Table 1: Excess returns of pairs trading strategies on portfolios of Top 5, 20 and 35 pairs after costs.

	Distance			Mixed Copula		
	Top 5	Top 20	Top 35	Top 5	Top 20	Top 35
Section 1: Return on Committed Capital						
Panel A: after transaction costs						
Annualized Mean Return (%)	2.60	3.14^{*}	3.12^{***}	3.98	1.24	0.82
Sharpe ratio	0.31	0.65	0.77	0.63	0.64	0.73
Sortino Ratio	0.58	1.13	1.36	1.08	1.04	1.19
t-stat	1.86^{*}	3.31^{***}	3.92^{***}	3.49^{***}	3.52^{***}	3.95^{***}
% of negative trades	46.98	48.06	47.97	41.79	41.33	41.31
MDD1	6.73	3.88	2.70	4.36	2.07	1.18
MDD2	19.62	9.69	7.52	9.29	3.43	1.98
Annualized Std. Dev. (%)	8.25	4.87	4.06	6.31^{***}	1.93^{***}	1.12^{***}
Minimum Daily Return (%)	-4.43	-2.76	-1.50	-4.16	-1.47	-0.84
Maximum Daily Return (%)	5.39	2.81	1.76	3.47	0.87	0.68
Panel B: before transaction costs						
Annualized Mean Return (%)	2.90	3.43^{**}	3.39^{***}	4.29	1.40	0.93
Sharpe ratio	0.35	0.70	0.83	0.68	0.73	0.83
Sortino Ratio	0.64	1.23	1.48	1.16	1.18	1.36
t-stat	2.04^{**}	3.59^{***}	4.25^{***}	3.73^{***}	3.95^{***}	4.46^{***}
% of negative trades	46.95	47.87	47.77	41.65	41.24	41.20
MDD1	6.73	3.89	2.69	4.36	2.07	1.18
MDD2	19.61	9.55	7.43	9.25	3.37	1.94
Annualized Std. Dev. (%)	8.27	4.88	4.07	6.33^{***}	1.93^{***}	1.13^{***}
Minimum Daily Return (%)	-4.43	-2.77	-1.50	-4.16	-1.47	-0.84
Maximum Daily Return (%)	5.41	2.81	1.77	3.47	0.87	0.68
Section 2: Return on Fully Invested Capital						
Panel A: after transaction costs						
Annualized Mean Return (%)	4.01	6.07	5.76	11.58^{*}	12.30^{**}	12.73^{**}
Sharpe ratio	0.28	0.66	0.76	0.78^{**}	0.85	0.88
Sortino Ratio	0.57	1.19	1.38	1.43	1.54	1.59
t-stat	1.81^{*}	3.55^{***}	4.05^{***}	4.26^{***}	4.60^{***}	4.73^{***}
% of negative trades	46.98	48.06	47.97	41.79	41.31	41.28
MDD1	8.70	5.43	4.24	9.00	9.00	9.00
MDD2	38.36	20.03	15.07	25.68	25.68	25.68
Annualized Std. Dev. (%)	14.51	9.20^{***}	7.57^{***}	14.84	14.51	14.51
Minimum Daily Return (%)	-8.34	-4.71	-3.10	-10.19	-10.19	-10.19
Maximum Daily Return (%)	10.07	3.74	3.17	10.16	10.16	10.16
Panel B: before transaction costs						
Annualized Mean Return (%)	4.49	6.56	6.24	12.30^{**}	13.10^{**}	13.53^{**}
Sharpe ratio	0.31	0.71	0.82	0.82^{**}	0.90	0.93
Sortino Ratio	0.63	1.28	1.49	1.51	1.62	1.68
t-stat	1.98^{**}	3.81^{***}	4.35^{***}	4.48^{***}	4.84^{***}	4.98^{***}
% of negative trades	46.95	47.87	47.77	41.65	41.24	41.20
MDD1	8.71	5.43	4.23	9.00	9.00	9.00
MDD2	38.30	19.89	14.93	25.60	25.60	25.60
Annualized Std. Dev. (%)	14.56	9.23^{***}	7.60^{***}	14.91	14.59	0.15
Minimum Daily Return (%)	-8.34	-4.71	-3.10	-10.19	-10.19	-10.19
Maximum Daily Return (%)	10.07	3.75	3.18	10.16	10.16	10.16

Note: Summary statistics of the annualized excess returns, standard devations, Sharpe and Sortino ratios on portfolios of top 5, 20 and 35 pairs between July 1991 and December 2015 (6,173 observations). Pairs are formed based on the smallest sum of squared deviations. The t-statistics are computed using Newey-West standard errors with a six-lag correction. The columns labeled MDD1 and MDD2 compute the largest drawdown in terms of maximum percentage drop between two consecutive days and between two days within a period of maximum six months, respectively. ***, **, * indicates significant at 1%, 5% and 10% levels, respectively.