

Turf Analyst



2nd Edition
Now Easier To Use

**The
Indicator
Handicapping
Method**

E-Book Download

The Indicator Handicapping Method Free Edition

By Mike Beale

Copyright © 2007 by Turf Analyst Handicapping Service. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the publisher

Limit of Liability/Disclaimer of Warranty: Although the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Introduction

How I Stopped Picking Winners and Started Handicapping to Make Money . . .

Back in the early 70's when I was learning how to handicap, I was under the mistaken impression that the goal of handicapping was to pick the winner of each race. I remember that between races I would have friendly arguments with my racetrack buddies about which horse was "going to win" the next race. I was so convinced that I would soon be able to name the winner in each race that I spent countless hours each night going over and over each race that I lost. I believed that if I did not pick the winner, I must have made some mistake in my handicapping.

Then one day I was befriended by one of the old-timers at the track. His name was John. He was a very kindly man who sat me down and changed forever my assumptions about horseracing. What he told me is that I should stop trying to pick winners and start handicapping to make money. John pulled out his racing form and showed me who the main contenders were going to be in the next race. In doing so, he explained what mistakes other horseplayers were likely to make in evaluating the race.

Most of his attention was focused on the contender that he said was only the second most likely to win. He said it might become an overlay. I had never heard of the term before so I asked him what it meant. John said, "The overlays are your profit horses and the underlays are your loss horses." Then he added, "Most horses are losers." Together, we watched odds go up and down on the tote board and, sure enough, the odds on John's second choice kept going higher and higher.

Finally, it was only five minutes to post time and odds on the horse were wavering between 5-to-1 and 6-to-1. There were long lines at the ticket windows but John showed no sign that he was going to get in line to play the horse. John could see that I was getting anxious and he told me, "Don't worry. This one is not going to be an overlay. You have to remember that you are not just playing against the other players. You also have to overcome the money that the track takes out of the pool."

I had never considered the effect that the take and break of the mutual pool would have on my handicapping, but what John was saying made a lot of sense to me. He said, "If the crowd only handicaps a race reasonably close then, every horse will be a loser after the track cuts the pool." He continued, "What most of the guys do is to look at very small differences between the records of each horse. You'll never overcome the track's edge by doing that. What you have to do to make money at this game is to wait for the really big overlays to appear." So, we waited and passed a few more races. Eventually, we did play two races later that day but I would be lying if I told you that we won.

We did, however, have many opportunities to visit the cashier's window over the next couple of weeks and I became very accustomed to cashing winning tickets at 8-to-1 and higher odds. I will always be indebted to John for showing me how to handicap.

Why Overlays Occur

Over the last 30 years, I have devoted a lot of time to learning why overlays occur and how to detect them. When personal computers became available in the 80's, I even learned how to program so I could conduct my own custom studies into the complexities of the handicapping fundamentals.

What I learned is that overlays will often result when horseracing fans apply valid handicapping principles past the point where they are significantly predictive. This will cause some horses to look much better than they really are. In extreme cases the public will make a "false favorite" where the wrong horse goes to post with the lowest odds. When this happens it's very likely that there will be a good overlay somewhere else.

The reverse of this can also happen when a horse looks much worse to the general public than it really is. Racing fans tend to ignore any horse that is difficult to figure or has an element of uncertainty in its record. The horse trainers are quick to exploit this tendency by darkening the form of their horses. Also, some contenders will become overlays just because the average handicapper is only interested in picking the winner. Any other horse that is perceived as less likely to win may not be given adequate consideration and may go overlooked in the betting.

How the Indicator Handicapping Method Works

In developing a practical way of identifying overlay situations for my personal handicapping, I invented what is now known as the Indicator Handicapping Method. What make this method different are the indicators which are used to detect the main contenders of each race. They are based on traditional handicapping fundamentals but are designed to underweight many of the factors that the general public tends to overweigh in their handicapping. This causes the indicators to be very sensitive to conditions that may cause large segments of the track patrons to make incorrect handicapping decisions. The construction of each indicator is very simple and each indicator can be applied to a horse in just a minute or two using only basic math.

When the indicators are applied according to the rules of the Indicator Handicapping Method they will not influence the final selection more than the actual predictive value of their underlying handicapping fundamentals. In fact, the real power of this method is demonstrated by how the indicators work together to reveal the real contenders in each race. Once you have applied the indicators, you will quickly see if you are dealing with a race that has 1, 2 or 3 main contenders by the way the indicators have clustered around the top horses.

In the final step, you will calculate the Overlay Indicator for each of the contenders using the odds on the tote board just before post time. This is very quick and easy to do. The Overlay Indicator will tell you which horse to play and how profitable your selection is likely to be. The higher the Overlay Indicator the better the play.

Indicator Handicapping Method Free Edition

As in the past, I am offering a free edition of the Indicator Handicapping Method. I do this because the paid version of the book is offered without any phony claims or workouts and without any money back guarantee. I want any prospective purchasers of the paid version to get a good idea of what my handicapping philosophy is before they make their purchase.

Indicator Handicapping Method 2nd Edition

Over the past five years, I've sold almost 1,000 copies of the first edition of the Indicator Handicapping e-book. Many of the guys and gals who have bought the book have also sent me emails to share the successes they have had with it. Many have even contacted me years after purchasing their copy just to let me know that they are still using it in their handicapping. I am very grateful for all the feedback that I have received from the people who have purchased my book. It has been overwhelmingly positive.

The 2nd edition of the Indicator Handicapping Method is not just a re-edit of the original work. It is a complete rewrite based on the comments and suggestions I have received from the original users. Those of you who have read the original version of the book will recognize the same basic handicapping method with only a few small improvements. What has changed is that the rules of the method are now stated in a much clearer manner with more detailed explanations. This should make the method much easier to learn even if you have never handicapped before.

Before You Get Started

Over the years I have received many e-mails that repeat a basic theme. In these messages, the handicapper tells me that he has tried the method and it worked for him but for one reason or another he put it down and tried something else. Now, after losing a significant amount of money, he is writing me to let me know that he is coming back to Indicator Handicapping because he remembered that it worked for him in the past. Many of these people were lured by the promises of computer handicapping systems, but most of them just lost their discipline and started experimenting with it, trying to do things that will not work in the long run.

I have always been very careful about making any claims or guarantees of success using this handicapping method. I will never promise you that it is easy to make money at the track, but I will never tell you that it is impossible either. I will never use phony workouts or make outrageous claims about how much money you can win using it.

Indicator Handicapping is not the same old warmed-over handicapping dogma that you read in other handicapping books. It is a whole new approach that is both practical and systematic. Unlike many of the other handicapping books out there, this book will actually teach you how to handicap. It presents an exact procedure for you to follow when handicapping a race. Indicator Handicapping will work for you if it is applied as presented in the book.

I would also like to point out that the sections that are included in the free versions of the book are just as important to your success as the selection method itself. I have also included a section on the overlay indicator in the free edition of the book. You will find that the overlay indicator will be helpful to you whether or not you decide to study Indicator Handicapping. In fact, the free edition of this book is not just an advertisement for my handicapping method. It is information that any handicapper will benefit from.

My advice to you is to study the book very carefully and to only risk very small amounts of money in the beginning. Also be sure to follow the money management techniques presented. Remember that in any situation that involves managed risk, there will always be winning and losing streaks. These are inevitable so do not let yourself become greedy or despondent. If you play for the long run and keep yourself in the game, you will do just fine.

Mike Beale
The Turf Analyst

Chapter 1

Setting Yourself Up for Success

To start off, I am going to list some practical suggestions that can greatly improve your results as a handicapper. While it is not required that you adopt every suggestion in your personal handicapping, you should at least be aware of the fact that adopting each of these strategies could improve your results.

Adopt a Structured Handicapping Method

You should have a set discipline procedure that you follow each time you handicap a race. The idea here is that you structure your handicapping so that if you re-handicapped the race at a different time, you would come up with the same results. Many horseplayers use an undisciplined approach that varies each time they handicap a race. So, their results will have no consistency.

When you use the Indicator Handicapping Method, you will have an automatic built-in disciplined procedure in your handicapping and this will not be a problem.

Stop Trying to Win Races and Start Handicapping to Make Money

If you examine the emotions of the average handicapper, you will see that they feel most comfortable when they're betting on a horse that looks like it's going to win. The problem with this is that by the time the average handicapper feels confident that a horse is going to win, nearly every one else at the track also knows this.

The goal of handicapping is to find profitable betting situations, not to determine who is going to win the race. The best way to do this is to find ways to determine if the betting public has overestimated or underestimated a horse's chances of winning a race. A good handicapper has the ability to evaluate uncertain situations by being able to make logical deductions when all the facts are not present. This is where indicator handicapping really shines. You will often find that the indicators point to horses that most handicappers shy away from and are afraid to bet. But in fact, these are the exact type of situations that can develop into powerful overlay betting opportunities.

Concentrate Your Betting on Your Most Profitable Situations

Once you have learned how to detect profitable overlay situations, it is important that you concentrate your betting where the profit is. You should only be betting when you feel that you have an overwhelming advantage in the odds. I recommend that you restrict your handicapping to two or three tracks each day and restrict your betting to your most profitable four to six bets.

During your preliminary handicapping, look for contenders that are not listed as selections on the program. These are the most likely overlay candidates. If you do end up betting one of the program selections, you should be aware of the fact that the tote board odds of the program selections do tend to go down in the last-minute

betting. To help you determine how profitable a bet is likely to be, I have developed the overlay indicator which will be discussed at length later on in this book.

Only Place Win Bets; Never Play Exotic Bets

Most successful horse players only bet to win and never bet to place, show or play any of the exotic bets such as the trifecta or exacta. The reason for this is that the track's take and break are the least on win bets and there is no income tax on win bets. If you examine a series of bets that would make a profit betting place or show, you will almost always find that the same series of bets would produce a much larger profit when bet to win.

The exotic bets such as exacta, trifecta or pick six are really sucker bets. Most tracks take a higher percentage of the betting pool for these bets. The only way to get an overlay playing the exotics is to have all overlay picks in your selections. If you put even one underlay selection the payoff will drop precipitously and you will not be making a profitable bet. Even when bet correctly, there can be wild fluctuations in the payoff of the exotic bets. Just a few dollars placed on a particular combination in the last minute betting can dramatically lower the payoff. The only exotics worth betting are going to pay off at over 200-to-1 odds. This means that if you place these bets you will have to endure very long losing streaks and be subject to backup withholding by the IRS.

I am not a tax professional, so please consult one if you intend to seriously pursue betting the exotics. Once the IRS withholds a portion of your payoff, you are in a no-win situation. Since the IRS knows that you received "gambling income," they will expect you to list this income on your tax return and pay taxes on it. The IRS assumes that you have never had a loss and you must itemize your deductions to claim your losses and get the money the IRS has withheld back. Not listing this income on your return could cause you to be flagged for an audit and additional taxes and penalties could be due. In fact, if you do not itemize your losses and your marginal tax rate is higher than the 10% withholding rate, then the IRS will calculate your taxes on your winnings to be more than the amount they actually withheld.

Only Bet Where You Get Track Odds

It is very hard to be a successful horse player when you're betting at an off track betting establishment that takes an additional percentage out of the betting pool. The very best way to place your bets is over the Internet where your bets are put into the tracks mutual pool and you receive the same odds that the track patrons receive. Placing your bets on the Internet also gives you the advantage of being able to wait until the last minute before committing your money. So, you do not have to worry about being shut out when you bet on the Internet.

If you are looking for an excellent Internet wagering site, I highly recommend **winticket**. They feature live feeds direct from the tracks. So, it's just like being there. You can actually watch the horses coming into the gate, see the race in real time while listening to the calls by the track announcer, and then watch reruns of the race. The system lets you bet up to 1 minute to post time so you will never get shut out.

I have a special arrangement with **winticket** that will allow you to receive your first \$100.00 that you bet with the service credited back to your account. To take advantage of this no-lose offer, you must meet the following requirements:

- 1) You are referred to winticket by the Turf Analyst web site**
- 2) You are a new customer with winticket**
- 3) In the first 30 days of your account you must bet at least \$100.00**

To sign up for this offer, click here: http://turfanalyst.com/cash_back.html.

Chapter 2

Understanding the Odds

Since horseracing is a game that is based on probabilities, it is critical to your success as a handicapper to understand how the odds can work for you or against you. When I was in college, I took classes on statistics and discrete mathematics and I learned firsthand how incredibly complicated the mathematics of probabilities can be. I will attempt to keep the math as simple as possible, but if you are having problems following along, don't worry. Just drop down to the conclusions which are highlighted in yellow at the end of the chapter.

A Simulation Based on Even Odds

To keep this simple and easy to understand, I will be using a typical scenario that any horse player can relate to. Let's say that each day you narrow down your selections to your 5 most profitable bets. To start out, we will further stipulate that the actual chances of each of your bets winning are 1-to-1 or even odds. This means that you should expect to win on average every other bet. If the payoff is fair on an even odds bet, you should expect each winner to pay off at \$2.00 for each dollar you bet.

This is very convenient for us because you can easily simulate each day's results by flipping a coin. There are only 2 possible outcomes of a coin toss - heads and tails. If we arbitrarily decide that a result of heads will be a winner and a tails is a losing bet, then we only need to record 5 coin tosses to simulate each day's results. In doing so, we will enter a W for each win and L for each loss.

When we do this we will notice a great variation in our results. Very rarely do we see the expected result of winning every other bet (WLWLW or LWLWL). Instead, we see that the winners and losers are clustered together seemingly at random. So, how do we know what to expect when we make 5 bets at 1-to-1 odds?

The way to calculate this is actually quite straightforward. We know that just like a coin toss there are only 2 possible outcomes of a wager at 1-to-1 odds and that each outcome is equally likely to occur. What this means is that there are exactly 32 possible combinations for 5 bets made at 1-to-1 odds and that each day's series of 5 bets must be one of those 32 combinations:

$$2*2*2*2*2 = 2^5 = 32$$

Each of these 32 combinations is just as likely to occur as any other. So the result of losing all 5 bets (LLLLL) is just as likely as winning every other bet (WLWLW), or winning all the bets (WWWWW) for that matter. If we group these 32 combinations based on their daily profit and loss we see that there are only 6 possibilities any series of 5 \$1.00 bets at 1-to-1 odds:

- 1) **-\$5.00 (you lose all 5 bets)**
- 2) **-\$3.00 (you win 1 bet and lose 4)**
- 3) **-\$1.00 (you win 2 bets and lose 3)**

- 4) \$1.00 (you win 3 bets and lose 2)
- 5) \$3.00 (you win 4 bets and lose 1)
- 6) \$5.00 (you win all 5 bets)

5 Bets at 1-to-1 Odds					
1	2	3	4	5	6
		WWLLL	WWWLL		
		WLWLL	WWLWL		
		WLLWL	WWLLW		
		WLLLW	WLWWL		
		LWWLL	WLWLW		
	WLLLL	LWLWL	WLLWW	WWWWL	
	LWLLL	LWLLW	LWWWL	WWWLW	
	LLWLL	LLWWL	LWWLW	WWLWW	
	LLLWL	LLWLW	LWLWW	WLWWW	
LLLLL	LLLLW	LLLWW	LLWWW	LWWWWW	WWWWW
-\$5	-\$3	-\$1	\$1	\$3	\$5

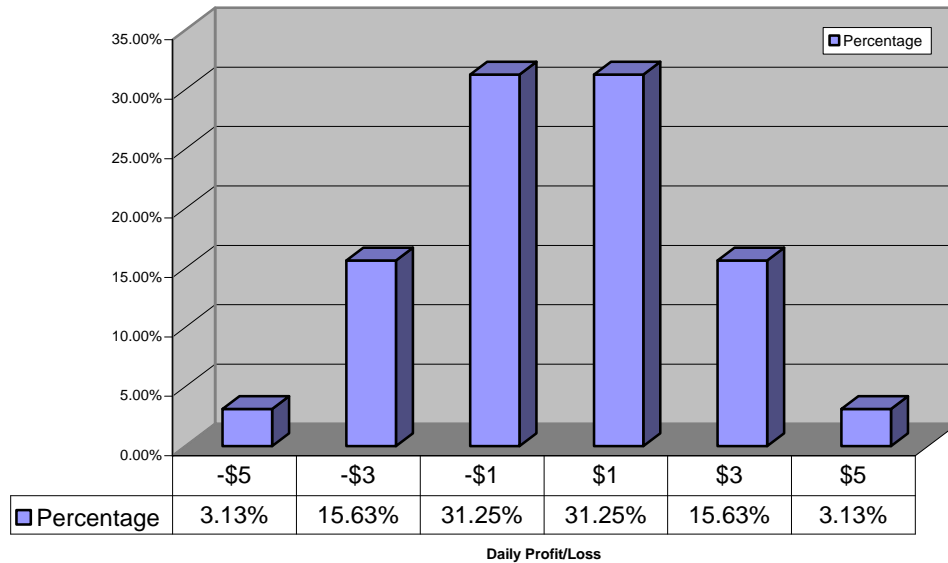
Notice how symmetrical the data is. Since we are basing this example on the fair payoff of a horse at even odds, \$2.00, if you totaled the results for all the combinations you would end up with a profit/loss of \$0.00:

$$(-5*1) + (-3*5) + (-1*10) + (1*10) + (3*5) + (5*1) = 0$$

Actually, when we examine the data in terms of the daily profit or loss it doesn't matter what the order of the wins and losses are. It is really the number of wins and losses that occur each day that are significant. When you look at the \$3.00/profit column, for instance, you see that there are 5 possible combinations of winning 4 bets and losing 1 bet. As a handicapper, it really doesn't matter if your win/loss pattern was **LWWWW**, **WWLWW** or **WWWWL**. The important thing to you is that you won \$3.00 that particular day.

Using this understanding of how the probabilities are distributed, we can now calculate the percentage of the days when we will see each of the six profit and loss outcomes. Here I have presented this same data in a percentage bar graph:

5 Bets at 1-to-1 Odds



To demonstrate the how to use the percentage chart, let's say that you are interested in knowing how many days a year you can expect to lose all 5 of your bets. If you look at the percentage in the first column, it shows that that 3.13% of the days, you would lose all 5 of the daily bets and lose \$5.00. To make the calculation you convert the percentage to a decimal by shifting the decimal point two places to the left (3.13% = 0.0313) and multiplying the number of days in a year (365) by the decimal (0.0313). The result is that you would lose all 5 of your daily bets about 11 days (365 * 0.0313 = 11.425) each year.

It is important to understand that losing streaks like these can not be avoided. Many handicappers believe that they can minimize or shorten the effect of losing streaks by improving their handicapping skills. Unfortunately, losing streaks are inevitable and are determined by the underlying odds of your bets according to the laws of probability. They happen to everyone, even the best handicappers.

You can no more avoid a losing streak using your handicapping skill than someone who is good at flipping coins can prevent a series of tails from occurring. While I'm on this subject I should also point out that you can not just stand aside and wait out a losing streak either. Using a strategy that waits for a losing streak to end actually causes you to miss out on the winner that ends the streak. The fact that you are on a losing streak does not affect the odds of your next bet. If you have just flipped a coin 25 times and got 25 tails in a row, the odds of flipping a heads on your next toss is still 1-to-1.

A Simulation Based on 2-to-1 Odds

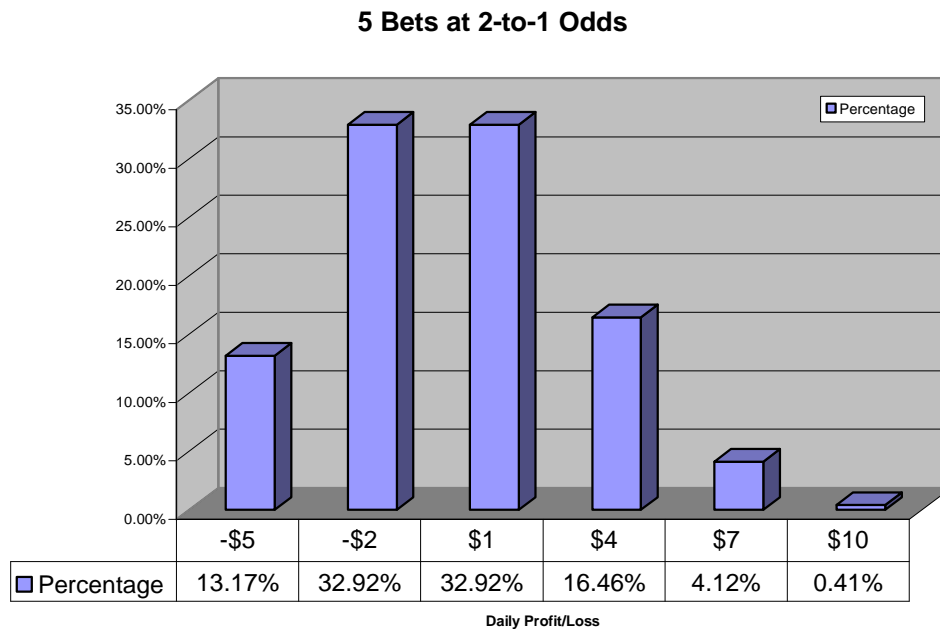
The next graph shows the distribution of a series of 5 bets at 2-to1 odds. You will notice that the graph is shifted to the left. This reflects the fact that the outcome of a bet at 2-to-1 odds is not the same as the even 1-to-1 odds used in the last example.

Here you are twice as likely to lose as you are to win. So there are three possible outcomes:

- 1) You win
- 2) You lose
- 3) You lose

This makes the number of possible combinations 243.

$$3 \times 3 \times 3 \times 3 \times 3 = 3^5 = 243$$



The fair payoff for a 2-to-1 bet is \$3.00. This makes the 6 daily profit and loss possibilities for the 5 \$1.00 bets:

- 1) -\$5.00 (you lose all 5 bets)
- 2) -\$2.00 (you win 1 bet and lose 4)
- 3) \$1.00 (you win 2 bets and lose 3)
- 4) \$4.00 (you win 3 bets and lose 2)
- 5) \$7.00 (you win 4 bets and lose 1)
- 6) \$10.00 (you win all 5 bets)

Since we are using the fair payoff, if you total the results of each column, you still come up with a profit/loss of \$0.00.

$$(-5 \times 0.1317) + (-2 \times 0.3292) + (1 \times 0.3292) + (4 \times 0.1646) + (7 \times 0.0412) + (10 \times 0.0041) = 0$$

As you can see, the number of losing streaks has risen dramatically. You can expect to lose all 5 bets about 48 days a year ($365 \times 0.1317 = 48.0705$). That is like going a month and a half without a winner.

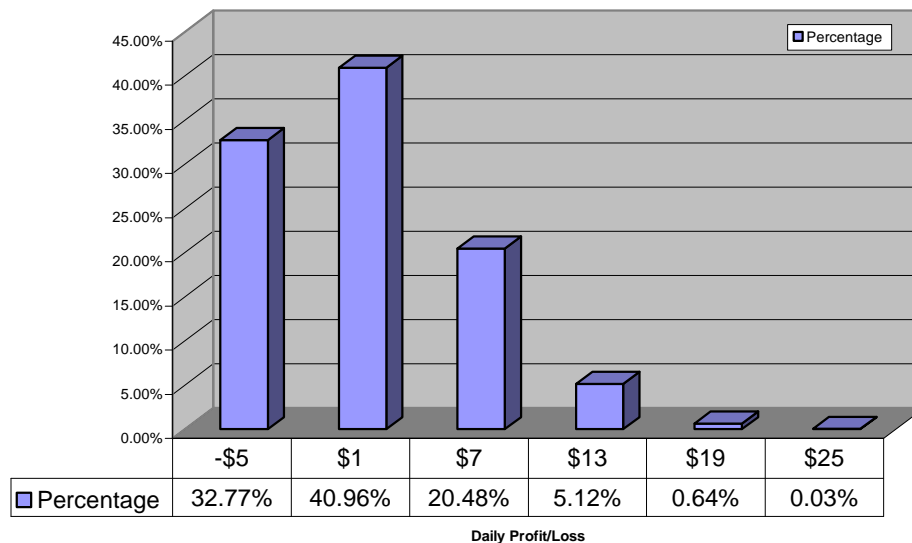
A Simulation of Using the Indicator Handicapping Method

My final example is an actual simulation based on the expected probabilities you will experience using the Indicator Handicapping Method. The assumptions behind this scenario are as follows:

- You will bet an average of 5 bets a day playing only your best bets.
- You will only play your main contenders so the true underlying odds of your selections should average 4-to-1 or less.
- You will only bet when your contenders are overlays and the odds are at least 20% higher than the fair odds.

The simulation is based on a distribution of 5 bets at 4-to-1 odds. The total number of combinations is 3125 ($5^5 = 3125$). Since you are betting on horses that are expected to win at least once in every 5 attempts, the fair payoff is \$5.00 for each \$1.00 bet. But since we are assuming at least a 20% overlay the payoffs in the chart are based on a winner paying \$6.00 for each \$1.00 bet.

5 Bets at 4-to-1 Odds



Let's look at the second column first. Here you would expect to break even about 41% of the time at fair odds by winning just one of your 5 daily bets. But since you are betting at overlay odds of at least 20%, you will make a profit of \$1.00 for each dollar of you betting unit, instead of just breaking even. The last four columns together represent the days when you will cash 2 or more winners which is about 25% of the time.

That still leaves the first column to consider. These are the days that we lose all five bets. Here the graph is telling us that we can expect to lose all of our bets almost a third of the time. This is a very significant amount of pain that you must endure in order to be successful as a horseplayer. Fortunately, I will be giving you a very simple money management formula that will help you to deal with this inevitability.

As we have already learned, there is no way to eliminate these losing days. But it is interesting to note that many of the people who sell handicapping related products will eliminate the losing days from their workouts, making their products look much better than they really are. When you really examine these workouts, you will see that they are usually not based on enough data to be statistically significant or their distributions are not normal and do not conform to the laws of probability.

This is why I have never provided workouts or guarantees that you will be successful using my handicapping method. The use of these tactics presents the illusion that being a successful handicapper is easier than it really is.

The Odds Conclusion

Here are the assumptions and the expected results that you should experience while using the Indicator Handicapping System.

The assumptions are:

You will make an average of 5 bets a day, the true underlying odds of your selections should average 4-to-1 or less and your selections will be at overlay odds of 20% or higher than the horse's actual chances of winning the race.

The expected daily results are:

- 1) 32.77% of the days you will lose all 5 bets resulting in a \$5.00 loss for each dollar in your betting unit.**
- 2) 40.96% of the days you will win 1 bet and lose 4 bets resulting in a \$1.00 gain for each dollar in your betting unit.**
- 3) 20.48% of the days you will win 2 bets and lose 3 bets resulting in a \$7.00 gain for each dollar in your betting unit.**
- 4) 5.12% of the days you will win 3 bets and lose 2 bets resulting in a \$13.00 gain for each dollar in your betting unit.**
- 5) 0.64% of the days you will win 4 bets and lose 1 bet resulting in a \$19.00 gain for each dollar in your betting unit.**
- 6) 0.03% of the days you will win all 5 of your bets resulting in a \$25.00 gain for each dollar in your betting unit.**

Chapter 3

Money Management

In dealing with the risks associated with betting horses it is important to know in advance what is going to happen and to have a strategy in place to deal with all possible outcomes. In providing such a plan to you, I am also going to make three suggestions that will help to prepare you emotionally to handle both the good days and the bad days that are inevitable when you play this game:

1. Before You Begin, Practice on Paper

By starting out making paper bets, you will learn faster and make fewer mistakes when you are actually betting real money. Practicing on paper will also give you confidence and will prevent your success from being sabotaged by fear or greed.

2. Start Out by Only Betting Very Small Amounts of Money

It is very important to not have a large emotional investment in each bet you make. You should make it a habit of betting unemotionally. This is much easier to do when you start out making bets that are much smaller than your usual betting unit.

3. Psychologically isolate each day's activities

Think of each day as being a separate unit. Each day calculate your betting unit for that day and make all your bets that same amount. Only play your most profitable bets. Don't worry about how you did yesterday or how well you will do tomorrow.

Using the Money Management Plan

When you determine your starting betting unit, you should consider how much money you would feel comfortable losing each day if you lost all the bets you placed that day. You should also bear in mind that you are expecting to have losing days about 33% of the time. This means that there will be many back to back losing days.

Let's say, for example, that you are willing to risk \$25.00 a day. The number of bets you play each day will depend on how many tracks you play. But if you are betting over the internet, you should have no trouble finding 5 very good bets by playing 2 to 4 tracks each day. This would mean that your initial betting unit would be \$5.00 ($\$25.00/5 = \5.00).

After you have determined your initial betting unit, you need to calculate your starting bankroll. The bankroll is not an actual amount of money you are keeping in your back pocket. It is a hypothetical sum which is used to calculate the size of your bets each day.

Money Management Plan

Bank Roll	0.50%	1.00%	Bank Roll	0.50%	1.00%	Bank Roll	0.50%	1.00%
2000	10	20	5000	25	50	20000	100	200
1900	10	19	4800	24	48	19000	95	190
1800	9	18	4600	23	46	18000	90	180
1700	9	17	4400	22	44	17000	85	170
1600	8	16	4200	21	42	16000	80	160
1500	8	15	4000	20	40	15000	75	150
1400	7	14	3800	19	38	14000	70	140
1300	7	13	3600	18	36	13000	65	130
1200	6	12	3400	17	34	12000	60	120
1100	6	11	3200	16	32	11000	55	110
1000	5	10	3000	15	30	10000	50	100
900	5	9	2900	15	29	9500	48	95
800	4	8	2800	14	28	9000	45	90
700	4	7	2700	14	27	8500	43	85
600	3	6	2600	13	26	8000	40	80
500	3	5	2500	13	25	7500	38	75
400	2	4	2400	12	24	7000	35	70
300	2	3	2300	12	23	6500	33	65
200	2	2	2200	11	22	6000	30	60
100	2	2	2100	11	21	5500	28	55

I have included a chart of the money management plan above. It shows how to calculate your betting units based on a very conservative 0.5% betting unit and a much more aggressive 1% betting unit. In the beginning, I recommend very strongly that you use the 0.5% betting unit. Later, after you have developed some confidence using the method, you may want to consider using the 1% column.

If you look at the chart above, you'll see that the starting bankroll for a \$5 betting unit in the 0.5% column is between \$900 and \$1099. Let's use \$1000 as the initial bankroll in our example. You'll keep a running total of your bankroll each day by subtracting the cost of all your bets from the bank roll and then adding the total payoffs of all the winning tickets to the bankroll. Again, the starting bankroll is just a hypothetical figure used as a starting point solely for the purpose of managing the size of your betting unit. You are not expected to have that much money in your back pocket.

At the beginning of the next day you will determine the betting unit that you'll use for that day by reading it off the chart or by multiplying the bankroll by the percentage (0.005 in this example). By using this money management plan, you'll gradually increase the size of your bets if you win and gradually decrease the size of your bets if you lose.

Now let's look at examples of both winning and losing streaks using 0.5% betting units. For the losing streak we will use column 1 in the simulation where we make five bets each day and lose all five. Assuming an initial bankroll of \$1000 with an initial betting unit of \$5.00, the total loss for a 30 day losing streak would be \$535.00. Notice how the size of the betting unit is reduced as the size of the bankroll is depleted by the losing bets. The same 30 day losing streak using flat \$5.00 bets would result in a loss of \$750.00. That is over 40% more than the loss that would be experienced using the money management plan.

Losing Streak					Winning Streak				
Day	Bank Roll	Unit	Bets	P/L	Bank Roll	Unit	Bets	P/L	
1	1000	5	25	-25	1000	5	25	35	
2	975	5	25	-25	1035	5	25	35	
3	950	5	25	-25	1070	5	25	35	
4	925	5	25	-25	1105	6	30	42	
5	900	5	25	-25	1147	6	30	42	
6	875	4	20	-20	1189	6	30	42	
7	855	4	20	-20	1231	6	30	42	
8	835	4	20	-20	1273	6	30	42	
9	815	4	20	-20	1315	7	35	49	
10	795	4	20	-20	1364	7	35	49	
11	775	4	20	-20	1413	7	35	49	
12	755	4	20	-20	1462	7	35	49	
13	735	4	20	-20	1511	8	40	56	
14	715	4	20	-20	1567	8	40	56	
15	695	3	15	-15	1623	8	40	56	
16	680	3	15	-15	1679	8	40	56	
17	665	3	15	-15	1735	9	45	63	
18	650	3	15	-15	1798	9	45	63	
19	635	3	15	-15	1861	9	45	63	
20	620	3	15	-15	1924	10	50	70	
21	605	3	15	-15	1994	10	50	70	
22	590	3	15	-15	2064	10	50	70	
23	575	3	15	-15	2134	11	55	77	
24	560	3	15	-15	2211	11	55	77	
25	545	3	15	-15	2288	11	55	77	
26	530	3	15	-15	2365	12	60	84	
27	515	3	15	-15	2449	12	60	84	
28	500	3	15	-15	2533	12	60	84	
29	485	2	10	-10	2617	12	60	84	
30	475	2	10	-10	2701	12	60	84	
Profit/Loss:				-535				1785	

For our example of a winning streak, we will use column 3 from the simulation. This would be a series of days where we placed five bets and won two of the bets resulting in a net profit of seven dollars for each dollar in the betting unit. Again using the 0.5% column in the betting plan and assuming an initial bankroll of \$1000 with an initial betting unit of \$5.00, a 30 day winning streak would produce a total profit of \$1785.00.

The profit on the same winning streak using flat \$5.00 bets would result in a profit of only \$1050.00. So in this example, using the money management plan would result in a 70% increase in profit over just playing flat bets.

Chapter 4

The Overlay Indicator

It's five minutes to post time and you are looking over your top contenders in the upcoming race. Your handicapping has told you which horses will play a major role in determining the outcome of the race. Most likely, you have isolated the one or two horses that will probably win today. But how do you know when a horse is worth betting on? In other words, is the horse an overlay? Will he pay enough to justify the bet?

The Indicator Handicapping Method is designed to systematically detect overlay situations. In the final step of your handicapping you will calculate the overlay indicator for each of your main contenders. The overlay indicator will serve as a kind of warning light to let you know when to take action. If it is flashing you will know that a good betting opportunity has developed. If none of the overlay indicators are flashing, you should pass the race. Used correctly, it will put you on the winning end of some very nice payoffs. But before we look at the overlay indicator, we must learn how the betting pools work.

The Track Take and Break

The percentage of the betting pool that the track takes out for win bets is 17% to 20% at most tracks. The take for the exotic bets is usually higher and can be up to 25% of the betting pool. You should also be aware of the fact that many off-track betting parlors will take an additional 2% to 5% out of the betting pool.

Breakage occurs when the track rounds down the payoff on a \$2.00 winning ticket to the next lowest whole dime. The effect of the breakage for the horses that we will be betting is to add 0.5% to 1% to the tracks take. But, when you are betting on horses that go to post at lower odds, the break will be much more significant. Also, the break for place and show bets can be extremely high making it almost impossible to show a profit using these betting pools.

My friend John, who taught me how to handicap, always maintained that in most races every horse will be an underlay after the track cuts the pool. It was his contention that the public as a whole will handicap most races so accurately that after the take and break there will be relatively few playable overlays.

Over my career as a handicapper, I have devoted considerable time to researching this matter. To test this theory, I wrote a program that converted the free results charts published on the Internet into flat text files. Using the program, I was able to develop a database covering the results of every major race track for one year. My database included the name of each horse running in each race, as well as its closing odds, the payoff and the finish position.

Using my database, I was able to run studies that clearly showed that the favorite does win most of the time and the second choice in the betting wins the second most often.

This continues for the horses with the third highest odds and the fourth highest odds, right up to the longest long shot who wins the least often.

When you rank the horses by the closing odds, they will follow this same pattern. The group of horses that went to post with odds of less than 1-to-1 won a higher percentage of their races than the horses with closing odds of 1-to-1. This second group of horses with closing odds of 1-to-1 won a higher percent of their races than the horse with closing odds of 2-to-1, so again you see that as the odds increase the winning percentage decreases uniformly.

What this means is that the public usually does do a very good job handicapping most races. To further test this theory, I used the same database to examine how profitable each odds grouping would be when bet to win. The results show the same pattern. The odds-on favorites, the horses that went to post at less than 1-to-1 odds, actually lost the least amount of money. The horses that went to post at 1-to-1 closing odds lost the second most for each dollar bet. Again, as the odds increase so did the expected loss. So if you bet every horse that went to post at 3-to-1 odds, for instance, you would lose less money per dollar bet that if you bet every horse that went to post at 4-to-1 odds.

This illustrates how good the collective judgment of the track patrons is. It also shows why handicapping is so difficult. When you make a bet you are actually betting against the collective judgment of the crowd as represented by the tote board. In fact, the betting line determined by the closing odds is by far the most accurate estimate of each horse's chances of winning. Over a long series of races, I have never seen any betting line made by a commercial handicapping program or by a professional betting service even come close to beating the betting line determined by the closing odds.

How the Odds Are Affected by the Take and Break

Let's use a specific example to illustrate how the take and break affects the betting. We will make the assumptions that a horse's actual chances of winning a particular race will be 4-to-1 and that the track's take and break will total 20% of the betting pool. If the betting public correctly assesses this horse's chances of winning, then 20% of the betting pool will be wagered on our horse.

After the track cuts the pool by 20%, however, the amount of money wagered on the horse will now be effectively increased to 25% of the betting pool resulting in a payoff of only 3-to-1 instead of the expected 4-to-1 payoff. Betting on a series of horses like this will guarantee you a loss in the long run because you are not being adequately compensated for the risk that you're taking.

In order to overcome the effect of the take, the public would have to reduce the amount bet on the horse causing it to go to post at 5.25-to-1 odds before the track cuts the pool. This would mean that only 16% of the money in the betting pool should be wagered on our horse before the take and break occurs. Even if that did happen, remember that it would still not produce a profit over a long series of similar bets. It would only give you the expectation of breaking even if you bet the horse.

As you can see from the chart below, the effect of the take and break is very significant. If we are look at these figures rationally, we must come to the conclusion that my friend, John, was right. It is impossible to find a profitable betting opportunity when the public handicaps the race with reasonable accuracy.

The Effect of a 20% Track Take

Before	After	Before	After
0.5	0.2	5	3.8
1	0.6	6	4.6
1.5	1	7	5.4
2	1.4	8	6.2
2.5	1.8	9	7
3	2.2	10	7.8
3.5	2.6	15	11.8
4	3	20	15.8
4.5	3.4	30	23.8

The Overlay Indicator

As we have seen in the previous discussion, the closing odds are determined by the amount of money bet on each horse and can be calculated by the percentage of the betting pool wagered on the horse after the pool was cut by the track. Of course you could use a handicapping model to estimate the amount of money that should be bet on each horse and use this information to construct a betting line showing each horses true odds.

There is a problem, however, in just trying to calculate a horse's true odds and then comparing them to the odds on the tote board five minutes to post time. First, you would be betting directly against the closing odd line, which is almost impossible to beat. Second, if the amount of the overlay is not very large then the effect of the take and break would be to eat away all the profit. Finally, the last minute betting can often wipe out any overlay and leave us with a losing bet after the betting window has closed. Unfortunately, the last-minute betting will usually show a tendency to reduce the payoff of any undervalued overlay situation.

These factors will continue to work against us as the underlying true odds of the horse increase. So when a horse's actual chances of winning reach 10-to-1, for instance, we really need to see its closing odds go above 20-to-1 to justify a bet. This is because the track's take will absorb about one third of our profit and then only a small amount of money bet in the last few minutes (including the money that we bet ourselves) can cause the payoff to slip down to where we only break-even or have a loss.

Fortunately, you do have one powerful advantage over the betting line. That is you do not have to bet every race! While the betting line must evaluate every horse that goes

to post, you do not. You can greatly improve your results by sitting back and waiting for the betting public to make a big mistake in their evaluations.

To maximize this advantage, I have developed the Overlay Indicator. It has the ability to tell you just how profitable any particular betting situation will likely be. Of course, the results that you achieve with the overlay indicator will be governed by how good your handicapping is. It works best with a handicapping system that is designed to uncover overlay betting situations like the Indicator Handicapping Method, but it will be helpful to any handicapper regardless of the handicapping method being used.

The Construction of the Overlay Indicator

As a practical matter, it will only be necessary to look for overlays in the top three or four contenders. Any overlay detected in the rest of the field will not be big enough to be playable. Then instead of looking for shifts in the betting odds, we will look for shifts in the betting rank.

To assign the betting rank to our top contenders, observe the order of the horses ranked by their closing odds. The favorite, the horse with the lowest odds, will receive a closing odds ranking of 1. Similarly, the horse with the second lowest odds will receive a closing odds ranking of 2. This will continue down to the longest long shot who receives the highest closing odds rank. To calculate the overlay indicator in this book, I will be using a simple chart like the one pictured below. Let's take a look at an example of this overlay indicator chart which will be used to handicap a race later on in this book:

Horse	Indicator Rating	Odds Rank	Indicator Rank	Overlay Indicator
More Specific	6	6	1	5
Smart October	4	1	2	-1
Hangontight	3	4	3	1

Of course, the first column shows the horses' names. The next column, the indicator rating column, shows the final Indicator Ratings for each of the contenders. This shows how strong the contenders are. Normally you only want to consider betting the horse with the highest indicator rating and any other horses that are within 3 points of the highest indicator rating. In this race all three contenders should be considered.

The next column is the closing odds rank. We see that More Specific had the 6th highest odds, **Smart October** was the favorite and **Hangontight** had the 4th highest odds. If two horses tie then you give them both the lower of the two rankings and skip a rank. For example if one horse is 2nd ranked at 2.1-to-1 odds and another is 3rd ranked at 2.3-to-1 odds they both receive the 2nd rank and the next highest odd rank after those two horses receives the 4th rank.

The indicator rank column is the ranking of the horses by the indicator rating in the 2nd column. The horse with the highest indicator rating receives the indicator rank of 1. Normally the Indicator Rank just goes down the list of contenders 1, 2, 3 ... But

sometimes there can be a tie in the indicator rating. That is handled in the same way as a tie in the odds rank. There will be an example of that in the final chapter.

Finally the overlay indicator column is calculated by subtracting the indicator rank from the odds rank. To be playable the overlay indicator should be at least a +2. In this race **More Specific** receives a +5 Overlay Indicator (6 – 1 = 5) making him a very nice bet. The other two horses have Overlay Indicators of less than +2 and should not be bet.

Belmont Park - October 10th, 2002 - Race 3

Claiming - For Thoroughbred Three Year Old One And One Sixteenth Miles On The Inner turf (Temp Rail set at 18 feet)

Purse: \$32,500

Value of Race: \$32,500 1st \$19,500, 2nd \$6,500, 3rd \$3,575, 4th \$1,950, 5th \$975

Weather: Cloudy Track Firm

Offat 2:03 Start: Good for all but 4

Pgm	HorseName (Jockey)	Wgt	M/E	PP	SP	1/4	1/2	3/4	Str	Fin	Odds
8	More Specific (GB) (Luzzi, M.J.)	118	L b f	8	7	3-2	3-1 1/2	2-2 1/2	2-3 1/2	1-1/2	25.50
5	Stompy Brew (Bridgmoan, S.)	118	L b	5	4	8	8	7-1/2	5-2	2-Neck	3.20
3	Herecomesthewarden (Kojas, R.I.)	118	L b	3	3	1-2 1/2	1-5	1-3 1/2	1-1/2	3-2	33.00
1	I Wish I Slew (Phillips, M.)	105	L	1	1	2-Head	2-Head	4-1 1/2	3-Head	4-Neck	32.00
4	Big Burner (Velazquez, J.R.)	118	L b	4	6	6-5	4-1/2	3-1/2	4-1	5-1 3/4	2.50
7	Glean Supreme (Samyn, J.)	118	L b	7	8	7-1/2	6-Head	5-Head	6-3	6-Nose	11.20
2	Smart October (Santos, J.A.)	118	L	2	2	5-Head	5-2	6-1 1/2	7-1 1/2	7-3 1/2	1.75*
6	Hangoutight (Chavez, J.F.)	118	L	6	5	4-Head	7-2	8	8	8	8.70

Fractional Times: 24.51, 48.25, 1:12.52, 1:37.02, 1:43.48

Pgm	Horse	Win	Place	Show	Total WPS Pool: \$258,936
8	More Specific (GB)	53.00	18.00	12.20	
5	Stompy Brew		5.00	3.40	
3	Herecomesthewarden			12.40	

The advantages of using the shifting in the odds rank in calculating the overlay indicator as opposed to using the shift in the actual odds are:

- 1) The Odds Rank is less sensitive to changes in the last minute betting
- 2) A shift of two positions in the Odds Rank is more than enough to overcome the effect of the take and break.
- 3) It is very simple to calculate and apply during the final minutes of betting.

As you can see, the overlay indicator is very simple and practical. I designed the whole Indicator Handicapping Method to be practical and easy to use between races at the track. Once you learn it, you should be able to handicap a race in minutes using only simple math, most of which you can just do in your head.

This chapter marks the end of the free version of the Indicator Handicapping Method. For those or you who are planning to purchase the full selection method, I have some advice to consider. After you have applied the indicators and tallied the results you will have a list of contenders just like the list you saw in the indicator ranking column in the

chart up above. Do not make the mistake in thinking that the horse in the first position of the Indicator Ranking Column is the horse that is most likely to win the race.

What you should be thinking is that he is likely to be the best betting opportunity if he is confirmed by the overlay indicator with at least a +2 overlay rating. It is important to remember that the Indicator Handicapping System is designed to find profitable bets, not to pick the winner of the race.

I am often asked by the people who have read the book how well Indicator Handicapping will work for them. I always answer how well you do will depend on how selective you are in your betting. If you confine your self to only betting on the horse with the highest indicator rating, and only bet when the overlay indicator is a +4 or higher, you should do extremely well. The problem with that strategy is that you will not be making many bets and you may suffer from boredom.

Another selective betting strategy would be to only bet the horse with the highest Indicator rating if the overlay indicator is +3 or higher or to bet the 2nd highest indicator rating horse if it is within 2 indicator rating points of the highest horse and has an overlay indicator rating of +4 or higher. This is a great way to go if you are interested in confining yourself to only best betting opportunities.

The most liberal betting strategy that I could recommend would to bet the horse with the highest indicator rating if the overlay indicator is +2 or higher or bet any other contender if they are within 3 indicator rating points of the highest horse and have an overlay indicator rating of +3 or higher. You may not do quite as well using this as the other two plans but you will have a lot more action. Chances are you will still fare better than what you are doing now.

This concludes the free version of the Indicator Handicapping Method 2nd Edition. I hope you have enjoyed reading it. If you wish to purchase the rest of this book, please follow this link:

[Indicator Handicapping Method 2nd Edition](#)