



THE UNIVERSITY OF  
**CHICAGO**

Department of Statistics

MASTER'S THESIS PRESENTATION

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Reexamining Daily Pairs Trading: Do Pairs Trading Opportunities  
Still Exist in Today's Stock Market?

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Jones 304, 5747 S. Ellis Avenue

#### ABSTRACT

In this paper, I explore whether simple pairs trading strategies on U.S. stocks have earned outsized returns in recent market history from 2002 to 2018. Previous work found that a simple contrarian strategy, with pairs formed in rolling 12-month periods and traded over the following six months, had historically achieved statistically significant excess returns -- these returns were interpreted as compensation for enforcing the law of one price, available to market participants who had low trading costs. I find that these significant, positive excess returns have vanished from the stock market in recent years, and hypothesize that this result is due to the spectacular rise in capital deployed by systematic, quantitative asset managers. I conclude the paper with a detailed discussion of my results and potential avenues for further work.