

1. The 2 broad steps in Pairs Trading strategy are first, find 2 stocks whose prices have moved together historically and second, when the spread between them widens, short the winner and buy the loser. The profits lie in the assumption that history would repeat and inequalities would be corrected and hence prices will converge again. Pairs are formed over twelve months (formation period) and are then traded in the next six-month period (trading period). Top 20 pairs with the smallest historical distance measure are then traded, and a long-short position is opened when pair prices have diverged by two standard deviations (can be modified basis historical data), and the position is closed when prices revert.

To sum up, Pairs Trading strategy works on putting down money on the fact that 2 or more co-integrated stocks will converge and diverge in price.

2. Main Industry – Capital Goods Industry  
Related Industry – Power Industry  
Capital Goods signifies equipment necessary to set up new energy facilities, especially electrical power plants as electric power is the largest segment in power industry.