heavy marketing spend. Conversely, thin-margin environments demand scale to sustain competitive pricing. The economic model hinges on balancing engagement with capital efficiency.

**Alfie Arrand**  
*Sports Trading Analyst,  
Bettormetrics*



At the moment, prediction markets aren't offering a more exciting pricing proposition than taking a moneyline bet with a sportsbook. In sports betting, bookmakers make money through overrounds built into odds, which have been pushed lower over the years, around 4-5%. On prediction markets, paying 53 cents for a 50/50 bet adds up to 6%. The main driver of the higher cost is the spread itself between the two prices. If it were just two cents on either side, they'd be competitive with sportsbooks. Adding an extra cent to cross the spread makes prediction markets significantly more expensive than an exchange model where you pay 2% of your winnings.

## Product Gaps and Functional Convergence

Despite their momentum, prediction markets still lag sportsbooks in certain high-margin features. *NEXT.io* sources agree that same-game parlays, the primary revenue driver for US sportsbooks, remain underdeveloped in exchange-style environments. While some platforms offer pre-packaged combinations, flexible user-generated parlay construction without platform risk exposure is still emerging at scale. The challenge lies in structuring combinatorial contracts while maintaining liquidity and avoiding balance sheet risk. Binary market design also constrains payout creativity. Mechanisms such as capped downside exposure, ratcheting returns, or embedded leverage could replicate elements of spread betting or derivatives trading.

Yet these innovations depend on sufficient market depth. Sportsbooks retain an advantage as principal counterparty, able to guarantee fills, manage risk internally, and offer reliable cash-out functionality regardless of peer liquidity.

Even so, functional convergence appears inevitable. Trading-style interfaces are incorporating sportsbook-inspired features, while sportsbooks experiment with exchange mechanics and probability framing. Over time, distinctions between event trading and wagering may become increasingly semantic rather than structural.

**Andrew Gonzalez**  
*Founder, ParlayX*



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The space feels like a gold rush. Everyone is building fast and scrambling to stake their claim. It's an exciting, almost chaotic time, and I'm genuinely thrilled to see where it goes. Talking to people across the industry, keeping up with all the new developments, and making fast connections has been a huge part of the experience.

Right now, most activity is sports-focused, but over time, as these platforms expand to include parlays and other options, they could become a full ecosystem, a better place to bet overall. The UI and UX appeal to a younger, more digitally native audience. There's also a fun trading element, where you can explore arbitrage opportunities and engage in the market more actively.

## Open Architecture and Developer Ecosystems

Another defining characteristic of the sector is its openness to external development. Unlike traditional gambling operators, many prediction platforms expose APIs and encourage third-party tooling. External developers build analytics dashboards, execution tools, bots, and aggregation layers that sit atop core exchanges. Some platforms offer volume-based rebates or referral mechanisms tied to transactions, allowing developers to monetize integrations.

This modular architecture resembles crypto-native ecosystems more than conventional regulated gambling platforms. It enables rapid experimentation and layered functionality without requiring centralized product teams to build every feature. High-volume integrations may negotiate preferential terms, but baseline access to data and execution endpoints is often public.

## Community-Led Growth

Community dynamics further differentiate prediction markets from traditional sportsbooks. Liquidity and engagement frequently originate in social environments such as Discord servers, Reddit forums, and Telegram groups. Debate and trading reinforce one another. Participants return not only to profit but to validate their convictions publicly.

This social dimension reduces reliance on paid acquisition. Event contracts tied to current affairs generate organic attention as news cycles unfold. Users repeatedly check prices to gauge collective sentiment. The world itself becomes a marketing engine. For operators, lower customer acquisition costs materially alter unit economics compared with traditional sportsbook models dependent on bonuses and heavy advertising.

**Sebastien Sabic**  
Co-founder and CSO,  
Moon Intelligence



If prediction markets get the product right, they could potentially replace traditional sportsbooks, but there are significant regulatory “ifs”. Simple win-lose markets are one thing, but offerings like same-game parlays start to look like traditional gambling, which could trigger regulatory pushback. How far regulators allow product expansion will be decisive.

From a market-making perspective, the current shift is very promising. If liquidity becomes more centralised across a few open trading venues, that’s ideal for us. In a perfect world, all liquidity would be on exchanges or prediction markets, because then we can access it directly. If we have the best pricing, everyone who wants to bet the other side trades against us.

## Pricing and Fee Transparency

Pricing, however, remains an area of scrutiny. In theory, arbitrage should compress disparities between sportsbooks and prediction markets. In practice, fee structures complicate direct comparisons. Many prediction platforms charge transaction fees upfront rather than commissions on net winnings. For a balanced contract, effective costs can reach levels that exceed those embedded in sharp sportsbook pricing or traditional exchanges.

Bid-ask spreads further increase friction. While headline probabilities may appear competitive, realised cost depends on execution quality and fee mechanics.

Some platforms maintain higher effective pricing, sources say, citing the pioneers of the space, who were able to justify those prices by focusing on unique real-world events with limited competition and have continued to hold them.

Others operate closer to exchange-style efficiency. Over time, segmentation is likely to mirror sports betting, with low-margin venues catering to professionals and higher-margin environments targeting casual users.

## Innovation and the Next Wave of Platforms

Meanwhile, the prediction market space is seeing a new wave of start-ups and founders experimenting beyond the traditional binary model. Many are developing precision markets that allow users to predict exact outcomes, or trend-focused platforms where the bet itself is on virality, social sentiment, or online engagement. Messaging apps are increasingly central to this innovation. Platforms like Polycule integrate directly with Polymarket, allowing users to browse markets, manage positions, and execute trades entirely through chat. Other start-ups are building independent Telegram-native markets with their own infrastructure, creating parallel ecosystems outside of traditional web interfaces.

Innovation is not limited to user-facing platforms. Advanced trading tools are emerging to address long-standing frictions and improve execution. Bots embedded in Discord communities, such as those developed by Betmoar, automate trading, facilitate arbitrage, and integrate directly with major exchanges. Aggregator platforms like ParlayX are aiming to consolidate multiple markets into a single interface, enabling users to compare prices, manage positions, and place trades instantly. Bond-style vaults and portfolio tools capture incremental gains from near-settled contracts, while algorithmic trading strategies allow professional players to operate at scale.

Others are leveraging innovations from decentralized finance and focus on building a shared liquidity pool. Anyone can stake into it via a smart contract, and that pooled liquidity then effectively becomes the counterparty, meaning it is what participants trade against.

Although some observers argue the market is crowded, with many platforms appearing as minor interface iterations on existing models, these experimental approaches signal that the next generation of prediction markets could be both more dynamic and more sophisticated. They are pushing the sector toward a future where social interaction, professional-grade trading, and flexible event structures coexist in a single ecosystem.

## Decision Markets and the Next Layer of Fan Engagement

Building on existing fan-token models, stakeholders now have an opportunity to experiment with “decision markets” that tie directly into fan engagement. In this model, markets do more than forecast events; they aggregate preferences and information to guide decisions. These markets could let users participate in low-stakes, real-world outcomes, such as choosing which jersey a team wears, what music plays in the stadium, or even the locations of preseason matches. Fans shift from passive spectators to active participants whose choices carry measurable influence. For leagues such as the NFL, which have softened their historically cautious stance on betting, decision markets could provide a way to boost engagement without compromising game integrity, adding a new layer to fan interaction and loyalty-building.

## The Limits of Expansion

As prediction markets evolve, some industry observers caution against extending the model too far into traditional iGaming mechanics. In theory, platforms could allow users to bet on highly randomised events, such as the outcome of a slot spin or other casino-style games. While this might increase engagement or volume, it carries significant regulatory risk.

The regulatory rationale underpinning prediction markets, framing them as event contracts with real-world or observable outcomes, is what has allowed platforms to operate under federal oversight in the United States. Introducing games of pure chance would blur the distinction between prediction markets and conventional gambling, potentially inviting scrutiny from regulators and threatening the sector’s progress to date.

Even proponents of prediction markets emphasize that stepping into casino-style mechanics could undermine the product’s credibility with institutional users, who value the transparency, measurability, and hedging functionality of contracts. For operators, maintaining the balance between innovation and regulatory defensibility remains critical: the product’s strength lies in its hybrid identity as a speculative, social, and tradable instrument, not in replicating traditional iGaming.

## No One Size Fits All

Prediction markets are evolving rapidly, but experts warn that a one-size-fits-all approach is not working for users or institutions alike. Industry insiders note that while fundraising and trading volumes dominate headlines, the real driver of success lies in understanding the user experience. “Everyone is focused on the numbers, but user insights are critical,” said one expert. “FanDuel, for example, grew because it prioritised the user. Many prediction market platforms are not capturing feedback at the user level, and that’s a deep issue that requires careful thinking.”

Sports prediction markets, election forecasts, cultural trends, and crypto could all be treated differently, reflecting the unique dynamics of each market. Yet few platforms are tailoring their approaches to these nuances. “You can’t put everything under one umbrella,” the person said. “Sports trading is completely different from elections. Culture is different from crypto. There’s a lack of in-depth analysis in how these markets behave.”

User experience also remains a significant challenge. Slow interfaces frustrate participants, where delays in executing bets can stretch for several seconds. “The speed problem is real,” the person noted.

Beyond retail participation, the long-term strategic potential of prediction markets may lie in institutional adoption. Event contracts offer precise hedging against regulatory, political, and economic risks, providing a transparent alternative to complex derivatives. Hedge funds, macro funds, and quantitative trading firms are exploring these markets for high-frequency data, portfolio hedging, and strategic planning.

As liquidity increases and bid-ask spreads narrow, prediction markets could become central to institutional risk management. Corporations could use them to anticipate regulatory changes, while investors may hedge exposure in mergers, litigation, or macroeconomic scenarios. Unlike retail users, institutions view prediction markets less as a social product and more as a tool for capital efficiency, structured risk, and actionable intelligence.

**Sabin Brooks**  
CEO, Bettormetrics



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The marketing around prediction markets has been phenomenal. They’ve positioned this as the new big thing across finance and sports, emphasizing the “wisdom of crowds”. Most people don’t realize pricing isn’t competitive. If a company wins the race to dominate the market, they can vary pricing. Right now, there’s little pressure to do so, but that could change if competition intensifies. Recreational players will likely stick to sportsbooks, while prediction markets might attract more specialized or professional audiences. Certain sports, like cricket or horse racing, favor the exchange model due to sequential events, inviting professional money and liquidity. In other sports, it remains to be seen.

### The Inflection Point: Integration, Not Replacement

Will prediction markets replace traditional sportsbooks? Industry experts say not yet. Sportsbooks continue to dominate high-margin revenue streams, particularly through parlay-driven bets and house-banked products. But prediction markets are increasingly seen as a complementary vertical within a diversified product portfolio.

These platforms engage younger demographics, introduce social and gamified experiences, and offer a pathway to institutional adoption. The current market sits at a structural inflection point: retail users provide foundational liquidity and engagement, while professional traders bring depth and strategic sophistication. Open architectures accelerate experimentation, and social distribution reduces acquisition costs.

“There’s a sense of apprehension among traditional operators,” said an industry insider. “Many recognize that prediction markets are coming, and they know these platforms will catch up even if they’re currently behind in product sophistication.”

NEXT.io sources suggest that for traditional operators, prediction markets could

represent an additional lever rather than a disruption, potentially serving as a growth engine, a hedging tool, and a laboratory for innovation within a single product category. For those that choose to integrate them, the upside may include access to new audiences, more diversified revenue streams, and a platform to experiment with next-generation gaming products.



**Evan Meyer***Managing Director, Astralis Capital Management LP*

“

Some of the most innovative founders we've seen didn't grow up in this sector. In gaming, you can't just skirt the rules and expect regulators to open doors for you; however, the pace of innovation and customer product awareness far outpaces a regulatory system that was built for local oversight of physical casinos. Sometimes these founders take risks and push boundaries that can feel a bit reckless in hindsight. What makes entrepreneurs great at breaking down barriers and creating new categories or verticals can also, at times, carry the risk of overreach.

“An area of future concern would be if the platforms start to veer towards iCasino games using prediction markets as the engine. When they start resembling a full suite online casino, that's when things could get incredibly tricky. I hope it doesn't go that way, because prediction markets have been a positive development, allowing people to place larger trades fairly without relying on syndicates or having trading limited. In the end, it shouldn't matter whether someone is a skilled trader or not, as long as there's another side to the trade.

**Enda Kendrick***Chief Customer Officer, Moon Intelligence*

“

Platforms like Kalshi are getting in front of a very different type of consumer than traditional sportsbooks like FanDuel or DraftKings. If someone is already using Robinhood and suddenly sees prediction markets alongside financial products, it gives them a sense of legitimacy that sports betting hasn't always had. Sports betting has often been seen as a slightly taboo or niche activity.

Right now, it's very difficult to see how prediction markets could work profitably in the UK. Professional traders face the

same limits as casual users, and tighter regulation since 2018 has reduced liquidity on exchanges like Betfair. The challenge is finding a balance: strong consumer protection without stifling the product. In the US, the CFTC framework, while not perfect, gives exchanges the flexibility to operate as they're intended. That doesn't mean treating prediction markets purely as financial products is right, but there needs to be a middle ground. If regulation is too heavy-handed, you suffocate the product entirely.

# PREDICTION MARKETS UNPACKED

## 12 LESSONS FOR OPERATORS, INVESTORS, AND REGULATORS

Prediction market platforms are evolving rapidly, offering new revenue streams, new risks, and new regulatory considerations. Growth in this space will not be linear, and success is far from guaranteed. For operators, investors, and policymakers, learning from early market development is essential. The following 12 lessons capture key insights from industry insiders.

### Markets Rarely Follow the Script

Predictions about how markets will evolve often prove wrong.

When the United States repealed PASPA, many expected sports betting to resemble the fragmented European model, with multiple operators competing for balanced market share. Instead, the market consolidated rapidly around two dominant players, reshaping competitive dynamics in ways few anticipated.

The lesson is structural: assumptions borrowed from other jurisdictions do not always translate. Cultural habits, media ecosystems, regulatory frameworks, and capital flows create local realities that defy conventional wisdom.

For operators and investors alike, flexibility matters more than forecasts. Markets evolve in unexpected ways, and those who adapt quickly tend to outperform those who rely on precedent.

### Complexity Is a Competitive Risk

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Traditional sportsbook products often overwhelm casual users. Layers of

bet types, opaque pricing mechanics, promotional fine print, and cluttered interfaces can create friction rather than engagement. While seasoned bettors may navigate this complexity comfortably, newer and younger users increasingly gravitate toward simpler, more transparent alternatives.

In a landscape where prediction markets and exchange-style platforms promise clarity and direct pricing, complexity becomes a liability.

The lesson is clear: usability is not cosmetic. Operators who streamline their products and prioritize intuitive design will be better positioned to retain relevance in an increasingly competitive ecosystem.

### Crypto's Infrastructure Advantage

Many of the entrepreneurs building prediction markets come from crypto backgrounds. That influence is not incidental.

Blockchain-native systems offer borderless payments, programable contracts, and transparent settlement mechanisms that align naturally with event-based trading. As digital assets gain broader acceptance, crypto infrastructure may provide prediction markets with operational advantages that traditional sportsbooks lack.

Timing and regulatory clarity remain decisive variables. Yet if crypto continues its institutionalization, the overlap between digital asset trading and event contracts could accelerate adoption.

The lesson: crypto is not just a payment method. It is an architectural foundation that may reshape how these markets function.



## Stagnation Is the Real Threat

At their core, prediction markets are not entirely new. They are modern iterations of betting exchanges. Which raises a question many European operators have quietly asked: what happened to Betfair?

Multiple industry sources point to the same explanation: stagnation.

“When you look at European betting exchanges, that’s pretty much the same technology as what prediction markets are, but nobody really innovated on the product or on the experience beyond the first kind of few years,” one source told NEXT.io.

The first part of the lesson is simple: never stop innovating. Markets evolve, user expectations shift, and early advantages fade quickly without continuous product development.

The second part is more nuanced. Despite the rise of trading-style platforms, sportsbooks are unlikely to disappear.

Sportsbooks retain clear advantages in speed, guaranteed liquidity, simplicity, and customer trust. Rather than becoming obsolete, they are more likely to adapt, incorporating elements of prediction markets while maintaining ease of use for mainstream bettors.

The conclusion is pragmatic: coexistence is more probable than replacement. Adaptation, not extinction, is the more realistic outcome.



## Policy Is a Competitive Arena

Product innovation alone does not define emerging markets. Policy engagement can be equally decisive.

In 2025, Kalshi and other operators formed the Coalition for Prediction Markets, recruiting high-profile political figures to shape the regulatory conversation in Washington. Early, coordinated lobbying efforts ensured that event contracts were framed within commodities law rather than gambling statutes.

The strategy underscores a broader reality: regulatory narratives form quickly, and those absent from early discussions often struggle to reshape them later.

The lesson for traditional operators is straightforward. Political strategy can be as critical as technological development.

## Narrative Drives Adoption

Prediction markets have framed themselves not merely as betting platforms, but as information engines powered by the “wisdom of crowds”.

This positioning blends finance, culture, and sport into a compelling narrative that attracts users beyond traditional gambling audiences. Branding, partnerships, and media presence have amplified that identity, sometimes compensating for product limitations.

The lesson is strategic: markets are not only built on liquidity. They are built on stories. Operators who control the narrative often shape perception before competitors can respond.



## Exchanges Redefine Control Dynamics

Exchange-style models fundamentally reshape the operator's role, and with it, the definition of accountability.

In a traditional sportsbook or casino environment, the operator controls almost everything end to end. The technology is built, acquired or provided. Pricing is centrally set. Risk is actively managed. Customer feedback can be translated directly into product changes and user experience.

An exchange changes that equation. Liquidity and pricing are driven by participants, not the house. "You can buy a contract, but if you want to get out of it, two things need to be true. One, there needs to be somebody that's willing to buy it from you, and two, the price being offered should be competitive, so that you actually want to sell it. And that is not something we can necessarily control," one C-level executive explained.

That introduces a different kind of volatility. Market stability depends on user sophistication, trading concentration, and the distribution of liquidity. Thin markets can impair exits.

Concentrated liquidity can skew pricing. Even if the platform functions perfectly, the experience can fluctuate because it is ultimately shaped by participant behavior.

"For us, the biggest lesson is that in an exchange model, you don't control everything. In sports betting, we control the entire value chain. In exchanges, liquidity depends on participants. We're learning how to balance full product accountability with factors outside our control," the executive said.

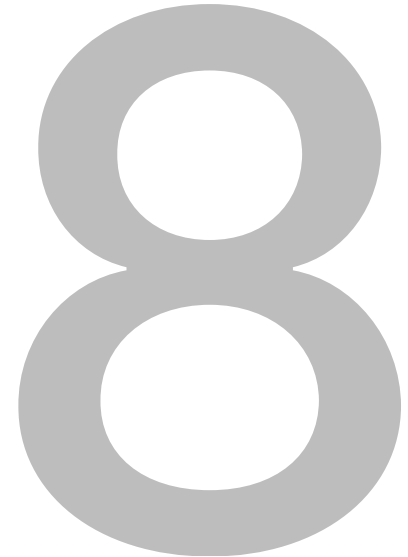
This tension sits at the heart of the model. Customers still expect a seamless experience. But in an exchange context, guarantees are harder to make.

The lesson is clear: moving into exchange territory is not just a product extension. It requires a cultural shift. Operators can expand market breadth and depth, as well as strengthening the ecosystem to reduce friction points. Risk management evolves from direct price-setting to cultivating a healthy marketplace.

## Diversification Is Regulatory Insurance

While sports is a major category on prediction markets, it is far from the only one. Platforms have already expanded into crypto, commodities, politics, and entertainment. This diversification can act as a structural hedge: even if sports-related contracts face restrictions, many operators

expect prediction markets to endure, possibly with greater focus on political, entertainment, or economic events.



"Sports is really the only market category that's in question right now," one sportsbook and prediction market executive explained. "The other market categories, whether gold, crypto, politics, or entertainment, are all fine. So just in general, with sports betting, we are naturally hedged. We feel very comfortable that we're in a really good position."

While sports remain a key draw, prediction markets' breadth provides resilience. Platforms can shift focus toward political events, entertainment contests, or economic indicators.

For traditional betting operators, the implication is clear. Multi-market capability reduces vulnerability.

## Regulatory Risk Eventually Surfaces

History offers a consistent warning: operating in legal gray zones rarely ends peacefully.

Unlicensed gambling operators and their senior leaders have faced arrests, prosecutions, and shareholder fallout across jurisdictions. Regulatory risk does not disappear simply because enforcement is delayed.

Prediction markets can be legitimate and profitable, but only with proper licensing, compliance structures, and consumer protections. The assumption that one can operate indefinitely outside formal frameworks is precarious.

As one executive put it, when the music stops, those who ignored the rules often find themselves without a seat.

The lesson is simple: long-term viability depends on respecting the law before it forces compliance.

# 10

## What Do You Want to Be?

As prediction markets expand, the industry faces a defining identity question: are these platforms intelligence tools, or are they simply another form of gambling?

The debate has sharpened as some platforms begin listing markets that closely resemble traditional betting products. Contracts such as “Who will win the coin toss at the Super Bowl?” or outcomes equivalent to roulette-style randomness blur the line between informed forecasting and pure chance.

Critics argue that such markets dilute the intellectual premise of prediction platforms. At their core, prediction markets are designed to aggregate information, price probabilities, and surface insight. A coin toss, by contrast, contains no informational edge. It is randomness packaged as speculation.

This concern is strategic as much as philosophical. If leading platforms move deeper into chance-based

contracts, they risk being treated by regulators and lawmakers as gambling operators rather than as financial or informational marketplaces. That distinction carries significant regulatory, legal and commercial consequences.

Industry observers say operators must decide what they want to be. If the goal is to operate in the gambling space, they should expect to be regulated accordingly. If the ambition is to build credible prediction infrastructure grounded in insight and data, then product discipline becomes essential.

The lesson is straightforward: identity shapes regulation, perception, and long-term viability. In a market still defining itself, strategic clarity may prove just as important as liquidity or growth.

## Self-Regulation Matters

If prediction markets are to mature into a sustainable vertical, the most important lesson may be this: protect the user, or risk collapsing the entire structure.

The greater threat may come from within. Market manipulation, insider trading, and ethically questionable event contracts pose structural risks. If platforms allow markets that can be exploited or influenced by privileged information, user trust erodes quickly. "If users get burned, the whole market breaks," one source warned.

The crypto sector offers a cautionary tale. Waves of scams and collapses severely damaged retail confidence, delaying mainstream adoption for years. Prediction markets could face a similar setback if platforms fail to exercise discipline in the markets they list and the safeguards they implement.

Industry participants argue that self-regulation is critical. That means carefully selecting which contracts to offer, monitoring for manipulation, and ensuring real users are protected. Without proactive stewardship from operators themselves, regulatory intervention may not be the only risk. Loss of trust could prove far more damaging.

## iGaming's Moment

If prediction markets continue to gain traction, they could reshape the broader US gambling landscape in unexpected ways.

One potential consequence is political. Should event-based trading platforms capture a meaningful share of sports wagering activity, some states may feel less urgency to legalize traditional sportsbooks. If residents are already engaging with prediction markets, lawmakers may see less fiscal or political incentive to expand sports betting frameworks.

However, the revenue equation does not disappear. States reliant on gambling taxes may instead look toward iGaming as a more controllable and higher-margin alternative. Online casino products generate steadier returns than sports betting, which is seasonal and margin-sensitive. Expanding iGaming could offer legislatures a way to offset potential revenue leakage without directly competing with federally regulated event markets.

There is also the possibility of federal intervention. Policymakers could seek to modernize existing gambling and commodities laws to clarify the status of prediction markets and potentially enable interstate liquidity. A unified framework would create deeper pools of capital and more efficient markets, accelerating institutional participation.

In that scenario, prediction markets would not only coexist with traditional gaming, but could act as a catalyst for broader regulatory reform.

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