RESEARCH PERSPECTIVE

# The Price of Uncertainty

## Why the spread is only the beginning of a market-making investment case

A three-cent spread sounds like a three-cent profit. In our worked example, one adverse exit at −$9 erases three completed round trips at +$3, so a maker loses money once more than one fill in four goes wrong. We set out where a market maker's return is meant to come from, and the evidence that would show it survives those costs.

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KEY TAKEAWAYS

01 A spread is earned only on the quantity that actually closes at the better price. One adverse exit can erase several completed spreads, so the mix of outcomes after a fill matters more than the width of any single quote.

02 More fills can mean worse economics. In Exhibit 1, doubling the fill rate while accepting more adverse fills turns a hypothetical +$24 into −$24 per 100 quotes.

03 Returns should be measured on all the capital the activity uses, for as long as it is used, with fees and incentives reported separately and dated.

Conceptual research; hypothetical examples are not Predict Here Capital trading results.

▼ **Method, sources and limitations**

| | |
|---|---|
| **Study type** | Conceptual research perspective |
| **Method** | Original analytical discussion informed by market-microstructure research and primary venue documentation, with explicitly hypothetical arithmetic. No empirical trading sample or statistical result is reported. |
| **Data period** | Not applicable; no empirical dataset is analyzed. |
| **Source categories** | Market microstructure research; Primary venue documentation |
| **Limitations** | Hypothetical examples are not actual trades or a performance record. The discussion does not establish returns, capacity or implementation of every described process. |

## Liquidity is a service with a balance-sheet consequence

A market maker sells immediacy. A resting bid lets others sell to the maker at once and a resting offer lets them buy at once, under the venue's trading and collateral rules. The maker is paid, if at all, through the difference between the prices at which it buys and sells, and between those two trades it holds a position whose timing it did not choose. That interval is where the investment problem lies.

Microstructure research has described the bargain for four decades. A resting quote works like an option granted to every other participant: they can trade against it when that suits them and ignore it when it does not (Copeland and Galai, 1983). When some of those participants know more than the quote reflects, the quote must be wide enough to recover from uninformed traders what is lost to informed ones (Glosten and Milgrom, 1985). The spread is that recovery, not a fee for being present.

Our thesis at Predict Here Capital is that disciplined quote selection, exact contract understanding and inventory management can improve those economics in prediction markets. We hold it as a thesis, and it becomes a finding only if the

advantage survives actual execution across the complete record of outcomes, including the ones that go wrong.

## A completed spread and an unfinished position are different objects

Follow one illustrative trade from entry to a fully closed position: buy 100 contracts at $0.47, then sell all 100 at $0.50.

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ONE ILLUSTRATIVE COMPLETED TRADE

### One entry. One exit. Nothing left open.

ENTRY · BUY 100

**100 × $0.47 = $47**

Capital committed

EXIT · SELL ALL 100

**100 × $0.50 = $50**

Proceeds

CLOSED RESULT

**$50 − $47 = +$3**

Before trading costs · 0 remaining

A lower exit price, or selling only part of the position, could turn the same entry into a loss or leave inventory open.

> Hypothetical illustration. Fees and other trading costs are excluded. These are not Predict Here Capital trading results.

The +$3 exists only because the whole quantity sold at the higher price. Sell part of it lower and the same entry can close at a loss. Sell none of it and the result is not a smaller gain but an open position, whose value depends on later prices or on settlement and which still ties up capital.

## A higher fill rate can lose money

Because a quote is an option granted to others, the fills it attracts are not a random sample. A policy that quotes more aggressively will usually fill more often, and part of the extra flow arrives precisely when the quote has become stale. Exhibit 1 puts numbers on the trade-off.

EXHIBIT 1

More fills, worse economics: two hypothetical quoting policies

| Per 100 quotes (each fill is 100 contracts) | Policy A, selective | Policy B, aggressive |
|---|---|---|
| **Fills** | 20 | 40 |
| **Round trips completed at +$3** | 17 (85%) | 28 (70%) |
| **Adverse exits at −$9** | 3 (15%) | 12 (30%) |
| **Spread earned** | +$51 | +$84 |
| **Adverse losses** | −$27 | −$108 |
| **Net before costs** | **+$24** | **−$24** |

With a +$3 completed spread and a −$9 adverse exit, the break-even share of adverse exits is 3 ÷ (3 + 9) = 25%.

Source: Predict Here Capital illustration. All inputs are hypothetical; fees, incentives and capital costs are excluded. Not Predict Here Capital trading results.

Policy B earns more spread and still loses money. We draw a general rule from that: judge a quoting policy by the distribution of what happens after its fills, however many fills it gets. The research question is therefore conditional. For a given contract state, price, size and information set, how do fills behave afterward, and what do the feasible exits cost?

## Inventory changes the price of providing more liquidity

A trader already exposed to one team winning should price an additional position differently from a trader with no exposure. Classical dealer models make the point

formally: quotes should lean against existing inventory, so that the next fill is more likely to reduce risk than to add to it (Ho and Stoll, 1981).

Avellaneda and Stoikov's model gives the best-known version: quotes are centered on an inventory-adjusted reservation price rather than the midpoint, and the adjustment grows with risk aversion, volatility and the time remaining. Its assumptions describe a continuously traded stock, whereas an event contract is bounded: a score can reprice it discontinuously, the payoff is capped at $1 and an exceptional settlement state may differ from a simple win or loss. So the direction of the lesson survives, but the parameters do not transfer.

Nor does quoting both sides make a book neutral. Neutrality depends on the inventory actually acquired and on its payoffs across states, not on the symmetry of the orders displayed.

## Complementary contracts require more than complementary labels

In a simple binary market, one Yes and one No on the same contract pay exactly $1 between them at settlement. Buying both for less than $1 looks like a locked gain before costs. It is one only if both fills happen, the two positions really are complements and the settlement and collateral rules treat them that way.

The logic does not travel across contracts or venues automatically. A winner market that includes overtime and one that covers regulation only are different events, and draws, cancellations and rescheduling add further states. On Polymarket US, for example, a tied game in a winner market without a tie outcome settles each contract at $0.50 (Polymarket US Sports FAQs). One Event, Different Contracts works through a pair that looks hedged and is not.

Even a valid offset does not necessarily free capital at once. Closing, netting, collateral return and settlement are separate mechanisms, and each has to be checked for the venue, account and instrument.

## The economic denominator includes time

Two positions with the same nominal margin can use capital very differently: one closes within minutes, and another stays open through a delay, a review or a dispute. A strategy that looks efficient when judged only on completed trades can still need a substantial reserve to support resting orders, residual inventory and venue-specific funding.

Fees and incentives belong in the analysis at the level at which they are actually charged or paid, with effective dates. Under Polymarket US's schedule effective October 19, 2026, the standard taker fee is 0.0695 × contracts × p × (1 − p) dollars, where p is the contract price in dollars. Table tennis carries a higher coefficient and combos a separate formula. Under ordinary monthly tier assignment, maker rebates begin at $10 million of prior-month maker volume (Polymarket US fee schedule). Rebate assumptions must reflect the participant's assigned tier, including any Accelerated Tier Placement, the contract type and the terms in force at the time. Edge or Subsidy? sets out how to keep trading economics and program payments apart.

A sound assessment therefore follows capital from commitment to release. Annualizing a handful of short, successful trades assumes that the same liquidity, fill pattern and reinvestment opportunity are available continuously, and we would not make that assumption.

## What would weaken the thesis

Our thesis weakens if favorable results depend on optimistic queue assumptions, excluded residual positions, a single event, a temporary incentive or directional risk that a simpler strategy could have taken. Testing those conditions across the complete trading record is what turns a promising spread into an investment case, and From Trading Activity to Evidence of an Edge describes the record that test requires.

# Sources and further reading

Sources reviewed October 27, 2026. Venue rules, fees and programs change; the specific contract and account terms govern. Views are the author's as of the edition date shown above.


1. Copeland, T. E. and D. Galai (1983). Information effects on the bid-ask spread. Journal of Finance 38(5).
2. Glosten, L. R. and P. R. Milgrom (1985). Bid, ask and transaction prices in a specialist market with heterogeneously informed traders. Journal of Financial Economics 14(1).
3. Ho, T. and H. R. Stoll (1981). Optimal dealer pricing under transactions and return uncertainty. Journal of Financial Economics 9(1).
4. Avellaneda, M. and S. Stoikov (2008). High-frequency trading in a limit order book. Quantitative Finance 8(3).
5. Polymarket US Sports FAQs. Polymarket US documentation.
6. Polymarket US fee schedule. Effective October 19, 2026.