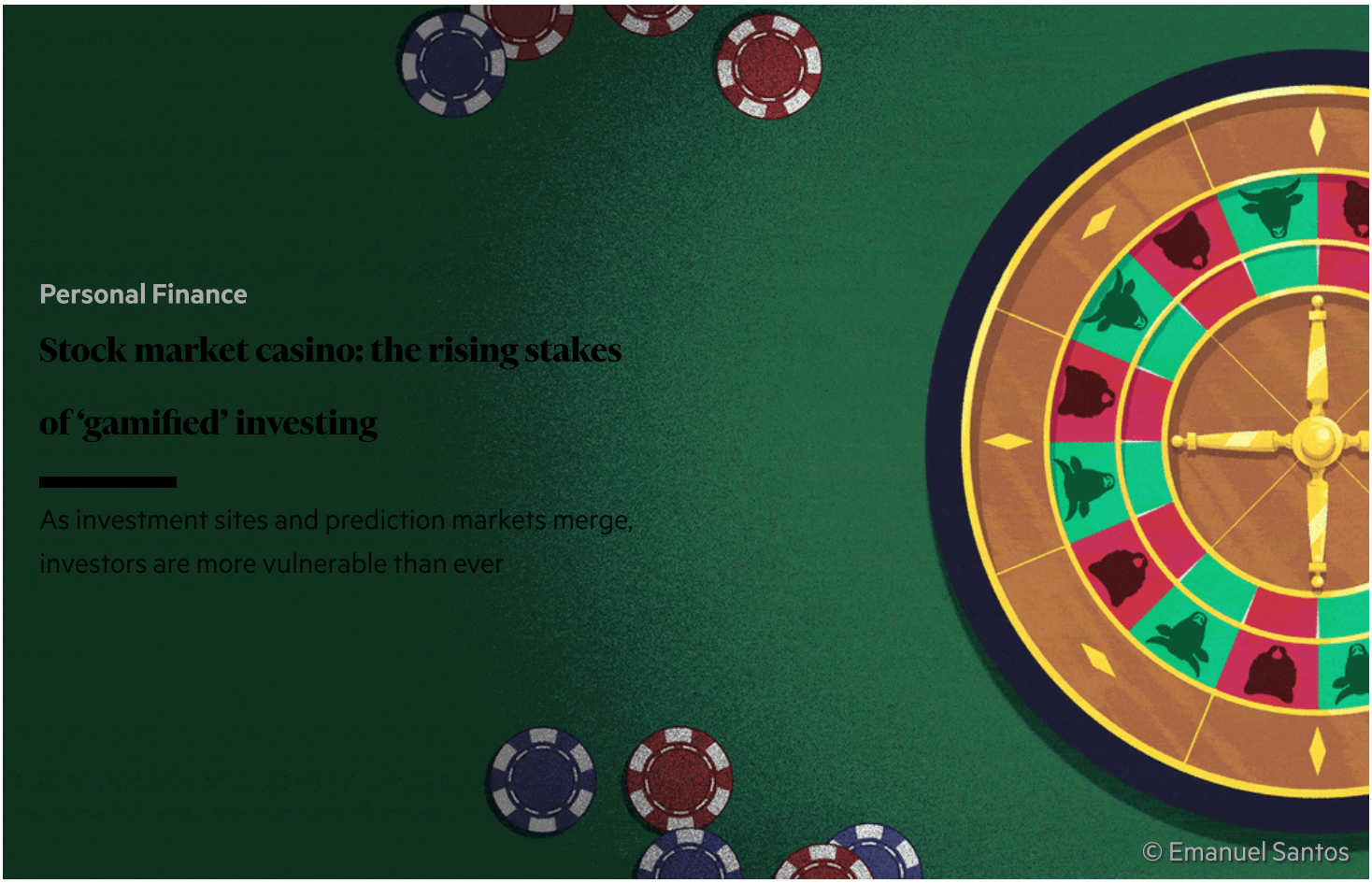


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In the US, users of the commission-free trading app Robinhood can buy shares in Nvidia, put their money into a low-cost global tracker fund, or invest in bitcoin. They can also place a wager on whether Manchester United will win their next game, forecast the outcome of an election or bet on whether the US will confirm that aliens exist before 2029.

Prediction markets, which are regulated in the US as financial derivatives under the Commodity Futures Trading Commission (CFTC), have surged in popularity by allowing customers to wager on everything from stock prices to political outcomes, daily temperature records and sports results.

Major prediction markets, such as Polymarket and Kalshi, are not yet available in the UK, but trading apps including Robinhood, Webull and Interactive Brokers have rushed to offer these fast-growing products through their US platforms — allowing users there to take advantage of what Robinhood chief executive Vlad Tenev sees as an "emerging asset class".

Prediction markets are now the fastest-growing product in Robinhood's history, generating $173mn in revenue in the three months to September, a more than sixfold increase on the same period in 2025.

But critics have raised concerns that these products blur the boundary between gambling and investing. They fear that setting prediction-market contracts — particularly sports wagers, short-term cryptocurrency bets, and leveraged "perpetuals", which are essentially derivative contracts with no expiry date — alongside stocks, ETFs and retirement accounts could normalise high-risk wagering under the guise of finance and investment.

These concerns will be familiar at Robinhood. Back in 2021, when someone made their first trade on the company's app, a burst of colourful confetti would spray across their screen. The company's signature motif provoked a fierce backlash from politicians and regulators, who accused the platform of encouraging customers to treat investing like a game.

At a congressional hearing that February, Robinhood founder and chief executive Tenev faced accusations that his company had fuelled the "gamification and glorification" of risky high-frequency trading and helped trigger the meme-stock mania that gripped markets a month earlier.

Shares in the struggling video games retailer GameStop climbed by 2,700 per cent in just three weeks, when hundreds of thousands of retail traders, who co-ordinated on online message boards, unleashed a furious rally.

When the bubble burst, many of these traders took heavy losses.

At the time, Robinhood boss Tenev said that his team “[doesn’t] believe in gamification” and “[knows] investing is serious”. The following month the company dropped the virtual confetti — a feature that had been singled out as looking “like gambling” by Democratic congresswoman Cindy Axne.

Since then, Robinhood has stuck with calmer and slower-moving animations that replaced its sprays of confetti. But the advent of prediction markets such as Polymarket and Kalshi, which have grown in popularity, has once again accelerated a rush among financial and trading companies “to find things that generate the same dopamine effect as a casino — without them technically being a casino”, says Bank of America analyst Julie Hoover.

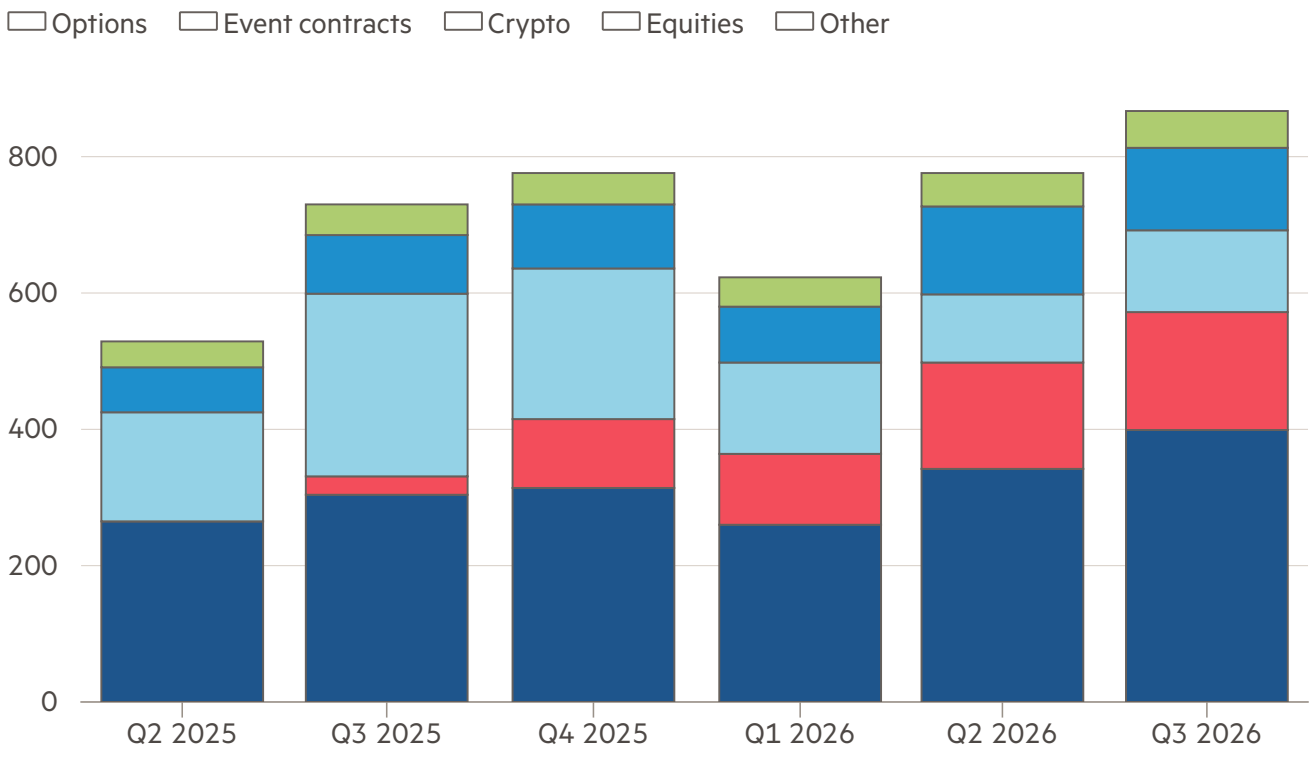
Five years after GameStop, retail investors are “more vulnerable than ever”, warns Benjamin Schiffrin, director of securities policy for the non-profit Better Markets. The same risks and “gamification techniques” that manifested in that trading frenzy “have replicated and amplified themselves in crypto, prediction markets and calls for 24/7 trading”, says Schiffrin.

Robinhood says accusations that its product design features could be harmful are “a tired, antiquated criticism that undermines the intelligence and autonomy of our customers. Intuitive design and responsible investing are not at odds.”

Isaac Rose-Berman is a policy fellow at the American Institute for Boys and Men, a think-tank, and a professional sports bettor and poker player himself. He insists gambling is not inherently harmful. “People have always gambled and I personally love to gamble.” But he fears that “the social safety net will bear the brunt” of a loss of “necessary frictions” between consumers’ investment and savings accounts and risky zero-sum — or even negative-sum — wagers.

Prediction markets have grown rapidly at Robinhood

Transaction revenue by segment ($mn)



Source: company reports
Financial Times

Prediction markets sell contracts structured as peer-to-peer trades. Prices and implied odds are determined by how other market participants bet, with each contract — often listed as a "yes" or "no" contract — paying out $1 if correct.

A contract on Polymarket allowing traders to guess how many times Elon Musk would post on X last week racked up more than $3mn in notional trading volume.

The platforms have expanded rapidly since successfully tipping Donald Trump to win the presidential election in 2024. Kalshi last week announced it had raised a fresh $1bn, giving it a valuation of $40bn, more than double the market capitalisation of the world's largest online gambling company Flutter.

The operators have argued that their regulatory status pre-empts states' gambling taxes and restrictions — sports betting is banned in California and Texas, for example. But many states disagree. More than 20 are in active litigation with either Kalshi or Polymarket, according to sports gaming lawyer Daniel Wallach.

Polymarket and Kalshi are both restricted in most countries in Europe, where they are considered to be unlicensed betting operators. Peer-to-peer betting exchanges such as Betfair are allowed to operate in the UK, but they must have a gambling licence and pay the associated gambling duties.

Originally more focused on current affairs, Polymarket and Kalshi have overseen massive growth in sports wagers — including so-called "combo" bets that resemble the popular multi-leg gambling products known as "parlays" in the US and "accumulators" (or "accas") in the UK.

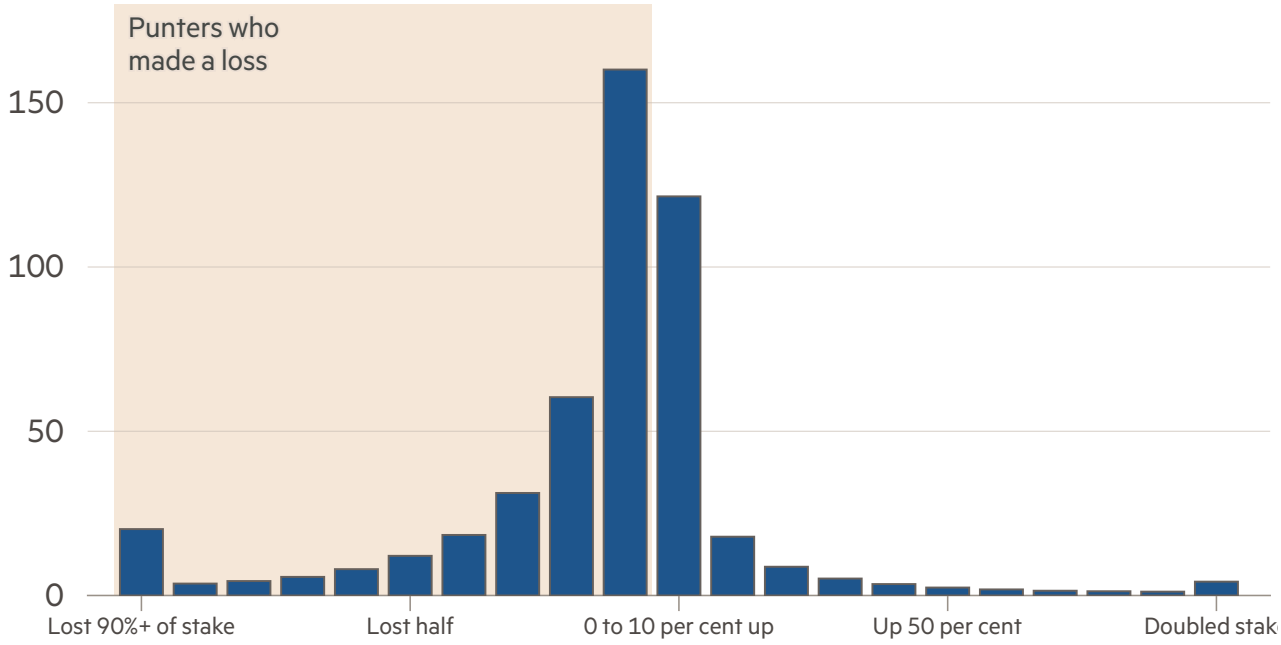
These products deliver a big payout if a series of wagers come good, even though the odds typically compound against the consumer or "taker". In the final week of October, more than $610mn was actively wagered in combos — equivalent to more than 30 per cent of all open interest on Kalshi.

Another game-like feature has been the rise of short-duration markets, says Hoover. Bets on whether a certain cryptocurrency will rise or fall in a period of five or 15 minutes have taken off among amateur traders and now account for more than half of all cryptocurrency wagers on Polymarket. Even shorter-duration markets could be on the horizon as rival prediction markets seek to distinguish themselves from competitors, warns Hoover.

Retail traders have also piled into so-called perpetual futures that were only cleared to trade in the US in May. Perpetuals can also offer eye-popping leverage: Binance, the cryptocurrency exchange, has launched oil-based "perps" that can be leveraged up to 100 times, although these are not currently available in the US.

About two-thirds of Polymarket traders lose money

Returns for accounts who wagered at least $100 ('000)



Source: FT analysis
Financial Times

Gambling companies have perfected the art of keeping punters spending through fast, easy-access digital products that build anticipation and offer intermittent — but unpredictable — bonuses.

Gamified investing, including on prediction markets, can imitate some of these ingredients — offering quick resolutions, irregular rewards and loss-chasing opportunities, according to Benjamin Johnson and Gary Chan, researchers at the University of Queensland.

Robert Wolfe, a managing director at Apollon Wealth Management, says the prediction-market boom is shaping expectations and behaviour across all asset classes, even among otherwise disciplined clients, as the wealthy investors he works with "are not immune to gamification."

Prediction market wagers are "conditioning investors" to become accustomed to immediacy and binary outcomes, take on more risk, and pursue rapid impulse decisions that may be stacked against them, says Wolfe.

Some argue that features such as badges, leader boards and push notifications can also be harmful to investors. A 2025 study by the UK's Financial Conduct Authority found that users of investment apps with more of these engagement features traded more frequently and had worse returns.

Others, however, fear that backlash against gamification could deprive retail traders of access to what they see as a valuable financial tool.

"There's a risk that regulators will dismiss the entire category," says Thomas Peterffy, founder and chair of Interactive Brokers, which in May launched an interface combining prediction-market contracts from three exchanges: Kalshi, CME Group and its own ForecastEx.

The existence of "frivolous contracts" — such as those on sports — "doesn't mean there aren't important ones," says Peterffy. "Whether some actor gets married or not, that doesn't matter. But whether climate change is going to happen, and at what rate, that's critically important to businesses."

Accuracy is another question. Prediction markets have positioned themselves as oracles powered by the wisdom of the crowd. That reputation was backed by their success in predicting Trump's electoral victory — but recent events appear to have taken them by surprise. Traders on Polymarket failed to predict Luiz Inácio Lula da Silva's shock election victory in Brazil and underestimated the scale of the blue wave in the US midterms, according to analysis by the FT.

Interactive Brokers has so far deliberately excluded prediction markets on sports and pop culture. But at rival Robinhood, despite growth in some other markets, sports remains the "headline conversation", says vice-president JB Mackenzie.

Sceptics argue that platforms such as Robinhood can lure people to transfer their savings and investments into sports wagers. "You're seeing customers who like to trade stocks getting cross-sold into sports," says Hoover. "Should customers be able to have savings accounts in the same space where they have sports betting?"

Mackenzie also argues that the cross-selling goes both ways — that it could help sports gamblers learn about more traditional financial tools. “If, coming in, they have an interest in sports . . . and that’s how they want to use some of their investable money, I want to make sure we can provide them with the best platform — but I also want to educate them on the other capabilities that we have so they can continue to develop their financial success,” he says.

Robinhood says it “exists to offer freedom and choice to our customers” and that the platform is well positioned to deliver prediction contracts “in a safe and compliant way”. Users can choose to opt out of sports markets or prediction markets in general.

Robert Hocking, an executive vice-president at Cboe Global Markets, which specialises in facilitating the sale of options contracts, said at a conference in September that his company’s new “yes” or “no” contracts on whether the S&P 500 would go up or down were a great “gateway product”.

Cboe tried binary options in the past but they “weren’t successful” before the advent of prediction markets. Now, however, uptake is expected to accelerate once Charles Schwab and Interactive Brokers — Cboe’s partners — launch the “kind of gamification platform view that you see on something like Kalshi or Polymarket”.

Hocking added that both retail and institutional traders would benefit from being to able to trade on individual metrics that affect stock performance, citing Home Depot’s second-quarter earnings report in August.

“They beat on every KPI metric and yet on future guidance, their stock price was down immediately after . . . So if you were trying to have a trade that would represent the beat on all these individual performance metrics and you own the stock thinking that was going to show up in that performance, you would have been dead wrong and it actually would have worked against you.”

Analysts expect there will be a transatlantic divide in regulators’ approach to this latest wave of “gamified” and often highly leveraged trading.

Europe has historically been more interventionist, prohibiting the sale of binary options to retail customers in 2018.

In the UK, the return of "gamification" has coincided with rising political opposition to gambling. The sector has been a particular target of Prime Minister Andy Burnham's agenda to revitalise the UK's "hollowed-out" high streets, with chancellor John Healey raising gambling taxes for the second consecutive year in his October Budget. Vicky Foxcroft, the minister responsible for the sector, has called gambling addiction "a public health emergency".

In the US, meanwhile, platforms such as Robinhood have benefited from a more libertarian attitude to trading — particularly under Trump, whose son Donald Jr is an investor in Polymarket and an adviser to Kalshi.

That dynamic could change, though. Gambling stocks jumped in the wake of the Democrats' sweeping victory in the US midterms, as investors wagered that the party would increase pressure on those companies' prediction-market rivals. Most analysts expect that a decision on the regulatory future of prediction markets will ultimately land with the Supreme Court.

For now, however, the trend towards more high-stakes financial wagering is set to continue — at least in the US. The CFTC announced on Tuesday that registered markets could begin offering perpetual futures contracts on individual companies' stocks, adding to those on cryptocurrencies and precious metals.

"It seems like this is a race to the bottom, which then implies a race to the sky with leverage," says Svetlana Bryzgalova, an associate professor of finance at London Business School.

"If you know the risks then go ahead. This is America," says Rose-Berman. "But it's bad for society at large when people are making uninformed decisions, and a lot of people are actually delusional about the structural realities of these products."

For his part, Kalshi chief executive Tarek Mansour insists that prediction markets should not be seen as an investment: "It's a trade — in the same way that trading on oil futures or on options is not an investment."

He told CNBC that the universe of items with economic value had grown to include sports outcomes, saying that the purpose of prediction markets was to “allocate risk better”. He added: “Certainly, a lot of people are speculating, but that’s what happens in all markets.”

Bryzgalova says traders should be cautious that the incentives for trading platforms — which typically make more money from higher volumes and larger spreads — may differ from their own.

“Typically the one making money is the intermediary.”

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