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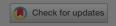
Pairs trading: does volatility timing matter?

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Abstract

Pairs trading is a dollar-neutral trading strategy. Using the components of two major stock indices, the S&P 500 and the Nikkei 225, this article deals with the performance

of a pairs trading system based on various pairs selection methods (distance,

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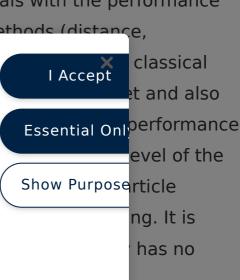
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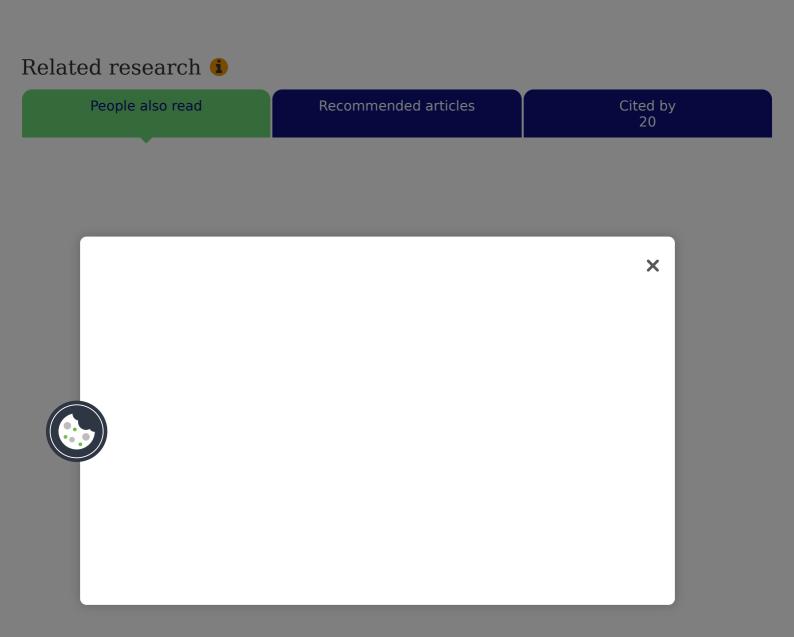
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Notes

- ¹ The Nikkei 225 Index contains about twofold fewer stocks than the S&P 500, which makes the detection of a large number (at least 20 per month/sequence) of cointegrated pairs, at a 5% rate, quite difficult. For cointegration only, the pre-selection is based on a 20% filter so that the population after this preliminary step remains large enough.
- ² The Japanese factors reported in this library are in dollars and not in yen. http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.
- ³ These time series end in March 2013. Regressions are thus computed between July 2003 and March 2013 (117 points versus 120 points with U.S. data), http://homepage.sns.it/marmi/Data_Library.html.



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