Darren Clifford

Press Kit

From the Desk of Darren Clifford…

Thank you for taking the time to peruse this kit. I am a professional equities trader with Bright Trading and have been ranked as one of the top 30 traders under 30 by Trader Monthly Magazine. I hold a masters degree in Economics from Simon Fraser University specializing in Financial Mathematical Modeling and am the president of www.pairtraider.com, a company dedicated to providing the tools and data necessary for hedged equity trading.

In this Press Kit you will find:
- *Timeline*
- *A Short Bio*
- *Frequently Asked Questions*
- *Transcript of an interview with Real World Trading*
- *Trader Monthly magazine's 30 Under 30 Article*
- *Sample Writing: Pair Trading intro and CCL/RCL articles*

Timeline

1979
Born in Toronto, Canada

1987
Moved to Abbotsford, British Columbia

1997 – 2000
University of Victoria, Bachelor of Arts in Economics, focused on public policy.

1999 – 2000
One of only three undergraduate students hired to teach economics labs.

2000 – 2001
Simon Fraser University – Masters of Arts in Economics. Focused in Financial Mathematical Modeling. Chair of the Graduate Economics Student Union, and teaching assistant.

2002
Bank of Montreal – Customer Service Representative

2002 – Present
Bright Trading – Proprietary trader, starting with $5,000 of borrowed funds.

2003 – 2006
Managing Director of PairCo Capital Holdings, LLC. The firm mentored and financially backed over 80 new traders in 2006.

2003 – Present
President of www.pairtrader.com. Web site devoted to bringing the tools and resources for average traders to be able to trade pairs.

Aug. 2005
Appeared on Vegas 35 TV.

Sept. 2005
Ranked as one of the top 30 traders under 30 by Traders Monthly Magazine

Dec. 2005
Profiled in BC Business Magazine

2006
Traveled for 10 months around the world while continuing to trade.

Jan. 2007
Started the Clifford Family Trading Team to support and mentor traders for long-term success as proprietary traders.

Please contact me to arrange an interview:

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Biography

Darren Clifford graduated from the University of Victoria with a bachelor's degree in Economics, specializing in public policy. He then followed his interest in finance at Simon Fraser University, earning a master's degree in Economics, specializing in financial mathematical modeling.

After completing his formal education, Darren joined Bright Trading, www.stocktrading.com, as an Independent equities trader. It took a few "rough" months until Darren became consistently profitable. In addition to his active trading, Darren is the part owner and director of PairCo Capital Holdings, LLC (PCH). PCH mentors and financially sponsors over 40 traders who trade the New York Stock Exchange equities, using the pair trading methodology. Darren's confidence in his methodology is shown when he literally risks his own money with new traders utilizing his concepts.

To facilitate the trading programs, and educate other traders in the professional trading world, Darren is president and part owner of PairCo, LLC, the managing company of www.pairtrader.com. Pairtrader.com is a website dedicated to providing the tools and data necessary for statistical arbitrage trading. Through their website and chat room, Darren hosts question and training periods.

Darren, in partnership with Bright Trading, has been a presenter at the Online Trading Expo in New York, and Las Vegas and a keynote speaker at the Professional Trading Tour in Los Angeles and Atlanta.

FAQ

What is Pair Trading?

Pair trading, the way we use it, is combining two equities together to reduce risk and increase predictability. Ultimately predictability is what you are looking for as a professional trader. Going long on one equity and short on a correlated one allows us to remove some of the randomness of markets and capture the brief periods of predictability. Hedge funds and professional traders have been using this strategy for years, but through our methods we are able to bring the trading down to most investors.

How Can Common Investors Use It To Their Advantage?

The simplest thing an investor can do is to take advantage of correlations within markets. If you are considering buying a company like Citibank, take a look at the performance of JP Morgan to confirm your trade. If JP Morgan has been strong lately and it is going up it can give you some indications that money is flowing into your sector and that Citibank might be ready to rally.

How Did You Get Started In The Business?

I have a Masters degree in financial mathematical modeling from Simon Fraser University in Burnaby, British Columbia. Before I walked into the Bright Trading office in Langley, British Columbia, I didn't even know that you could have a career as a professional trader. Luckily for me a family friend told me to go and see what they were doing and I was hooked from there.

My start in the business was like most traders: poor. My parents loaned me $5,000 USD to start my trading career with. My first deal was that I had to split half of my profits with Bright Trading since I didn't have a fully funded account. In my first month trading I was able to make $10,000 in one day and be flat the rest of the month. I promptly split my profits with Bright and started fresh with $10,000 in my account and was then able to keep all of my profits.

Over the next three months I lost the $10,000 and had to borrow more money from my parents to finance my trading. With some encouragement from Bob Bright I recreated my trading plans and made all of the money I had lost back and then some over the next three months.

What Did You Do Before You Traded?

I had an entrepreneurial background with my parents owning their own Moving and Storage Company. I am actually supposed to be a fourth generation mover. Right after I graduated with my Masters degree my first job was as a Customer Service Representative with the Bank of Montreal.

Where Do You See The Trading Business Going Over The Next Couple Of Years?

Like most maturing industries, the trading world is becoming more efficient. More and more individuals are becoming aware of things like SPDRs (S&P 500 depository receipts), Diamonds (Dow Jones Industrial Average Trust), and other Exchange Traded Funds that allow them to reduce costs while still capturing the benefits of investing in the markets.

It is now easy and inexpensive for investors to allocate a broad portion of their savings to fixed income and broad markets. The high-risk portion of investors portfolios can now be self administered at a low cost while opening up more opportunities.

What Is Your Hot Stock Of The Day?

As a professional pair trader we don't have hot stocks of the day. We are not looking for large moves with our stocks, what we want is predictability. Most of my days I spend trading the same stocks over and over again looking for brief divergences within their relationship.

What Are The Three Most Important Lessons You Teach To New Traders?

After teaching traders that predictability is the most important thing you are looking for, we try to show traders how to find predictability. Trading is a risky business and traders need to be picky about the trades they take, generally the best way to do this is to wait for compounded probabilities. By looking for times when indicators overlap it creates a better chance for the trader to be profitable. Combining this with capital management techniques it really bodes well for traders.

What Is Pair Trader.com?

Since most of our techniques are applied to highly liquid companies we are able to teach a lot of our strategies to other traders without reducing our edge. Our website is dedicated to providing the tools necessary for traders to implement hedged trading strategies within the equity world.

Do You Mentor Or Train Any Traders?

We are so confident with our trading strategies that we have put together a group of over 40 traders that we have taught how to pair trade while financially backing them.

People interested in mentoring can visit our website
www.pairtrader.com
or send an email requesting an interview.

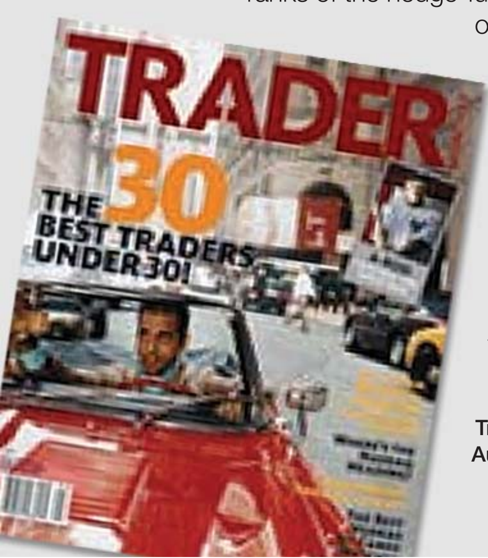
Article: Printed in Trader Magazine:

The Best Young Traders In The World

Oh, to be young and a trader. Trader Monthly hereby introduces our inaugural "30 Under 30" ranking, profiling some of the fastest-ascending traders working today in a wide range of asset classes and arenas, all 30 years old or younger. We've put our ears to the ground to find out who the trading superstars of tomorrow are. In the process, we found many young traders already making a name for themselves today.

Some young turks, boasting Ivy League pedigrees, come from a long line of securities-market mavens, while others never even finished college. But all the traders you're about to meet have one thing in common: tremendous upside potential.

Not surprisingly, we found candidates in the ever-expanding ranks of the hedge-fund world, but that's not the only hot zone where you'll find young trading talent. From prop desks to the pits, youth is not wasted on this crop, any of whom could be a billionaire by 40–or, then again, they could be belly up and bust. But we, for one, are long the prospects of the group you're about to meet.



Trader Magazine
Aug/Sept 2005 p.70

Darren Clifford
Age: 26
Firm: PairCo
City: Kelowna, British Columbia
Trades: Equity

When a big time job at a prestigious Wall Street bank didn't pan out, Darren Clifford, who had just received his master's degree from Simon Fraser University, was forced to re-evaluate his options.

His timing – it was the summer of 2002 – might have been inauspicious. Tired of waiting for financial services recruiting to pick up post 9/11, Clifford turned to Bright Trading.Training under the Las Vegas-based prop legends Don and Bob Bright, he would eventually co-found his own pairs-trading firm, PairCo, a Bright affiliate.

Clifford, along with his partner, Rob Friesen, oversees 40-plus traders. Not being willing to wait for Wall Street to find him has certainly paid off. He will make an estimated $350,000 from trading this year. He as also brought his family onboard. His father and brother both of whom had been working in the family's moving business, are Bright traders. "Even my mom was trading for a while." Clifford says, though she recently gave it up.

Ever the good son, Clifford took his parents to Cancun for vacation this year. But his mother wouldn't necessarily approve of everything this budding entrepreneur does. His out-of-office activities include "scuba diving, skydiving and skiing – anything with a bit of rush to it."

Article: Printed in BC Business Magazine:

Title: Behind the hedge: From teller to big-time trader

Darren Clifford, a 26-year-old B.C. boy, will rake in around US$350k this year independently trading New York Stock Exchange equities.

Now that he's reached financial independence (he flew his family to Cancun for a holiday recently and is paying for his parents to join him for three months in Thailand as part of his upcoming round-the-world jaunt), he says it's all about giving back. Not only to his family – Clifford spends less time buying stocks these days and more time sharing secrets of the trade with the masses. He started a company called PairCo Capital Holdings with offices in Langley and Vancouver where 30 traders pay a commission to trade NYSE equities using Clifford's model.

"I make money in a bull market and a bear market because everything is hedged," he says. "I'll be buying Coke and shorting Pepsi against it and if the beverage industry goes up or down, I make money." Hedging is certainly no sure bet, but Clifford's track record hasn't gone unnoticed. His smiling face made the August issue of the U.S. Trader Monthly, a glossy GQ-esque stock traders' magazine–itself started by a Vancouverite–that named him one of the top 30 traders in North America under 30.

Raised in Abbotsford, Clifford was always a math whiz. He studied economics at UVic and later did a master's specializing in mathematical modeling at SFU. The month he graduated, 9/11 hit and the best job he could land in the finance industry was as a teller at a local Bank of Montreal. He soon found his way to the trading floor and has lived and breathed equities ever since.

His goal is to bring hedging strategies to the average investor. Now, hedging is primarily the domain of institutional investors, but Clifford says the bad rap belongs to hedge funds, not the actual practice of hedging, or offsetting market risk by taking equal but opposite positions in the futures market.

This former math geek's formula is paying off.

Interview

Real World Trading: Here's How One Of Bright's Best Traders Earns His Living: The Darren Clifford Interview

Dave: Hi my name is Dave Goodboy. I am executive producer at Real World Trading.com. Today I am joined by professional trader Darren Clifford. Darren came to us with very high recommendations from expert trader and industry icon, Don Bright. Don explains that Darren is on the cutting edge of day trading methods and techniques. Let's get started. How are you today, Darren?

Darren: I'm doing great, thank you for having me Dave.

Dave: Why don't we start out by learning a bit about yourself and what started you in the market. Your basic evolution as a trader to where you are now.

Darren: Sure, it would be my pleasure. I started in the market about two and half years ago. I graduated with a masters degree in economics. I specialized in financial mathematical modeling. I didn't even know that this career existed and that you can be a professional trader. On the recommendation of a friend, I went to check out what they were doing over at Bright Trading. Once I saw it, I called them up and began my career. I had to start like a lot of traders, by borrowing money from family to get involved with trading. I started with $5000 as a sponsored trader. I lost that couple of times before I became consistent and successful.

Dave: Did you start out as a discretionary trader, or did you follow Bright guidelines at the beginning.

Darren: I was very fortunate to start in the office in Langley, British Columbia. Rob Friesen, the office manager, a great experienced trader himself does a lot of trading with a specific trading strategy called, Pair Trading. I was able to sit, learning from him to soak up his knowledge, in my first couple of months on the job. That really helped, so I wasn't necessarily on my own. From there I have gone on to be more established and take in more trading strategies that they teach at Bright. Bob Bright is now my mentor, a person whom I trust and keep in contact with in my trading.

Dave: I know Bob has quite a reputation on the street. He is known as being one of the smartest guys out there in the business of day trading. You mentioned Pair Trading. What exactly is Pair Trading?

Darren: Pair Trading is when you are trading from a hedged position. I would be looking at two correlated stocks like Coke and Pepsi. I may buy one, and short the other to play the price differential between the two. This allows the trade to be a lot more stable and a lot more predictable.

There are a lot of old school traders who crave and love volatility and they just wish the markets would move again. As a professional trader, I don't care a bit about volatility, I care about predictability. Even if something is highly predictable in small patterns, I can trade it in a lot bigger size to make my money out of it. If something is moving all over the place, yet I can't predict where it is moving, it is going to be trouble and I can be losing a lot of money.

> *"As a professional trader, I don't care a bit about volatility, I care about predictability."*

Dave: What do you look for when you are setting up a pair trade?

Darren: The first place I will look is intuition. You can go through the NYSE and you may see two companies like Citibank and Harley Davidson. They are both highly correlated with each other. Statistically this may be true, but intuitively give me a justification why Citibank and Harley Davidson are correlated.

Dave: Would there be a justification? To me there wouldn't be any at all. Perhaps when people are happy they buy Harley's and charge up their Citibank credit cards. Other than that, I can see no correlation.

Darren: They are both stocks on the NYSE. They both react to the market but that is where the correlation ends. Because of that, intuitive reason is not there. It is something I would say. Though statistically you may be able to come up with a great model for these two stocks to trade against each other. Intuitively it does not work.
The place that we really look would be for Citibank is JP Morgan, Bank One, maybe Bank of America, for Coke, Pepsi.

Dave: Let's take the Coke and Pepsi example. What is the next step after you find a pair that is intuitively correct.

Darren: So now you come up with a pair that is intuitive and it makes common sense. The next step is looking at exactly how they trade with each other. Traditionally, when you have a sector like Coke and Pepsi, there isn't anyone else. There really are only two of them. What you see is that some companies like this don't trade as correlated as you expect. This is due to the money that may flow out of one company is actually flowing into the other one. Yes, we may like the soft drink industry, but right now we favor Pepsi more than we favor Coke; or now we favor Coke more than Pepsi. You can actually see anti-correlated movement even though they are in the same sector. After we have gone through the intuitive basis we take a look at statistically and historically how they traded.

Dave: You do this using technical analysis? You put the pair on a chart?

Darren: Absolutely, we put them on charts and take a look at the correlation between the two stocks. We see if they have traded within a range or some sort of pattern with each other. The big test is when you see news events happened with one of your stocks, and how the stock behaves.

For example, you are looking for something that says, 'Coke moved up $4 this morning", did Pepsi move too? Did Pepsi move at least $2? You are looking for a real sign that you have a knowledge based industry, meaning that company sympathy is actually going to occur. When people see coke rally they figure they should buy Pepsi.

Dave: Now specifically, when you set up the chart, is it a daily chart?

Darren: Well, as professional trader you have to appreciate that I trade every time frame. From short, short term to longer term.

Dave: When you say short term do you mean a tick chart?

Darren: Everything from a tick chart, a one minute bar chart, all the way up to a daily, or even a weekly chart. As a professional, I take advantage of every edge that is available to me. This means I may be holding a smaller position for a long time trying to get $5-6, as an investment out of it, or I may be taking a larger position for a shorter amount, trying to take 5-6 cents out of it.

For each one of those trades I need to have a justification for my entrance, and I need to make sure I am looking at the appropriate time frame that I am analyzing for actually making that trade.

Dave: Let's talk about the difference between trading and analysis. When you are performing the analysis on a stock pair, is there a specific time frame that you use?

Darren: I will look at everything from the last 1000 days that it has traded on down. You are almost talking about 5 years there, anywhere down to the last couple of minutes. I prefer to take a look at, on the technical aspect of it, most of my trades intra day, then the last 20 days of data.

Dave: What type of chart do you use?

Darren: Generally a candlestick chart with a moving average and some Bollinger Bands.

Dave: I know you trade with a theory that tries to develop each pair as an individual business model. Please elaborate a little on this idea.

Darren: This is something that should apply to all trading strategies regardless of if you are pair trading, momentum trading or something else. Every time you approach the market, you are an independent business person. This is your job, this is your company, you are a trader. As you know, every company before it starts has a business plan.

Dave: Ok, so this is what you mean when you treat each pair as an individual business? The trade itself has its own plan.

Darren: Absolutely, even the small scalps have a plan. They are just like micro-business. This is the place where I take profits, this is where I exit, this is where I take a loss. Everything has a known entry and exit before I even begin. This way I am trying to take the emotion out of it.

Dave: Is this a written plan, or is it something you do mentally?

Darren: For my new traders, absolutely it is written. Even their small trades I have them write down where they are planning to enter and exit. For the shorter term trades, the less likely I am to write it down. But for the longer term trades, everything is written down.

Dave: The other word for pair trading is statistical arbitrage. Does that refer to a reversion to the mean type strategy?

Darren: Well, within a pair, you have to appreciate that there is actually a reversion that should occur. The natural way that free market economics works is that you should have a leader in every sector who has all the technologies, then these technologies being adopted by the secondary companies in the sector. You constantly see one company taking advantage of new technology, and taking a lead with their stock price. The other companies within that sector adapt to the new technology and catch up with the leader.

Dave: Like a follow the leader idea?

Darren: Absolutely, it's free market economics at work. You get a new technology that assists them, then it comes back to equilibrium, or at least starts reverting back. This is something that does not actually occur within the individual stocks. Mathematical modeling of the stock market as a whole, is said to be a random walk. While there is an upward drift to it.

The idea is that we are going to go up in time but there is no reason that since the market rallied up 1000 points in the Dow that we should actually see it come back down. Within a pair, there is a reason that says when one company rallies $20 ahead of another company they will go back into line. Here is one reason why, the other company is going to take a look at what their peer is doing, adopt the successful technologies to catch up.

Dave: Let's say we are following a pair that has had very strong correlation within the last 20 days, I am just using this as an example. That all of a sudden they veer off. Lets say Coke starts going up, and Pepsi starts going down. In a situation like that would you then short the stock that is going up and buy the stock that is going down, betting that they are going to come back into correlation? Or does it all depend?

> *"One of the most profitable strategies we have is trading one company against a second company."*

Darren: There are exceptions to every rule, but on average my trading strategy tends to be contrarian. I am fading moves so I'll take the opposite side in this case. If Coke pulls back like it has, which has happened in the last couple of months, I am buying Coke and selling Pepsi. I am expecting it to revert back to a mean between the two companies.

Dave: You guys take pair trading to what seems to be the next level. You go beyond the simple pair into 3, 4 and even 6 way trades. Can you explain?

Darren: One of the most profitable strategies we have is trading one company against a second company. Going into a sector like oil where there is an assortment of similar companies that do similar things. Then you start looking at them and ranking them fundamentally, and technically. I then get myself a list of these companies I want to buy, and those companies that I want to short.

What this allows me to do is take a position in a basket going long and take a position in a basket going short. Say you have maybe $500,000 in capital, as a new trader. Then be able to transfer the risk based on which one is actually performing well and which one is not. It allows you to move in and out of the different stocks between all six of them. You can capture within the basis of the relationship the predictability that is there, but you are getting more volatility to capture bigger moves and more of the moves.

Dave: Ok I see, you are limited to your capital as to how many stocks you can do this with across a sector?

Darren: Absolutely.

Dave: How many different stocks have you ever traded at one time, using this method? Have you gone as far as almost creating a small index?

Darren: Probably the biggest I have done is a 5-way pair. Two companies long, two companies short, and one company as neutral as the middle, where I either long or short it. It allows you to play all five against one another. If one really rallies, you are able to sell another and buy more of that and are able to hedge it. It really works out well for me.

Dave: I know you said earlier that volatility doesn't really matter to you, but is there any way you can play these pairs as a momentum trader would?

Darren: Well you can always trend trade a pair. You can set up your pair just like you would an individual stock. The type of thing you are looking for is higher highs and lower lows, buying on pullbacks. You can even do traditional technical analysis, things like MACD, and RSI, put them on the pair themselves.

Now with doing this you can actually look at everything a regular trend trader would be looking for. I want my long stock to have increased volume on its up days, buying that to continue more of the trend, and hedging that off with some other stock that you want to go in short that is not showing momentum characteristics.

Dave: Okay, lets get off of pair trading and get onto another one of your strategies. I know Don is really big on a strategy called "opening orders". Do you guys utilize this method?

Darren: Absolutely, but I do have to revert back to pair trading here. One of the things that we do on our open is we use them within a pair trading context. For example, if I see an extreme open on one stock, I'll take a look at its peers to see what its peers are doing. If I see Coke is gapping down $1, not only will I be buying Coke, but I am going to sell Pepsi against it.

Dave: For our members that may not know anything about "opening orders." Please give me a brief tutorial and explain the concept.

Darren: Basically, you are fading opening gaps on the expected price on the stocks open. You are looking at a stock like General Electric. It generally is a market performing stock and it behaves correlated to the S&P 500. You watch the futures contract of the S&P 500 in the morning to see if the futures contract is up .5%, you expect GE to be up .5%. Now if GE opens up 1.5% you are going to short it. You are going to fade that extreme open of General Electric. If GE opens down .5% you would buy it. You would say it opened below where you would expect it to in comparison to the S&P 500.

Dave: You are placing multiple orders above and below the price? So you are basically enveloping the price?

Darren: Basically enveloping the expected opening price. Taking a look at the morning, and we have automated programs that do it, all the way up to about one minute before the opening bell. I will look at if the S&P futures contracts have moved, and the E-minis right now, where I expect the market to open. Using that information I make an estimate of where I think my stock should open, and that is where I envelope.

Dave: Once the order executed, do you just take it for a couple of ticks or do you take it for as long as it will go?

Darren: To do the entry is actually a very easy thing for an experienced trader, once you get into the habit of it. The entry side is always the place where traders have difficulty. This is what being an experienced trader really means. When you do get in to a position, how you manage getting out. There are times where you just take it for a couple ticks, there are times where you pair it off, there are times where you turn around and just take a loss as soon as you can. It all depends what you see on the tape.

Dave: How many opening orders do you throw out in the morning?

Darren: On any given morning I may have 600 open orders .

Dave: Wow, obviously this is something that is computerized?

Darren: It all depends on the approach you are taking. Some people who just like focusing on the broad market, and focus the strategy on five different pairs and only five pairs. Everyday they do the same stocks over and over again. But they become very familiar with their stocks. While I am putting an order quite away from the expected opening price, they may be looking at putting it five cents from the expected opening price, and not get in. They become a lot more aggressive to get more fills.

Dave: Let me see if I understand you. You place your order five cents away from the opening price and if you get filled you are betting the momentum would carry that price forward resulting in profits?

Darren: No, not exactly, let's say you are looking at a stock that closed at $40. You expect it to open at $40.50 the next morning because the S&P is up quite a ways. Then what I am doing is taking a price like $41, and I am shorting. At a price like $39.50 I am buying. If I get the $41 short then I expect it to come back down to that expected open price of $40.50. So in that case I have faded the gap open.

Dave: Man, it looks to me, if you have 600 orders out there, often, when you try to fade a gap, the stock will just keep ripping. Is this the case?

Darren: It happens more often than I would like it to happen. That is when the advantage of being an experienced trader comes in. If I see an opening price of $41 where I have sold it and I notice that, first off, going through that open is an indicator to me that it wasn't as good as I thought it was. It should be that the opening is quite often the extreme for the day for a lot of stocks.

So that should be a great trade, I should see some instant gratification there to it and if I don't see some resistance building on that opening price and others aren't coming in and saying 'Wow, I missed the plane, I need to get it up here at this price,' then it is probably better off getting out. into a position where it is running hard against me, I'll find another stock that is sympathetic to it and I'll buy twice as much to balance out the position and turn a profit.

> *"Every time you approach the market, you are an independent business person. This is your job, this is your company, you are a trader. As you know, every company before it starts has a business plan."*

Dave: Buying the stock that is sympathetic to the one that is ripping against you. Do you have software or some sort of program to instantly locate these candidates?

Darren: I have a quote window on my screen that tells me what all the pairs in a sector are doing.
If I do hit something like Citibank, and I am struggling with that open, I can just glance at my screen. If Citibank is up a dollar, JP Morgan is up 50 cents, Bank of America is flat. Well maybe JP Morgan is moving much more sympathetically to Citibank.

Dave: I know that you guys have software that specializes in finding gaps. Tell me a little about your gap system.

Darren: Absolutely. If you take this strategy of enveloping that we have been doing at the open, and carry it forward into the middle of the day. In this case, what you are looking at is gaps. Traders are paid on the NYSE in one of two ways:

1. Finding inefficiency, something that is undervalued or overvalued that shouldn't be.

2. We are trying to take on the roll of a market maker which is to provide liquidity. This is a service to the market, and over the long term you should get paid for it.

What we are doing is putting envelope orders out around the last print of the stock, so that if it gaps 20 cents or 25 cents, you are providing liquidity for that gap. This strategy is something that, especially if you go back to the late 90s, early 2000 period, the way that the market was behaving, was probably one of the most successful strategies that was there for our traders. They were able to provide liquidity in situations that were trading, and if things did not work they had the other side to sympathetically use to make sure they were not getting overly hurt.

Dave: This has been a very insightful conversation. Is there anything you would like to leave us with?

Darren: We do offer some mentoring and training up here with our company. You can look at our website: www.pairtrader.com. There is a group of us, so feel free to look us up. We are always looking to improve what we are doing and to help the trading community.
Dave: Do you have remote traders?

Darren: Absolutely, we have traders all across North America and some internationally.

Dave: To trade in Canada, do you need to have a series 7?

Darren: Yes, you do need to have a series 7. Currently the only province we have license to trade in Canada is British Columbia and that is because we all trade through Bright. That is the province Bright is licensed to trade in. We do have a number of traders here. Our Langley office is actually our second largest office.

Dave: What is the minimum capital contribution from a trader?

Darren: A mentor trader through us is $10,000 as a minimum capital contribution. You do come spend two months time with us in British Columbia.

Dave: Thank you very much for joining me, Darren.

Sample Writing

Pair Trading Introduction

Pair trading is going long one stock and short a different stock to hedge your risk. It is a tool used to create more predictability in your trades and profitability in all markets. Pair trading can be used in conjunction with many other trading strategies, as fundamental and technical analysis can still be used.

Naming A Spread

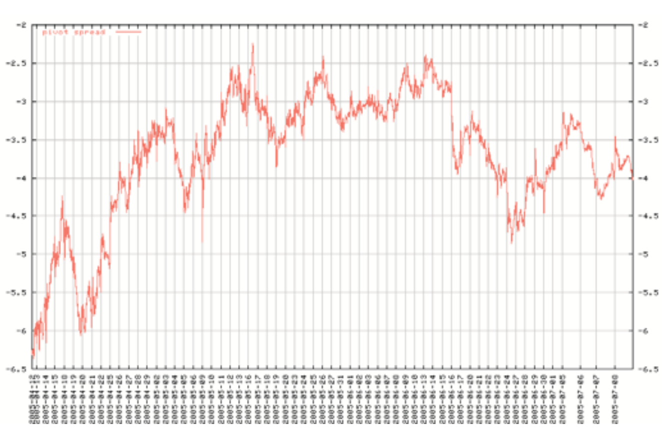
A pair is made of a lead stock and a secondary stock. If you look at the pair Aa (Alcoa) and Al (Alcan), and you refer to it as AaAl, then Aa is the lead stock and Al the secondary. If you called the pair AlAa then Al would be the lead stock and Aa the secondary stock.

In this case the lead stock simply means the first stock in the name of the pair, it has nothing to do with market leadership or the size of the companies. To standardize spread names most are named alphabetically. Some pairs are traded with a ratio applied to the lead stock. If you trade two shares of Aa for every one share of Al then the ratio would be 2 to 1.

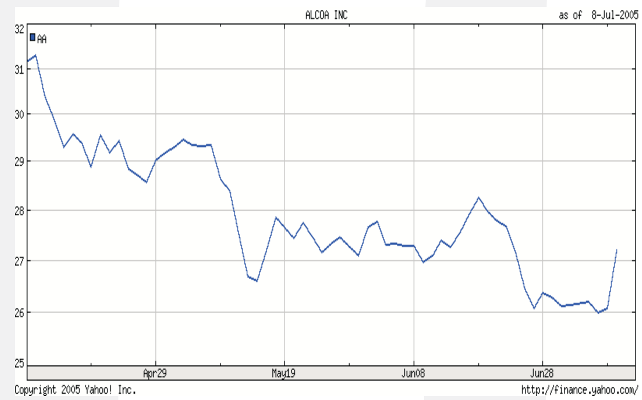
To add this ratio to the spread name the ratio is expressed as a percentage and added to the end of the spread. AaAl, with a ratio of 2 to 1, would be named AaAl200. AaAl, with a ratio of 1 to 2, would be named AaAl50. The 50 is derived from dividing 1 by 2 and then expressing it as a percentage. Even if a spread is traded 1 to 1 it still will have the ratio in its name, like AaAl100.

An Example

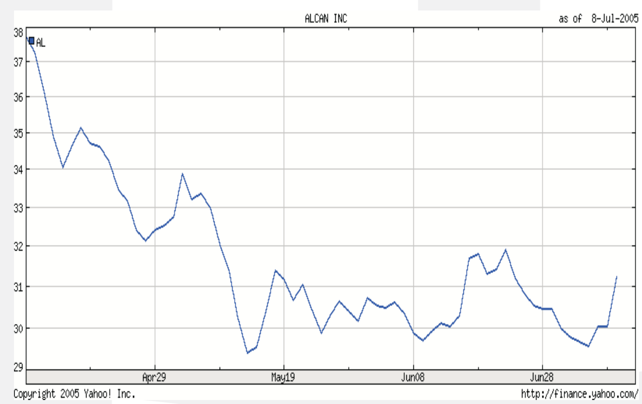
The chart below shows the spread AaAl100, or 100% of the last price of Aa minus the last price of Al, from pairtraider.com. You can see that the spread has a low of around –$6.50 and a high of around – $2.50, for a range of $4 during the last three months or 65 trading days. During the time period of this chart Al has always been priced higher then Aa, but the price difference has been decreasing.



You can see on the below individual stock chart of Aa over the same time period that the stock's high was just over $31 and the low was $26 for a range of $5.



During the last three months the stock has been on a downward trend and finished around $4 off its initial price. Al, over the previous three months has had a high of around $38 and a low of around $29.50 for a range of $8.50.



Trading the spread smoothed the trading range to $4 from $5 for Aa and $8.50 for Al. This is a great example of how a spread decreases the risk you face.

During the three month time period you can see that both stocks decrease, but Al decreases by a greater amount then Aa. This causes the spread to increase as the price differential decreases. Notice how the spread price behaves in a direct relationship with the lead stock (as the lead stock goes up, the spread price increases), and in an indirect relationship with the secondary stock (as the secondary stock goes up, the spread price decreases).

Establishing a Position

When you take a position in a pair you can go either long or short the pair. Going long a pair means that you go long the lead stock and short the secondary stock, going short the pair means that you go short the lead stock and long the secondary stock. The direction you trade the lead stock tells you the direction you trade the pair.

Traders need to be comfortable going both long and short pairs. Pairs differ from stocks in that there is no minimum price; negative spread prices are common.

How Predictable The Wonderful Life On A Cruise Ship Can Be

In a previous article I had written about trading predictability and how these leads to profitability. One sector that I watch for this is within the cruise ships: CCL (Carnival Corporation) and RCL (Royal Caribbean Cruises). CCL is the market leader with the larger market cap and has been priced higher based on some basic fundamentals:

	CCL	RCL
Mkt Cap	43B	9B
P/E	20.2	17.67
P/TB	3.59	1.91
P/FCF	55.76	13.76

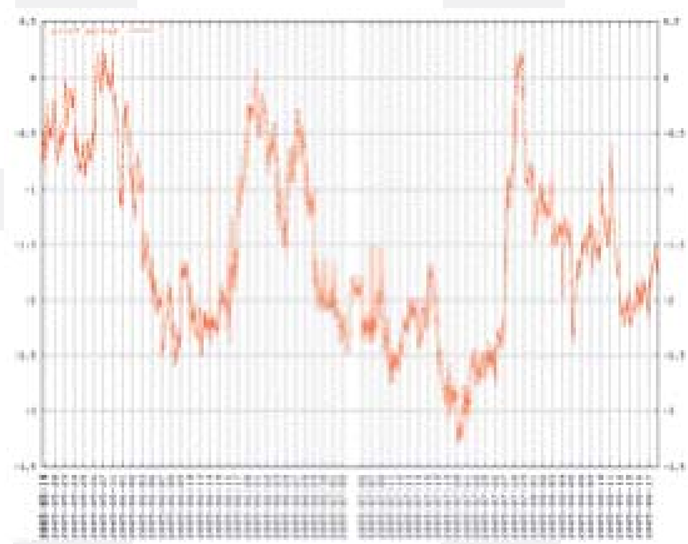
From the fundamentals I would prefer to be short CCL and long RCL. Here is how the individual charts look, first CCL:

When pair trading it is important to look at the underlying stocks to see if there is an obvious reason why you would not enter a trade.

In this case there are no new highs or lows being formed by CCL, it is business as usual. Business as usual is a great thing for pair traders as it lowers the probability of an extreme event or break out occurring. Now for RCL:

At this point the symmetry of the charts should show that we are dealing with a highly correlated spread. RCL shows nothing on an individual basis that would stop us from buying the stock. To be capitally balanced on the spread a ratio of 0.85 will be used. This means that for every 100 shares of RCL that is bought, 85 shares of CCL should be shorted.

On to the good part, here is the spread chart over the last 65 trading days, or quarter roughly:



You can see from this that the spread has been range bound over the last 65 days. This creates opportunity for the short term and long term trader! Look how consistently we have been pulling back off of 0 on the spread number. This predictability is where there is the greatest profitability for traders.

Darren Clifford

Press Kit

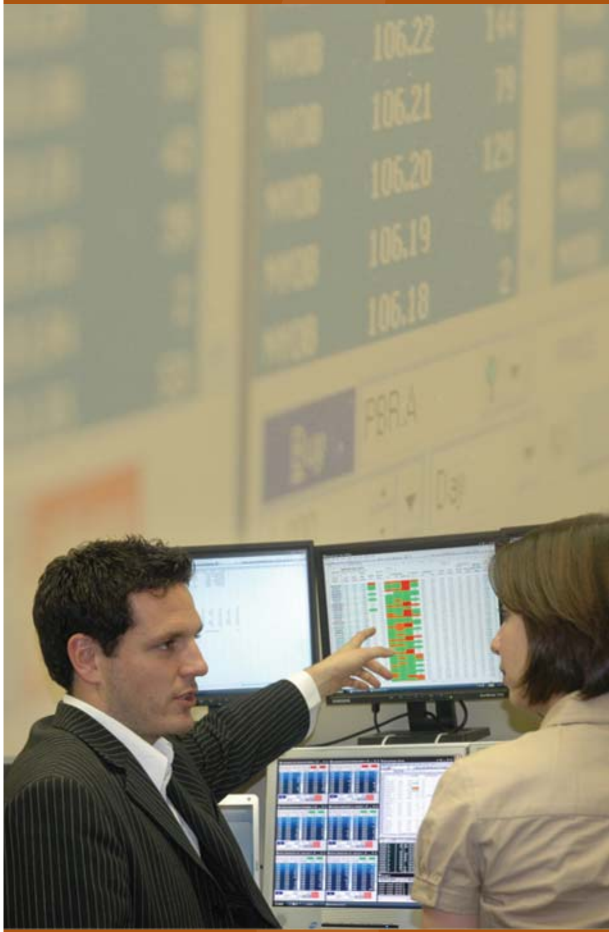
Fundamentally we have shown that the spread should be short CCL and long RCL using the 0.85 ratio, now it is just a matter of watching for a good technical entry. Patience is important when trading so wait for some place close to 0 on the spread number before going short the spread.

Here are some guidelines that I would use trading this:

Entry: Short at 0
Stop: 0.5
Profit Target:
Short Term: -2.5 (Technical Level)
Long Term: -15 (Fundamentals)

The short term profit is just looking at the previous pull backs of the spread and where it would be trading. The long term profit target is calculating where CCL would have 140% of the price to tangible book value (P/TB) of RCL to bring the spreads fundamentally in line. Now just to watch the trade set up and to execute well to make sure we have compounded probabilities: technicals, fundamentals and your execution.

For more information visit our website at www.pairtrader.com.



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