

INVESTORS EDGE

Think long-term if you invest in sports betting companies

“Investing should be like watching paint dry ... If you want excitement, go to Las Vegas” — Paul Samuelson



Jim Burns CFA
Contributing columnist

For the last several years, I have organized an NFL playoff pool in my office.

Everyone chips in \$20 which makes the games more interesting. Due to my superior football knowledge, I never seem to lose.

Of course, I ensure the outcome of the pool by keeping all picks confidential.

As I say to my staff on the Monday after each Super Bowl “Better luck next year, troops!”

LOL.

On a more honest note, legal sports betting has grown dramatically and has become mainstream with significant room to run. During this year’s NCAA tournament alone, 30 million Americans will bet (legally) \$10 billion on the event, almost double from the last NCAA tournament held in 2019! This despite the coronavirus pandemic which has made sporting events and player availability less certain.

Clearly, COVID-19 has not changed the appetite for gamblers.

Lately, I have been getting much interest in gambling stocks from both clients and readers of this column. After all, investors in this sector have hit the jackpot over the last year, generating spectacular gains.

Currently, 25 states have legalized sports betting in some form, and that number is sure to grow in the coming years, with various forms of casino, online, and mobile sports betting being legalized in more states. It is conservatively estimated that \$150 billion is bet on sports

illegally every year, giving legalized sports betting a massive addressable market.

Smart gamblers always remember that the house has the edge, even — and especially — when it comes to betting on your favorite team. Below are the best ways to invest in this growing market rather than just giving your money away to the casino.

Draft Kings (ticker — DKNG): Draft Kings is the largest online fantasy sports provider, allowing users to build their own teams of different athletes across a variety of sports, as well as place wagers on athletic events. Draft Kings is a pure play investment in online U.S. sports and fantasy betting and commands a leading position in the online space. The company’s industry leading technology make it a formidable player in the sports betting industry. This would be my top pick.

Penn National Gaming (ticker — PENN): Penn National Gaming is a large operator of both casinos and racetracks.

The company owns a 36% stake in the very popular Barstool Sports, an online sports media and entertainment company that has a millennial and generation Z target audience. Penn National Gaming hopes to use Barstool’s popularity and brand recognition to fuel increased traffic to its casinos and is in the process of opening Barstool branded sportsbooks both at its casinos and online.

MGM International (ticker — MGM): For a more traditional brick and mortar sports betting play, I like MGM International. MGM is one of the largest gaming and hospitality operators in the United States and around the world, with annual revenue of nearly \$12 billion. MGM has highly coveted gaming partnerships with the MLB, NBA, NHL, and the UFC, giving it an instant leg up on competition from other large casino companies. As one of the world’s largest casino operators, MGM is also an economic re-opening play as it

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will benefit from a reopened economy and increased levels of travel and tourism.

Roundhill Sports Betting & iGaming ETF (Ticker Symbol: BETZ)

For a more diversified option, BETZ was launched back in June of 2020 and has already doubled in price. This ETF invests in the major players of online and sports betting, including DraftKings, Penn National, and others. What also makes BETZ interesting is that it owns a number of gaming stocks outside the U.S. that are not normally available to U.S. investors. The fund charges a very reasonable 0.75% expense ratio and is the go-to play for a diversified investment in sports betting.

Readers should keep in mind that gambling and casino stocks can be extremely volatile on their own, and this

can be heightened by the emerging sports betting industry. Many of these stocks have had incredible runs over the last 12 months, so price conscious investors may want to wait for an opportunity to buy on weakness.

I am comfortable on how our client's portfolios are currently structured, so I do not intend to be buying gambling stocks any time soon. I do, however, believe that sports betting will continue to expand and will be a winning investment over the long-term — five years or more.

Just don't bet the farm!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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