I’ve decided to start a new hedge fund. However, this hedge fund won’t invest in stocks or bonds, or any type of business. It’s going to be a fund that only places bets. A gambling hedge fund.

It won’t be me figuring out what bets to place, or what games to play. This is a fund.I will find the best and the brightest, with a confirmable track record and hire them.

It’s an idea whose time has come.

Ihave bet on stocks long and short for about 15 years now. I’ve done very well. There has already been one hedge fund started based on my trading results. In those 15 years, I have learned that despite all the claims and books written about efficient markets, the trading of individual stocks are not efficient. There are always people trading on better or worse information. There are always people trading onemotion rather than logic. There are always people trading on hopes of the bighit.What Peter Lynch would call the “10 Bagger”. They were gambling. Nothing more. Nothing less.

It’s not unusual to hear people refer to trading stocks as no different than going to Vegas. They are right. Gambling isgambling.

The question really is, which gives the opportunity for a better outcome?

If you play the slots in vegas, you can read what the payout ratios are for each casino.97 pct. 98 pct. If youplay longenough, thecasino will end up with 2 or 3 pct of your money. Unless of course you go up to the winning side while you play, and quit while your ahead.

The stockmarket equivalent would be to buy an AtThe Money Long Term(LEAP)Put for 2 or 3 pct of the stock price. The put would protect your downside for several years, and the stock would only have breakeven or upside potential over that period. It’s a nice thing, except that it’s much, much, much more expensive than 3 pct. As a point of reference, IBM which is trading at about 94 today, has a price of $5.90 for Jan 2006 95 puts. It’s $7.90 for Jan 2007 puts. Just to protect yourself on the downside for less than 2 months, till the 3rd week of Jan 05, will cost you $2.40, or about the same percentage as the hold the house puts on you in playing slots in Vegas.

Of course tha’ts for slots. If you play blackjack. The odds are better and every now and then in your favor. If you play poker, you are playing against the other players, and the house only takes its commission. Just like your broker takes its commission.

Unlike the stockmarket, you know the rules exactly.You know without question, the house is going to play by the rules. The gaming commission appears to actually enforce rules of play, unlike the SEC.

And then there are sports bets. Like any other investment or bet, the question always come down to whether there is good information available, who knows how to use it better, and who is the competition and are they smart or not.

Honestly, I don’t know if the best and brightest go to Wall Street or Vegas. I don’t know the number of gamblers via sports books in vegas vs the the number ofgamblers, I mean investors, in the stockmarket.

I do know this. Most casual gamblers,who are the majority of the money spent,go to vegas expecting to lose money. It’s part of the entertainment experience. People put money in mutual funds and in their brokerage accounts and pick stocks expecting to make money. They don’t find any value in losing money on a stock, fund or other traditional investment. That changes the opportunity completely.

How efficient can a market be when the majority of investor expect to lose money? The sportsbooks know this. They know the difference between smart and stupid money.

They set odds in order to attract as much emotional, stupid money as it possibly can.It also knows that thisemotional money will skew the odds and bring in the “smart money”. As a result, they have learned to lay off their investments so that they arejust taking their cut off the dollars invested rather than trying to outsmart the smart.

To me, this suggests the smart money is better than just good. It’s very good.

Which raises the question of “How did the smart money get smart “, and do they get better returns on their bets than investors can buying the S&P500? Can it significantly outperform the S&P as this new fund would be expected to do?

The smart money doesn’t brag about their results, but in the minimal reading and conversations I have had, it’s the same people coming back over and over again. The smart money people are doing something right on a repetitive basis.

When you think about betting on sports, there really is far better information about your local sports team than there is about any local business in your market. The local papers cover the team every day. The localTV station gives a report about every game. There areradio stations who cover them for hours at a time. That’s far more information than you get aboutTyco orComputer Associatesor NFI.

In sports, when someone does something wrong, they pretty much tell you the next day or two. Someone suspended You know it. Someone hurt They report it, and do a better job of policing that than any industry watchgroup.

And stats? my goodness. There is no comparison. You can tape everything and create your own stats, which I'm sure every "smart money" gambler does. There are public play-by-plays of every game.There are websites that analyze every which way from sunday every action and inaction of every player in the game.

There also is no such thing as insider information either.Player and team reps can't talk to knowngamblers, but do they really need to?

Reporters are there after every practice to interview the players and coaches. They ask the same questions that every gambler wants to know, if only so they know who to pick for their fantasy teams. They also get to see and report on who is there and who isn't and who is limping and who isn't.

That's far better than we get from public companies. Not only can they not disclose material information on a daily basis, theytry their very best to hide their actual performance when they are required to supposedly disclose all information.

Public companies play so many games with their numbers it's ridiculous. Should they expense options or not? Per forma vs GAAP? One time write offs? Buying company after company? Writing down inventories then reselling them?

My favorite is beating the estimates by a penny quarter after quarter. Could you imagine a team that beat its competition by 1 point every game? Business, like sports, is not that predictable.

That's not to say that the information is so good that this is a slamdunk investment. Sales don't get closed, product cycles get pushed back, drugs don't work as expected and players drop passes, miss shots and get hurt.

The argument can be made that this is much riskier than a bond, where unless the company goes out of business, you get paid the interest rate. Pick a strong company or the government and you are relatively safe. All true. That's why i love bonds .

You could also make the argument that when you buy a stock, you own part of a company.Legally it's true. In practice it's not.For non-dividend paying companies, you have nothing but a piece of paper. The only hope you have if that company starts todecline is to findsomeone whowill buy it from you.

A sports or blackjack or poker bet doesn't have value beyond that game or hand. In that respect it's just like the hundreds of millions, if not billions ,of options that are traded, but never converted, on stocks, commodities and other assets around the world every day.

Just what hedge funds do on a daily basis, and just what I plan on doing.