

# The process of finding and trading pairs

The most common techniques for pair trading are:

Enter a position when the spread between 2 cointegrated stocks deviates from his average (2 z-scores): we buy (long) the underperforming one and simultaneously short (short-sell) the outperforming one.

Exit the position when the spread reverts to his mean (0 z-score).

Using Bollinger bands with a lookback of 20 days trading period.

Steps to trade pairs:

- 1- Find 2 stocks that have a good fundamental reason to be cointegrated.
- 2- Tests for statistical significance:
  - ADF test, Hurst exponent, Variance and Johansen.
  - Or simply watch the chart! (tradingview)
- 3- Backtesting
  - Sharpe ratio ([www.pairtradinglab.com](http://www.pairtradinglab.com))

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Traiding plan	
Strategy	Pair Trading
Style	
Type	
Holding period	
Stock selection	
Entry signal	
Entry style	
Take profit signal	
take profit style	
Position sizing	
Stop loss	
Take Loss style	
Bail-out indicators	