

INVESTING · RETAIL TRADING BEHAVIOR

Are Prediction Markets **the New Binary Options?**

TU Research explores whether binary options traders are moving toward event contracts — and whether they understand the payouts, probabilities and risks.

46%

Would consider moving at least some binary options trading to prediction markets

44%

Perceive prediction markets as safer than binary options

34%

Correctly identify expected returns in a probability-based scenario

INSIDE THIS REPORT**01** Switching from binary options**03** Profitability and probability**05** Settlement rules and risk**02** Trading or gambling?**04** Short-term speculation**06** Why traders might switch

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01 Executive Findings

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Prediction markets share binary-outcome features with binary options, but exchange-style pricing, early exits and settlement rules can change the trading experience. The survey suggests enthusiasm for switching exceeds understanding of the underlying economics.

- 46% of binary options traders would move at least some activity to prediction markets; 24% would use both products.
- 38% classify prediction markets as a blend of trading and betting, while 27% call them financial trading.
- Only 24% of prediction-market users describe themselves as profitable; 32% report losses and 26% do not accurately track performance.
- Only 34% correctly calculate expected return in a contract priced at its estimated probability of success.
- 42% prefer contracts resolving within a day; just 29% read complete settlement rules before almost every trade.
- 44% perceive prediction markets as safer than binary options, despite the possibility of losing the full stake.

02 Introduction & Research Questions

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Prediction markets let participants trade contracts linked to future events, including economic indicators, cryptocurrency prices, sports and politics. Like binary options, many settle at a predetermined amount

depending on whether an event occurs. Unlike traditional broker-issued binary options, some prediction markets offer exchange-style pricing and exits before settlement.

The study asks whether retail traders see a meaningful distinction between these products, understand their financial risks, and consider switching for better execution or clearer rules.

- Are binary options traders ready to switch to prediction markets?
- Are prediction markets trading, investing, or gambling?
- Who is actually making money on prediction markets?
- Can an 80% chance of winning still be a bad trade?
- Are prediction markets encouraging short-term speculation?
- Can traders predict correctly and still lose money?
- Are prediction markets safer than binary options?
- What would persuade binary options traders to switch?

03 Institutional Validation

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Institutional research documents the convergence of event-based trading, betting and financial speculation. It also raises questions about who earns profits and how contracts are regulated.

- **NBER (2026):** Retail Betting Markets examines shared structures and behavioral drivers across prediction markets, sports betting and retail options.
- **CEPR (2026):** An analysis of 588 million Polymarket trades worth \$67 billion finds that the top 1% of profitable users captured 76.5% of profits earned by profitable participants. Successful traders were more likely to supply liquidity with limit orders.
- **NBER / Zitzewitz (October 2026):** Research on PredictIt identifies pricing inefficiencies, including overpricing of unlikely outcomes when arbitrage is constrained.
- **ESMA (July 2026):** Event contracts qualifying as financial instruments may fall within existing national binary-options restrictions, building on earlier retail-investor protection measures.

These findings provide context rather than evidence that all prediction markets have the same risks or that any particular product causes speculative behavior.

04 Theoretical Framework

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Expected value matters more than the probability of winning alone. A YES contract priced at \$0.70 pays \$1 if the event occurs. A win earns \$0.30 before fees; a loss costs \$0.70. At an independently estimated 70% success probability, expected profit is $(0.70 \times \$0.30) - (0.30 \times \$0.70) = \$0$.

Similarly, a binary option offering an 80% net payout on a winning trade requires a win rate above approximately 55.6% to break even before additional costs.

Prospect theory helps explain why traders may overweight a high chance of winning or focus on a large percentage payout without assessing downside and price. Early exit opportunities can improve flexibility, but liquidity, spreads, fees and unfavorable contract prices still matter.

05

Methodology & Research Team

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The study uses a structured online questionnaire based on CAWI methodology.

- **Sample:** 1,200 retail traders and investors.
- **Geographic coverage:** North America, Europe, Asia, Latin America, Africa and the Middle East.
- **Age range:** 18–60.
- **Eligibility:** traded or invested in financial assets during the preceding 12 months.
- **Scope:** prediction markets, binary options, event contracts and speculative trading behavior.

Research team

- **Anastasiia Chabaniuk:** research design and interpretation.
- **Chinmay Soni:** fact-checking and data validation.
- **Ciaran Ryan:** editorial and methodological supervision.
- **Andrey Mastykin and Oleg Tkachenko:** data collection and analysis.

06

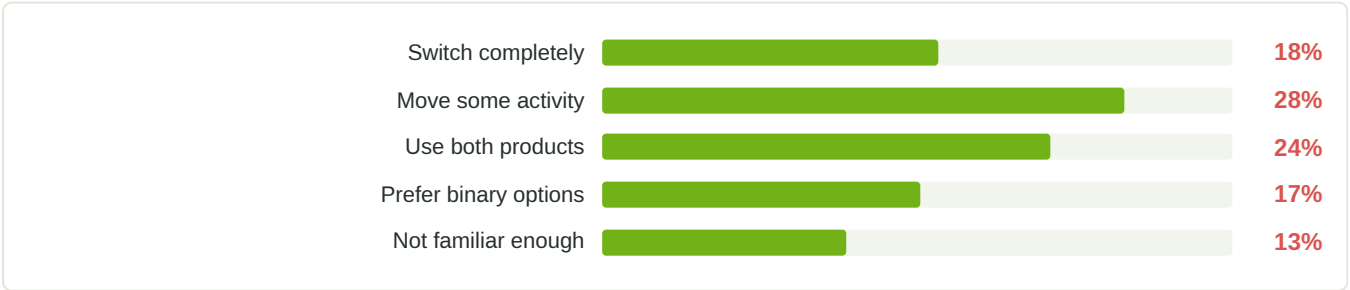
Survey Results

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Eight questions examine product switching, classification, trading outcomes, probability literacy, contract duration, settlement diligence, risk perception and motivations.

Are binary options traders ready to switch to prediction markets?

Willingness among respondents with binary options experience.

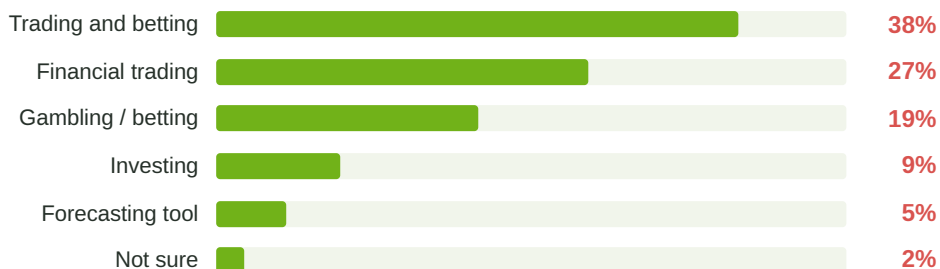


INSIGHT

46% would switch completely or move some activity; a further 24% would use both products.

Are prediction markets trading, investing, or gambling?

Primary classification of prediction markets.

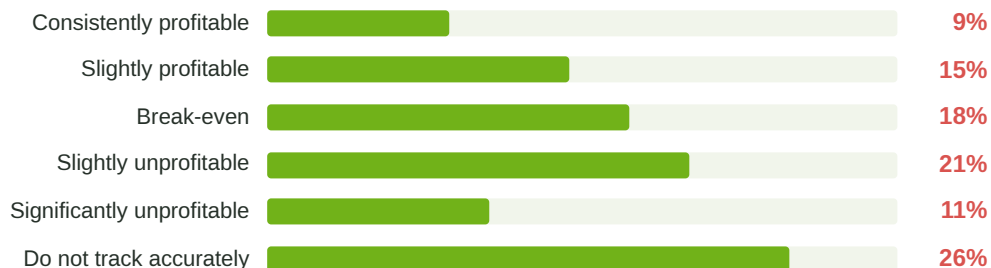


INSIGHT

The largest group (38%) sees a mix of trading and betting, underscoring the blurred boundary.

Who is actually making money on prediction markets?

Self-reported trading outcomes after fees.

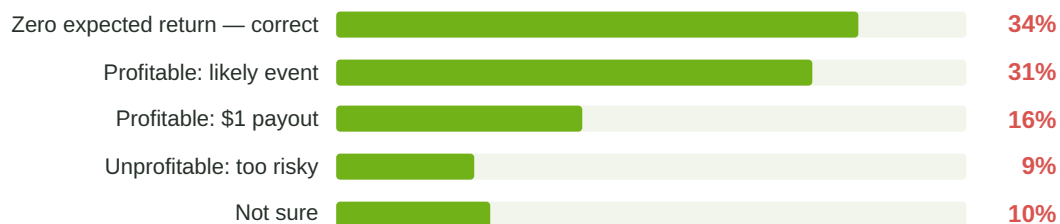


INSIGHT

24% consider themselves profitable, 32% report losses and 26% cannot reliably assess their results.

Can an 80% chance of winning still be a bad trade?

YES contract costs \$0.80, pays \$1, and has an estimated 80% chance of success.

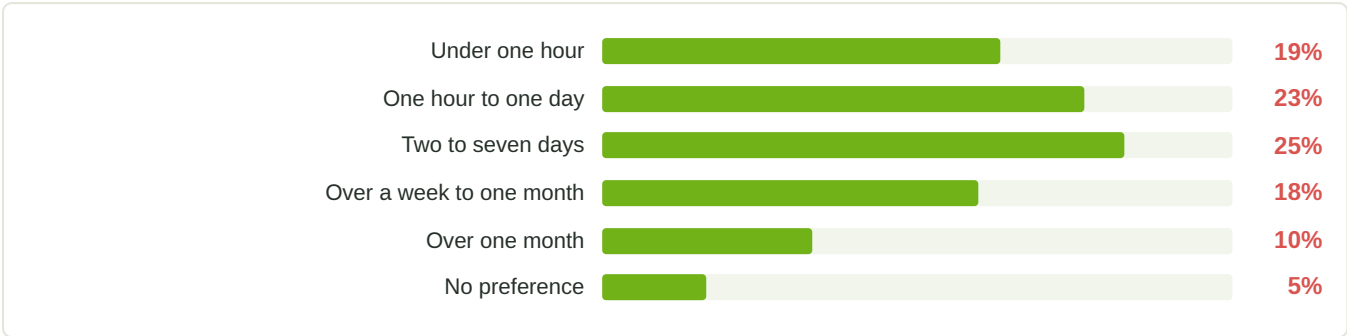


INSIGHT

Only 34% correctly identify zero expected return before fees. A further 47% incorrectly assume the contract is profitable.

Are prediction markets encouraging short-term speculation?

Preferred time until a contract resolves.

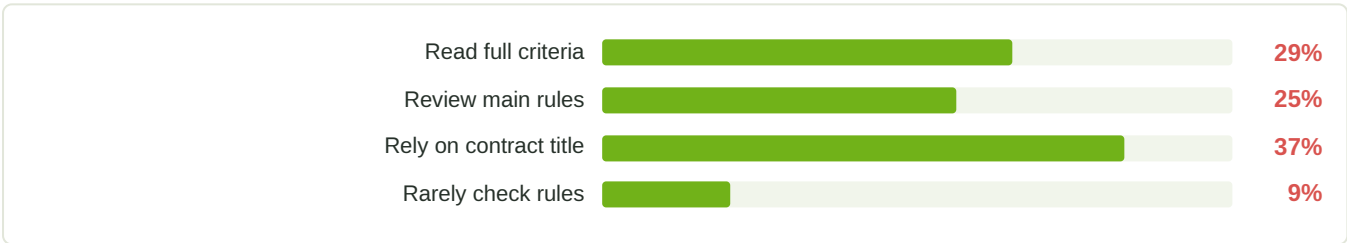


INSIGHT

42% prefer resolution within one day, although short duration alone does not establish excessive risk-taking.

Can traders predict correctly and still lose money?

How frequently participants review resolution criteria.

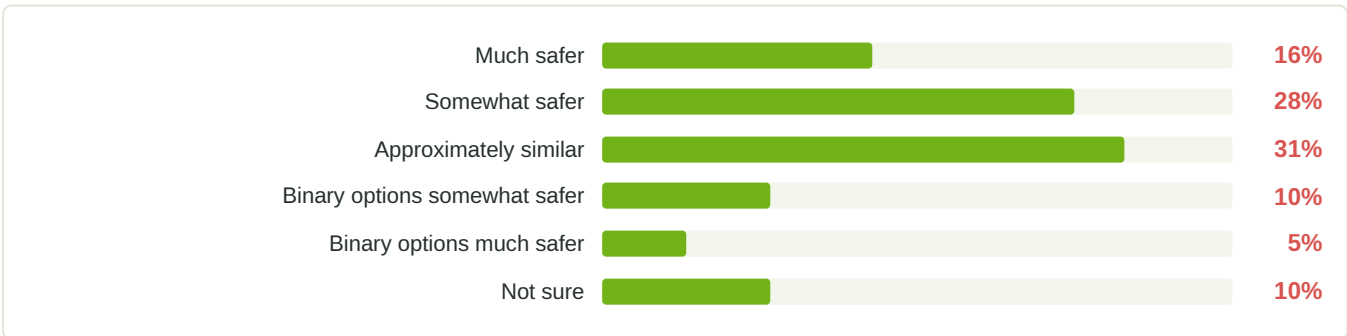


INSIGHT

46% rely mainly on titles or rarely read rules, exposing them to unexpected settlement outcomes.

Are prediction markets safer than binary options?

Perceived comparative financial risk.

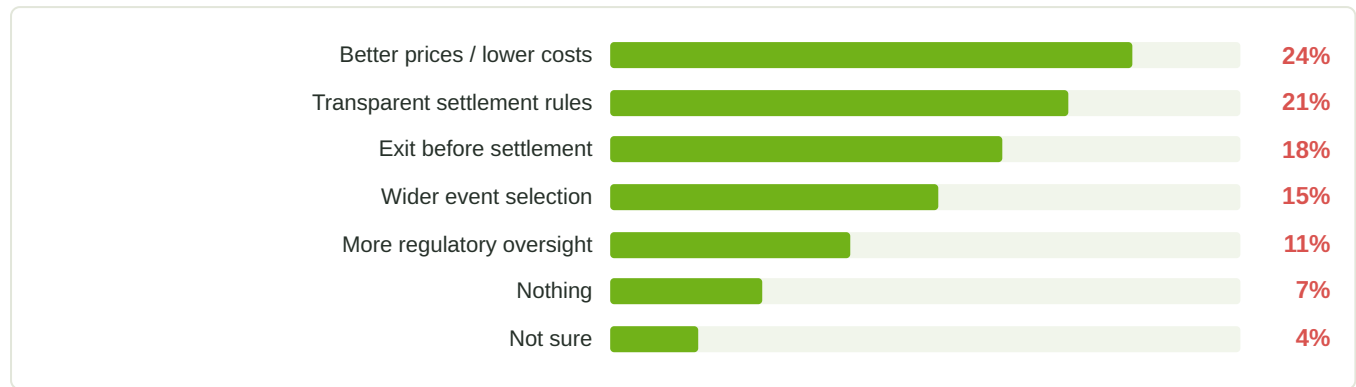


INSIGHT

44% perceive prediction markets as safer, though both products can involve losing the full amount committed.

What would persuade binary options traders to switch?

Most important factor motivating a switch.



INSIGHT

Prices and costs lead at 24%, followed by settlement transparency at 21% and early exits at 18%.

07 Practical Implications

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Prediction markets should be evaluated as speculative contracts with distinct payout, settlement and execution conditions—not automatically as safer replacements for binary options.

- Calculate maximum gain, maximum loss and expected value before entering a trade.
- Compare market prices with an independent estimate of event probability.
- Read complete settlement definitions, official data sources, deadlines and dispute rules.
- Account for bid–ask spreads, trading fees and market depth when estimating profitability.
- Treat rapid settlement as a reason for extra discipline, not a signal of higher expected return.
- Track realized gains, losses and fees across all positions.
- Check the applicable regulatory framework and investor protections in your jurisdiction.
- Set a maximum allocation to speculative contracts and enforce loss limits.

For traders considering binary options brokers, costs, payout terms and regulation still require scrutiny. Broker selection does not eliminate the underlying risks.

08 Data Sources & References

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