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# Applied Exponential Growth and Gaming Theory

## Exponential Growth

First, we will give basics of exponential growth modelling. In the long run, exponential growth of any kind will overtake linear growth. A quantity that grows exponentially (or geometrically) is one that grows at a rate proportional to its size. Such growth is said to follow an Exponential Law. This implies that for any exponentially growing quantity, the larger the quantity gets, the faster it grows. We applied the principle of the Malthusian growth model which implicates but does not necessary mean that growth will happen quickly. In fact, a population can grow exponentially, but at a very slow *absolute* rate (as when money in a bank account earns a very low interest rate).

To trigger a quantity that grows at a desirable rate of desired exponential growth we had to overcome three main hurdles: create a model (Trading System) where wealth generates wealth surpassing inflation rates and average economic growth, excelerate reinvestment exponentially, and preserve capital by managing risks by exponential decay.

Trade Angle Strategies applies available capital in conjunction with gaming theory and predefined risk tolerance to it automated systems to take advantage of exponential growth theory.

## Gaming Theory

Trade Angle Systems has rule-based automated trading systems. In fact I wouldn't hesitate to say that 100% of the automated trading systems out there are rule based.

For example, if a system is currently down in P&L \$300 per contract, and a system's rules are defined by a line of code that does not allow that system to lose more than \$300 per contract, then that system is forced to take a \$300 loss based on those rules that were predefined.

Our systems have defined logic and many rules to say the least. We assume that we will beat the market and show gradual P&L growth on a defined curve. This is based on a confidence level in our internal core algorithms using high probability setups while automatically entering and exiting trades. We know that we will not always be right, but over time we know that there will be a mean curve of profitability that we will revolve around. This mean curve of profitability therefore, in our opinion, should be taken into consideration when determining the

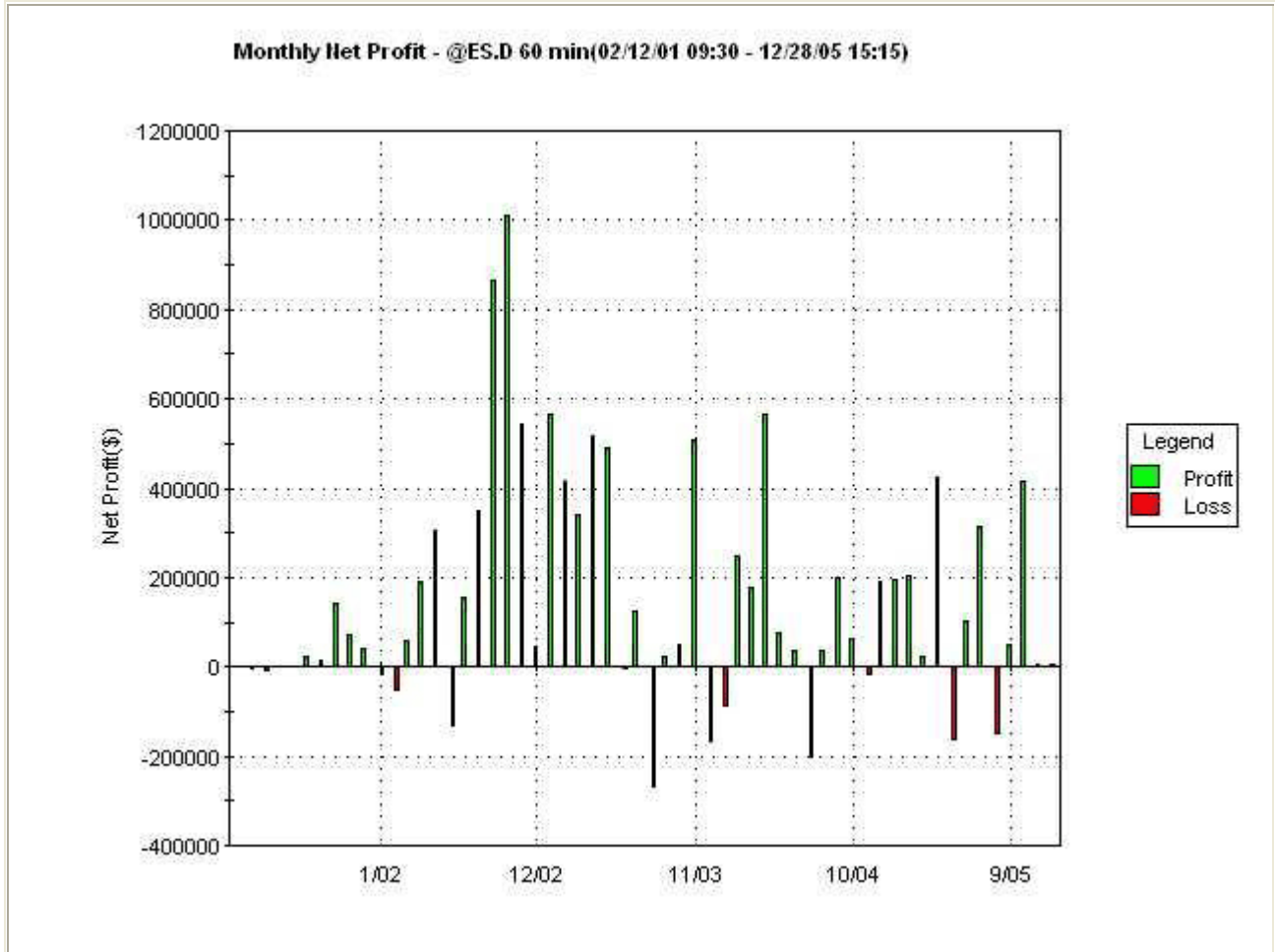
probability of continuing to be right or continuing to be wrong on a consistent basis over time.

If you remember in the movie “The Matrix” Neo found that rules can be changed upon the situation that he was presented with. The most pressing scenario to deal with in an automated trading system is how to bet properly. In other words, keeping all other coded rules in place in the system, if we could trade 1 contract on every loser and trade 10 contracts on every winner then we would for sure come out way ahead in relation to placing 10 contracts on every loser and 10 on every winner. To have the code in the system know when to trade less contracts and know when to trade more contracts at the same time that the code is receiving the same mathematical setups to generate the same buy and sell signals would be an enormous victory. We address this dilemma using gaming theory coupled with exponential growth theory and our defined P&L curve.

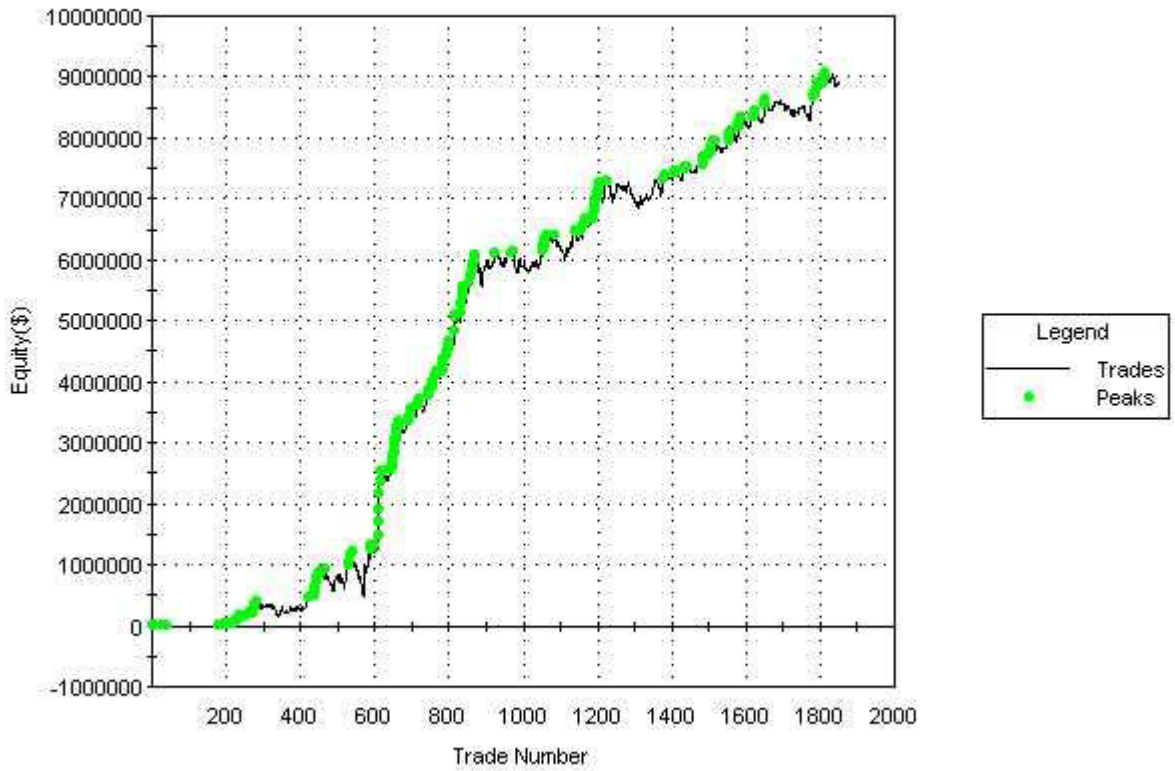
Our systems in general must handle extreme market scenarios such as “America under Attack”. After we were satisfied with the automated system’s growth and stability we began to incorporate Exponential Growth and Gaming Theory codes into the trading systems. We coded these to concepts that work in tandem to function fully automatically. The algorithm measures rate of growth, exponential decay modelling, and assesses risk exposure. It does all this fully automatically. The historical results are below.

**Chart A** is System P/L with Exponential Growth/Gaming Theory model  
**Chart B** is System P/L without Exponential Growth/Gaming Theory model

## Chart A

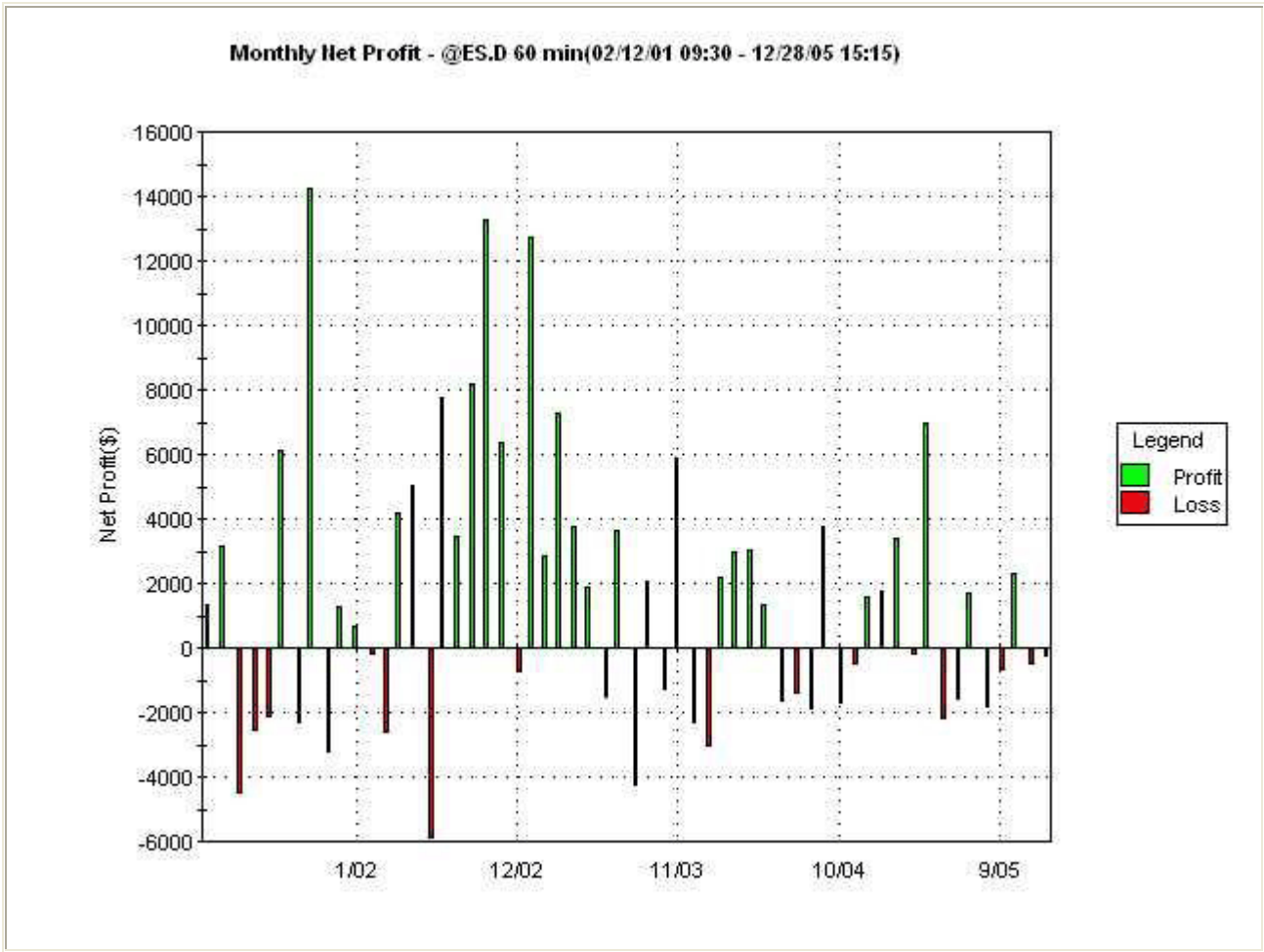


Equity Curve Line - @ES.D 60 min(02/12/01 09:30 - 12/28/05 15:15)

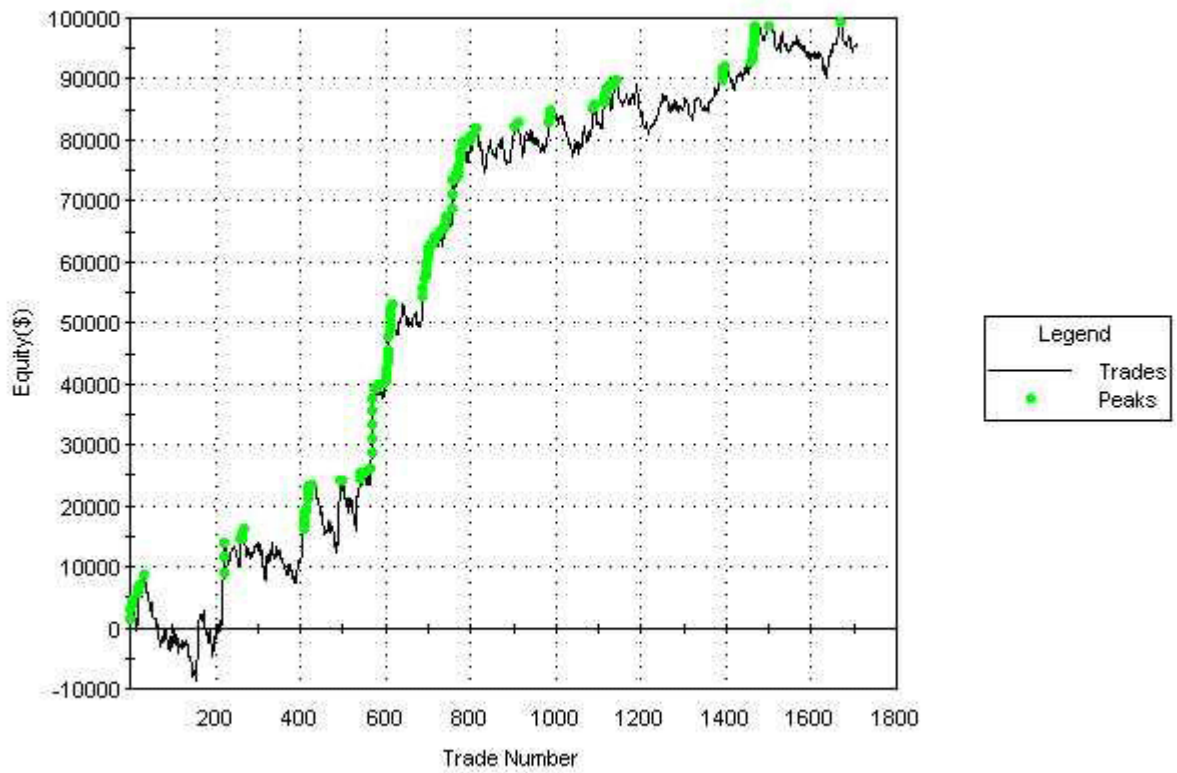


Period	Net Profit	% Gain	Profit Factor	# Trades
Today - 1/1/2005	\$1,421,902.50	18.89%	1.5	410
1/1/2004 - 1/1/2005	\$2,713,557.50	43.50%	1.45	757
1/1/2003 - 1/1/2005	\$5,309,805.00	145.83%	1.53	1122
1/1/2002 - 1/1/2005	\$8,639,915.00	2777.17%	1.61	1557
1/1/2001 - 1/1/2005	\$8,926,020.00	35704.08%	1.61	1854

# Chart B



Equity Curve Line - @ES.D 60 min(02/12/01 09:30 - 12/28/05 15:15)



Period	Net Profit	% Gain	Profit Factor	# Trades
Today - 1/1/2005	\$9,062.50	8.14%	1.18	371
1/1/2004 - 1/1/2005	\$13,805.00	12.95%	1.14	687
1/1/2003 - 1/1/2005	\$44,550.00	58.75%	1.27	1026
1/1/2002 - 1/1/2005	\$83,965.00	230.55%	1.33	1427
1/1/2001 - 1/1/2005	\$95,385.00	381.54%	1.29	1709