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ABSOLUTE QUANTS

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# GAME THEORY

CONSIDER WHAT OTHERS MIGHT DO



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Game theory is a powerful tool used in financial markets to analyse strategic interactions between traders, investors, and institutions. It's essentially a mathematical framework for understanding how opponents make decisions when the outcome depends on the actions of multiple parties.

In trading, game theory helps anticipate market moves by considering what others might do. Think of it like predicting opponents' moves in a game – by understanding their potential actions, we can adjust our strategy to gain an edge.

Game theory is particularly useful in areas like:

- Risk Management: Identifying optimal exit strategies and managing risk
- Market Dynamics: Understanding how others react to news, price changes, or events
- Competitive Interactions: Analysing pricing competition, auctions, and mergers



The background of the slide features a dark, atmospheric scene. In the upper left, a fighter jet is silhouetted against a lighter, hazy sky. In the lower right, four soldiers in full combat gear, including helmets and carrying rifles, are silhouetted against the same hazy background. The overall tone is somber and military-themed.

Some key concepts include:

- Nash Equilibrium: A state where no player can improve their outcome by changing strategy
- Zero-Sum Games: One player's gain equals another's loss, common in trading
- Mixed Strategies: Randomising actions to keep opponents guessing

By applying game theory, we can make more informed decisions and develop winning automated trading strategies.



We use game theory to anticipate market volatility by analysing strategic interactions between market participants, such as investors, institutions, and other traders. Game theory helps us predict how others might react to market events, news, or price changes, allowing us to adjust our strategies and gain an edge.

One key concept is the Nash Equilibrium, where no player can improve their outcome by changing their strategy, assuming others keep theirs unchanged. In trading, this means identifying a state where market participants are making optimal decisions given the actions of others.

We use our award winning console game background to implement automated algorithmic trades that latch onto the predictability of institutional market moves.





# CONTACT US

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