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Pairs trading and selection methods: is cointegration superior?

Nicolas Huck ✉ & Komivi Afawubo

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Abstract

Pairs trading is a popular dollar-neutral trading strategy. This article, using the
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Trade...   confirm,
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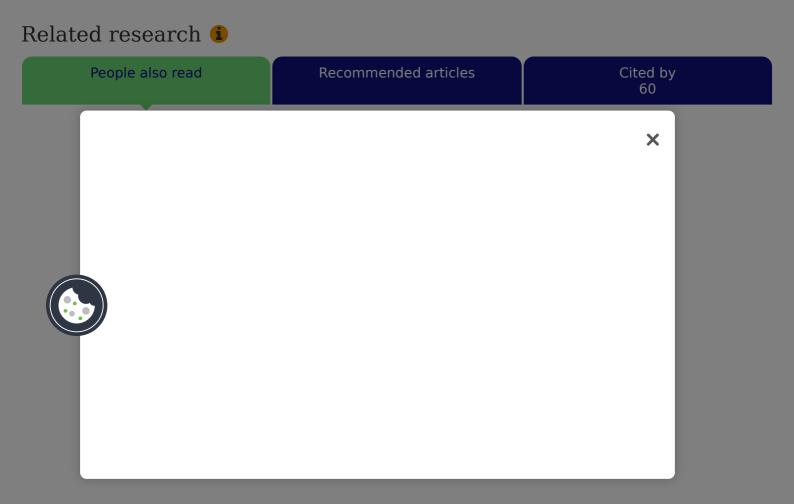
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Notes

[1] The sample really considers 500 stocks only at the end of the trading period due to initial public offerings/newcomers in the index: Google in 2004 for example.

[2] As an example, see Table 3, transaction costs for the 1-year formation period, distance method, 2 SDs are 0.38%. .

[3] The part of the initial deviation greater than the opening threshold plus the part exceeding the crossing with the equilibrium after convergence.

[4] Data and details on construction of these factors series can be found from Ken French's website:

http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

[5] The fourth one, 2-year formation period, 2 SD, is significant at 10% level.

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