In my last column, I said there is a >95% chance that if the next month goes more or less like the last three months, Intrade’s electoral markets on Election Day will be predicting a victory for Barack Obama. Does Obama really have a >95% chance of actually winning the election? Well, he may not be far from that. Obama won the Democratic primary largely by working the rules of the contest. He needed delegates in that case, and his team put together a very targeted strategy to get them. Now, he needs electoral votes and he has done the same thing. While his lead in the popular vote is small to moderate, his lead in the Electoral College is actually dominant and very unlikely to be turned.

Intrade’s traders give Obama the edge in states carrying 338 electoral votes. He could lose 69 of those and still win. For example FL,VA,OH,NV are the most vulnerable blue states right now according to Intrade. They could all turn red and Obama still wins. Intrade markets have a reputation for being 100% predictive in US elections when the price is between 30 and 70. Counting Colorado, which is at 69 for Obama, 44 states are currently in that range and given the level of volatility and the time left, pretty unlikely to turn. Obama controls 273 electoral votes then, to 163 for McCain; Karl Rove himself pointed this out today. Obama has pretty solid control over 273 electoral votes, he needs 269 to win, and so barring something radical Obama has it in the bag. And by the way, of the other 7 states, Obama leads in electoral votes 65-37. By something radical, I don’t mean William Ayers. I mean something bigger than the financial crisis. The recent past has actually been extremely volatile but has led to a relatively settled situation – I don’t really foresee a huge upswing in volatility from here.

I have been using my simulation to jointly project Intrade’s state electoral market prices forward to Election Day, then assuming Intrade would perfectly predict each state on Election Day. I have made an acknowledgment that there may be some fallibility in the markets when the price is between 30 and 70. In those cases, I now award the state with a probability matching the projected Election Day prices. In bottom line terms, that will give the underdog a little more chance to win close states. Given the current landscape, that will help McCain more. Even so, I still see Obama having close to a 97% chance of victory. Yet the national contract on Obama continues to trade around 65. Is there an arbitrage here?

What is the real probability of Obama winning at this point? Let’s look at other sources that claim to tell us this. Fivethirtyeight.com is a well-known site that works with polling data in a very detailed and sophisticated way. They assign an 87% chance to Obama victory. Election-Projection.net is a similar idea, and assigns a 96% chance. The Iowa Electronic Markets, similar to Intrade, put a price of 73 on Obama for President. UK bookies have odds that imply a 74%-80% chance. If the future is more volatile or more correlated than the past, or if Intrade markets aren’t well described by a Gaussian copula, my estimate of 97 may be a few points high, but I am fairly confident 65 is low.