

Informed Trader

Dorje Brody
(Imperial College)

An asymmetric information model is introduced for the situation in which there is a small agent who is more susceptible to the flow of information in the market than the general market participant, and who tries to implement strategies based on the additional information. The informed trader uses the extraneous information source to seek statistical arbitrage opportunities, while at the same time accommodating the additional risk. Explicit trading strategies leading to statistical arbitrage opportunities, taking advantage of the additional information, are constructed, illustrating how excess information can be translated into profit. The work is carried out in collaboration with Mark Davis, Robyn Friedman, and Lane Hughston.