



# Gaming the Market: Applying Game Theory to Create Winning Trading Strategies

*By Ronald B. Shelton*

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## **Gaming the Market: Applying Game Theory to Create Winning Trading Strategies** By Ronald B. Shelton

Gaming the Market: Applying Game Theory to Create Winning Trading Strategies is the first book to show investors how game theory is applicable to decisions about buying and selling stocks, bonds, mutual funds, futures, and options. As a practical trading guide, Gaming the Market will help investors master this revolutionary approach, and employ it to their advantage.

Although game theory has been studied since the 1940s, it has only recently been applied to the world of finance. Game theory champions garnered the 1994 Nobel Prize in Economics, and, today, this theory is used to analyze everything from the baseball strike to FCC auctions. Increasingly, game theory is making its mark as a potent tool for traders. In Gaming the Market, economist Ronald B. Shelton provides a model that enables traders to predict profitability and, as a result, make effective buy and sell decisions.

Stated simply, game theory is the study of conflict based on a formal approach to decision making that views decisions as choices made in a game. Whether playing individually or in a group, each player in a conflict has more than one course of action available to him, and the outcome of the "game" depends on the interaction of the strategies pursued by each. Shelton offers real-world examples that reveal how the principles of game theory drive financial markets—and how these same principles can be used to develop winning investment strategies. Through Shelton's organized and precise explanations—he uses familiar games such as chess and checkers to illustrate his points—readers gain a solid understanding of the key principles of game theory before applying them to actual financial market situations.

Gaming the Market examines the interaction between price fluctuations and risk acceptance levels and gradually constructs a game theory model which proves that there are probability-based formulas for determining the profitability of any given trade.

With appendixes on T-Bond futures, mathematical representations of the model, and QuickBasic code for calculating relative frequencies, Gaming the Market provides a thorough overview of the rules and strategies of game theory. This

indispensable reference will prove invaluable to novice and seasoned players alike.

Are the markets a game? What are the rules? Who are the players?

How can you, as a player, come up with a winning strategy?

Now, acclaimed economist Ronald B. Shelton shows you how to master the power of game theory in the first trader's guide to this revolutionary approach to investment decisions!

"It's not often that a refreshingly new idea appears in the field of trading strategies or risk management, but Ronald B. Shelton has taken pieces from game theory and betting strategies and transformed them into a new, visual way to make trading decisions. . . . He has been able to put a value on trading situations which can increase your ability to manage risk as well as clarify expectations—both essential ingredients for success." —from the Foreword by Perry Kaufman author of *The New Commodity Trading Systems and Methods*.

"Gaming the Market is a very welcome and most useful new guide to playing profitably in the biggest and most complex game ever devised — speculating in the financial markets. Investors and traders who study this book will gain valuable insights into the real nature of the markets and will learn how to play the game to win." —Thomas A. Bierovic, President, Synergy Futures.

"Ronald B. Shelton has extended the field of excursion analysis with an innovative and provocative book that is sure to be widely read—and controversial. By examining the actual distributions of price excursion, he shows a technique to estimate your odds going in on a new position, and within the context of game theory, how to evaluate those chances. All traders and analysts seeking objective bases for trading will want to read this book." —John Sweeney, Technical Editor, *Technical Analysis of Stocks and Commodities* magazine.

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### **Gaming the Market: Applying Game Theory to Create Winning Trading Strategies By Ronald B. Shelton Bibliography**

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### **Editorial Review**

#### **Review**

"...a worthwhile read..." Interactive Investor Tuesday 17 June 2008

#### **From the Publisher**

Gaming the Market is the first book to show investors how game theory is applicable to decisions about buying and selling stocks, bonds, mutual funds, futures, and options. As a practical trading guide, it will help investors master this revolutionary approach, and employ it to their advantage. Also, the author provides a model that enables traders to predict profitability and, as a result, make effective buy and sell decisions.

#### **From the Inside Flap**

Gaming the Market "Game theory is hot." —The Wall Street Journal Gaming the Market: Applying Game Theory to Create Winning Trading Strategies is the first book to show investors how game theory is applicable to decisions about buying and selling stocks, bonds, mutual funds, futures, and options. As a practical trading guide, Gaming the Market will help investors master this revolutionary approach, and employ it to their advantage. Although game theory has been studied since the 1940s, it has only recently been applied to the world of finance. Game theory champions garnered the 1994 Nobel Prize in Economics, and, today, this theory is used to analyze everything from the baseball strike to FCC auctions. Increasingly, game theory is making its mark as a potent tool for traders. In Gaming the Market, economist Ronald B. Shelton provides a model that enables traders to predict profitability and, as a result, make effective buy and sell decisions. Stated simply, game theory is the study of conflict based on a formal approach to decision making that views decisions as choices made in a game. Whether playing individually or in a group, each player in a conflict has more than one course of action available to him, and the outcome of the "game" depends on the interaction of the strategies pursued by each. Shelton offers real-world examples that reveal how the principles of game theory drive financial markets—and how these same principles can be used to develop winning investment strategies. Through Shelton's organized and precise explanations—he uses familiar games such as chess and checkers to illustrate his points—readers gain a solid understanding of the key principles of game theory before applying them to actual financial market situations. Gaming the Market examines the interaction between price fluctuations and risk acceptance levels and gradually constructs a game theory model which proves that there are probability-based formulas for determining the profitability of any given trade. With appendixes on T-Bond futures, mathematical representations of the model, and QuickBasic code for calculating relative frequencies, Gaming the Market provides a thorough overview of the rules and strategies of game theory. This indispensable reference will prove invaluable to novice and seasoned players alike.

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