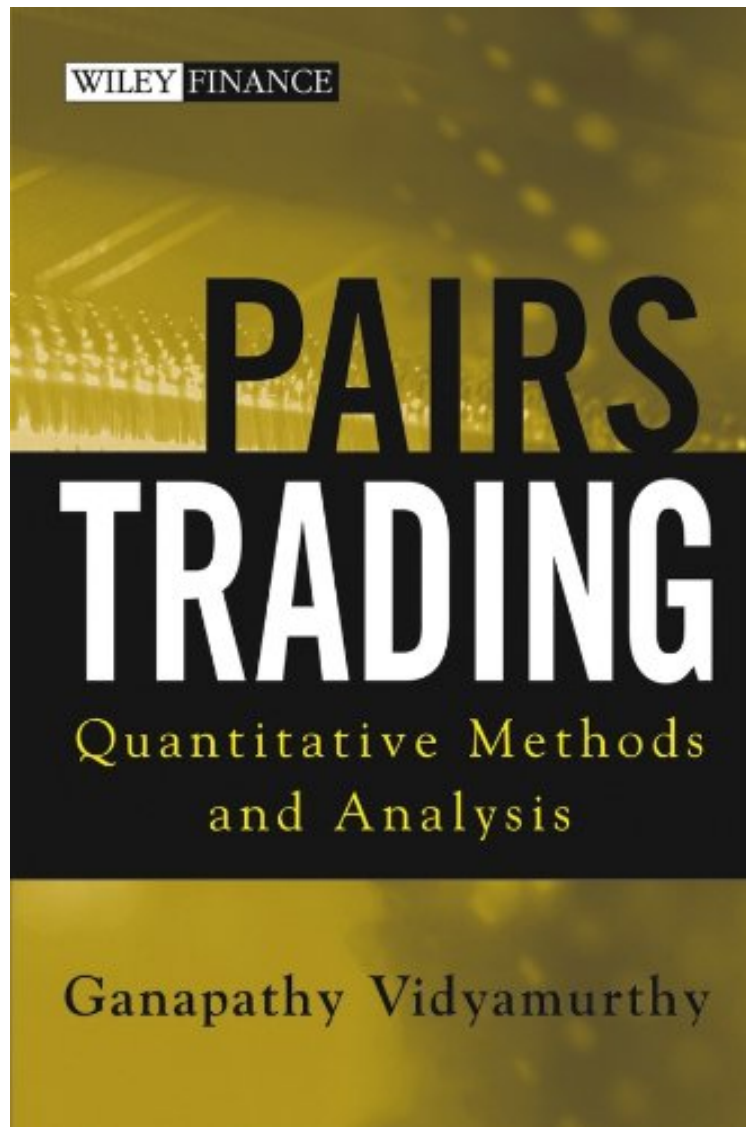


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Pairs Trading: Quantitative Methods and Analysis (Wiley Finance)

Ganapathy Vidyamurthy

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Ganapathy Vidyamurthy : Pairs Trading: Quantitative Methods and Analysis (Wiley Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised Pairs Trading: Quantitative Methods and Analysis (Wiley Finance):

1 of 1 people found the following review helpful. Helps To Understand Pairs Trades At Conceptual Level !By Big Data Paramedic This book was actually recommended by my friend who started making good money via pairs trading. So obviously with lot of excitement ordered the book . I am a full time options trader who wanted to learn pairs trading. This book extensively takes you to understand the math and science behind pairs trade, the arb concept and so

on. However will you be able to practically use in trading. I doubt so.. Atleast I could not do it. Shadowtraders have good one hour trading videos on pairs trading and so does Youtube. I would rather recommend it. 1 of 1 people found the following review helpful. Some good ideas
By newbie
There are some interesting material in the book. Overall, I think it is worth the price (Kindle edition). However, there are some big holes in the book, and do not expect to start trading after reading the book! For example, I could not figure out what is the recommended number of samples to use for the algorithm that finds pairs? It prescribes using factor models to find pairs, but what is a good recommendation for factor parameters? After finding potential pairs, how long should you trade based on the cointegration relationship, i.e. how do you know the relation has broken down? How often should you re-calibrate the system? etc. There is no mention of the extensive statistical testing procedures already established for cointegration. There is not even a mention of the Johansen procedure for testing and identifying cointegration relationship. If those ideas do not apply to stocks, what is their shortcomings?
There is a full chapter on Kalman filtering, but where is the application in the book?
3 of 3 people found the following review helpful. Explains pairs trading
By erik
This book actually explains pairs trading if you didn't know anything about it before. But it's not technically advanced enough for the length of the book. The material could be explained in 20-40 pages if all the padding was removed. Definitely not worth the money. Buy this book by Ernie Chan instead: Quantitative Trading: How to Build Your Own Algorithmic Trading Business (Wiley Trading)

The first in-depth analysis of pairs trading
Pairs trading is a market-neutral strategy in its most simple form. The strategy involves being long (or bullish) one asset and short (or bearish) another. If properly performed, the investor will gain if the market rises or falls. Pairs Trading reveals the secrets of this rigorous quantitative analysis program to provide individuals and investment houses with the tools they need to successfully implement and profit from this proven trading methodology. Pairs Trading contains specific and tested formulas for identifying and investing in pairs, and answers important questions such as what ratio should be used to construct the pairs properly. Ganapathy Vidyamurthy (Stamford, CT) is currently a quantitative software analyst and developer at a major New York City hedge fund.

From the Inside Flap
Pairs trading is the simplest possible example of employing a market neutral strategy. It involves the trading of securities in pairs comprised of a long position in one security and a short position in the other. If performed properly, an investor will be in the ideal position of gaining in any situation—whether the market rises or falls. Author Ganapathy Vidyamurthy examines two versions of pairs trading that arise in the context of statistical arbitrage and risk arbitrage. He offers a compelling point of view that integrates theory and practice—providing in-depth analysis and insight in both of these cases. Issues encountered when translating theory to practice are addressed in a direct manner, arming the investment professional with the quantitative tools needed to answer key questions relating to this type of trading. Written in an easy, accessible style, the book is a seamless blend of ideas ranging from econometrics, control theory, and operations research to core financial theories like arbitrage pricing theory and the theory of contingent claims. It is organized in three information-packed parts. Part I sets the context for the rest of the book by introducing material on key topics including time series, factor models, and Kalman filtering. Part II of the book details statistical arbitrage pairs, a relative value arbitrage based on the premise that there is a long-run equilibrium between the prices of the stocks comprising the pair. Part III moves on to illustrate the trading techniques and strategies associated with risk arbitrage. This widely practiced arbitrage technique involves pairs trading that arises in the context of corporate events, especially mergers and acquisitions. You'll also discover why—although they are called arbitrage strategies in the industry—they are by no means risk-free. Pairs Trading contains specific and tested formulas for identifying and investing in pairs. To further facilitate an understanding of this method, a bulleted summary highlighting key points is provided at the end of every chapter. Peppered with humor and snippets of history, Pairs Trading provides a framework for and insights on applying rigorous analysis to trading pairs in the equity markets.
From the Back Cover
Comprised of three information-packed parts, Pairs Trading presents an in-depth look at the various aspects of these strategies and provides quantitative tools to assist in their analysis. The first part of this comprehensive resource sets the context for the rest of the book by introducing preliminary material on some key topics, including time series, factor models, and Kalman filtering. After presenting the broad ideas and concepts of this trading method, Pairs Trading delves into two different versions of pairs trading in the equity markets—statistical arbitrage pairs trading and risk arbitrage. Part II of this book details statistical arbitrage pairs trading, which is a relative value arbitrage on two securities based on the premise that there is a long-run equilibrium between the prices of the stocks comprising the pair. Part III moves on to illustrate the trading techniques and strategies associated with risk arbitrage—the widely practiced arbitrage technique that involves pairs trading arising in the context of corporate events, especially mergers and acquisitions. Written in a straightforward and accessible style, Pairs Trading provides a framework that will allow you to boost the bottom line of any portfolio.
About the Author
Ganapathy Vidyamurthy has been working in the financial markets for nearly a decade. During this time, he created the entire risk management software infrastructure for RBC Dominion Securities

in New York, and built valuation models and automated execution strategies for UBS Warburg and JP Morgan Fleming. He is currently the principal of Himalaya Consulting. Beyond finance, Mr. Vidyamurthy's interests range from discrete optimization to algorithmic music composition—a field in which he is often cited. Mr. Vidyamurthy has a master's degree in electrical communication engineering from the Indian Institute of Science and a master's degree from the Courant Institute of Mathematical Sciences of New York University.