

THE RIGHT TRADING STRATEGY FOR 2017 AND BEYOND



Theo**TRADE**

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Don Kaufman

- Co-Founder TheoTrade
- Industry-leading options strategist
- Derivatives Risk Manager
- 18 year trading career
- 16 years of thinkorswim® platform experience

Don versus Mr. Wonderful



What You Will Learn In This Presentation

- An introduction to pairs trading, a market neutral strategy designed to generate returns in any market condition.
- Learn to execute trade based upon Statistical Opportunities, not red and green arrows and guesswork!
- Discover and Build Correlation Charts and Trades
- How you can Pairs Trade with a small account, large account, or retirement account regardless of your experience level
- Why correlations are snapping back in alignment like never before making this the perfect time to learn about Pairs Trading.

Are you ready to learn?

The following course material can be challenging to learn. This course is not going to be some chart pattern or follow the bouncing ball with green and red flashing arrows. If you really want to learn this business you need to be willing to put forth some effort... this is not instant coffee or instant tea, this is a skill set based on statistical data and correlations.

What we are about to discuss involves trade logic, strategy, and reversion to the mean in trading.

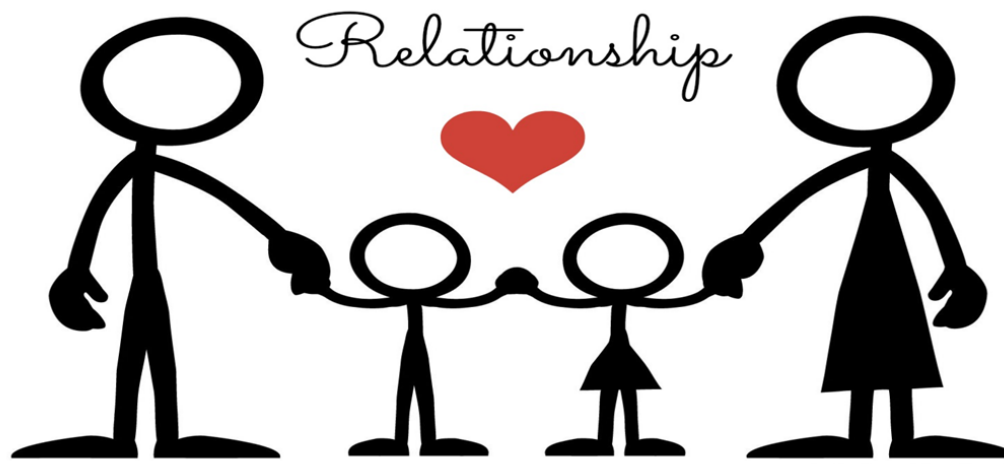
Forget everything you know... (about the markets)

- The market neutral strategy we are about to discuss and employ is an extremely different approach to the markets.
- For the next hour, forego any knowledge set or preconceived notions of the marketplace.



Direction can help you no more

- Traders and investors alike are characteristically trained in attempt to distinguish what the market's next move could be.
- Financial media, trading technology, and nearly everything regarding markets is about directional bias.
- Direction of the markets or individual stocks means nothing this evening.
- We are all about relationships.. (market relationships, this is not Tinder)



Basic skills redefined

- There are 3 basic items you must first understand...
 1. What a stock is...
 2. How to buy a stock – aka long position
 3. How to sell a stock short – aka short position

A fresh start in the markets

- Now that we know nothing, we are ready to learn about the wonders of Pairs Trading.

“I AM A BLANK SLATE – THEREFORE I CAN CREATE ANYTHING I WANT”



Picking a Soda Fight?

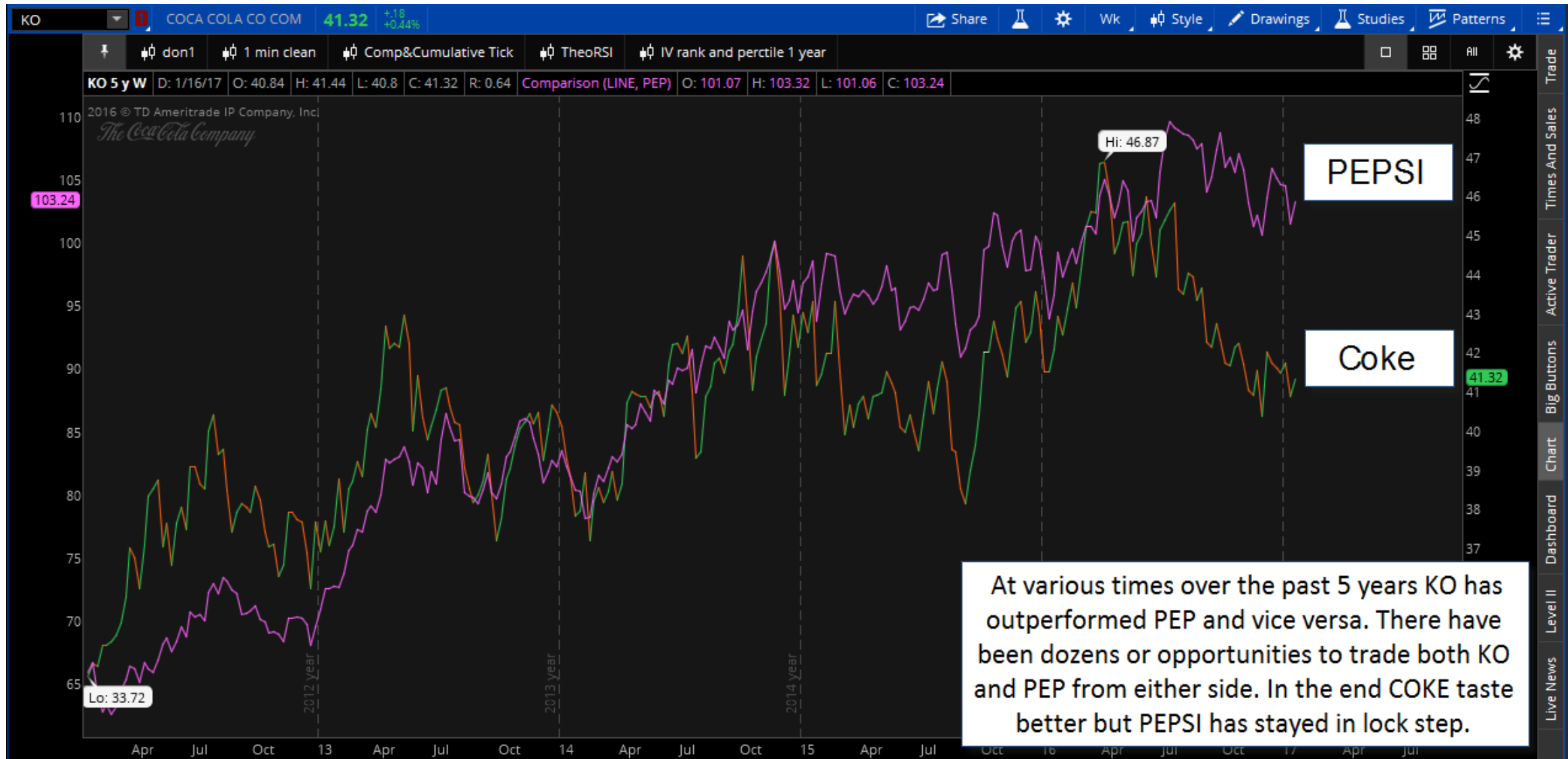
- What do you like more Coke or Pepsi?



Coke versus Pepsi

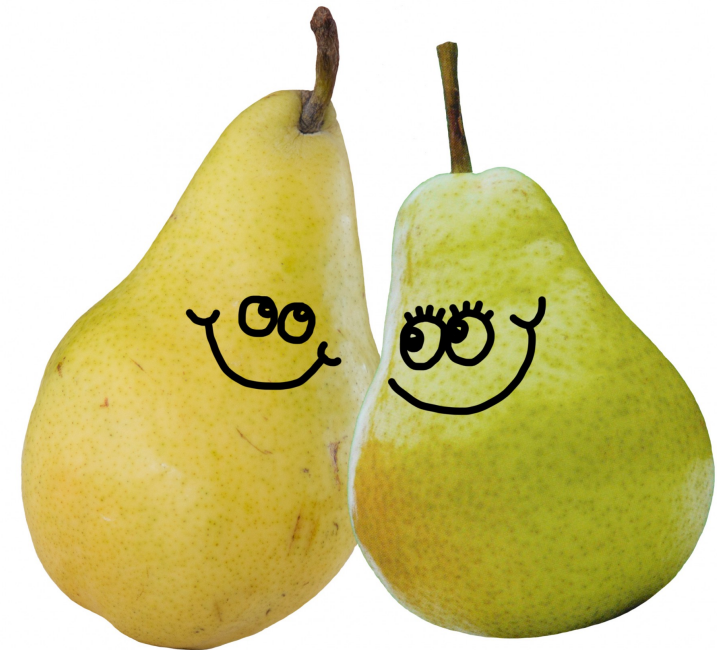
- I grew up drinking COKE, Pepsi people where not allowed in my house
- Therefore, we Buy COKE and Sell PEPSI
- KO vs PEP the epic battle of good vs evil
- How would this have played out over the past 5 years?

Battle of Good vs Evil aka: Coke vs Pepsi



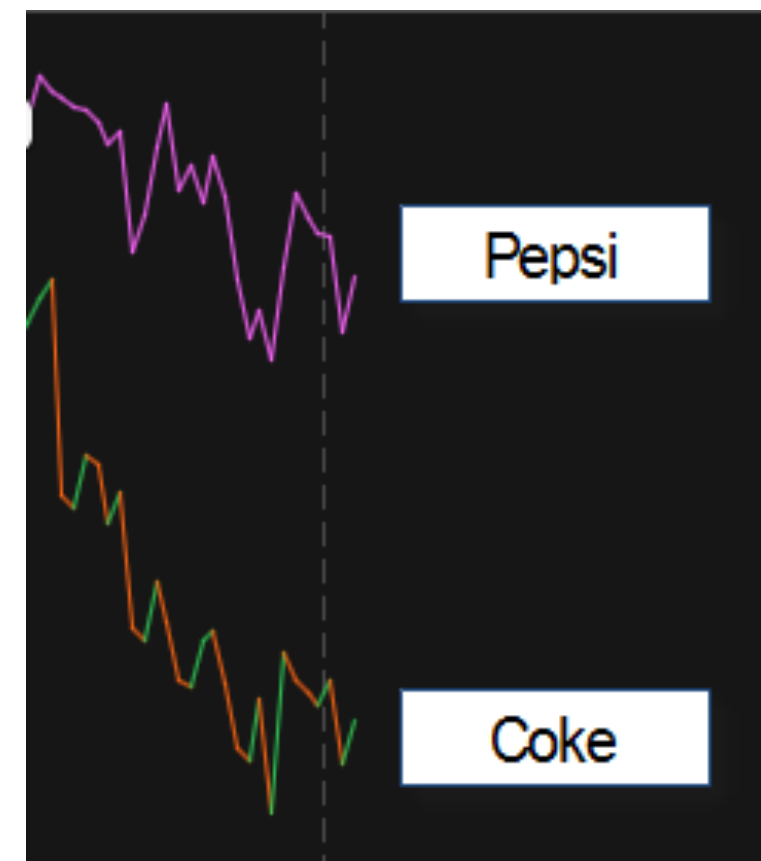
Pairs Trading

- What we have created between COKE and PEPSI is termed a “Pairs Trade”.
- Coke and Pepsi are traded against one another and the ebb and flow of the highly correlated products creates your trading opportunities.
- This is the wrong type of PEAR but they are a happy couple..



How do You Profit from Pairs?

- In the aforementioned example, how can you profit (or lose) from the comparison of Coke versus Pepsi.
- Assume you BUY Coke and Sell Pepsi, profit scenarios:
 1. Pepsi could sell-off with Coke staying relatively flat.
 2. Coke could rally with Pepsi staying relatively flat.
 3. Coke could rally and Pepsi could sell-off.
 4. Coke could sell-off and Pepsi could sell-off at a faster rate.



Pairs trading defined

- Pairs trades are market-neutral, meaning the overall direction of the market does not significantly affect the overall profitability and or loss of a given trade.
- Pairs is not about being right or wrong directionally, it is about how the relationship and correlation plays out.

Basics of Pairs Trades

- The goal is to match two trading vehicles that are highly correlated.
- Do NOT let the word “correlated” scare you... you are just looking for stocks, etf’s, or index products that move in heavy relationship to one another.
- An example of this could be two stocks in the same sector or with similar business interests.

Logic of Pairs Trading

- The Pairs logic is to seek out correlated stocks, indices, or products currently displaying a divergence.
- You **buy** one product and **sell** the other short.
- You are seeking the deeply correlated Pair to “normalize” (mean reversion) whereby coming back into alignment.
- Relationships and correlations in countless underlying's have been tracked and traded for decades .

Advantages of Pairs Trading

- The pairs trade helps control market risk.
- If the market or sector crashes the short position negates the loss of the long position.
- Trading strategies independent of market movements are said to be Market Neutral.
- We often phrase the Pairs Strategy “The Final Frontier” as these opportunities are seldom sought after by individual clients, making them far more advantageous than many commonly known market strategies!

Directional Risks



Target versus Walmart

- Rather than endure the outright risks of owning Target you could look to create a Pairs Trade and offset a significant portion of your directional risk.
- Example, you go LONG WMT and SHORT TGT
- Buy WMT / Sell TGT

Walmart versus Target



Finding Pairs Candidates

- Competing companies possibly in similar sectors.
- Correlation scanning and analysis.
- ETF and or Index related products often see high correlations.

Ebb and Flow of Pairs Trades

- Divergence - When the price of an asset and an indicator, index or other related asset move in opposite directions
- Convergence - indicated by the Pair reverting to the mean (coming back into alignment).

Opportunity in Divergence



Structure of the Pairs Trade

- The PAIRS TRADE is structured via being long on security and short the other.
- In our SPY versus IWM pairing example you are looking to **short** IWM and go **long** SPY.

SHORT IWM (selling shares short)

LONG SPY (owning shares)

Structure of the Pairs Trade continued

- Do NOT get too excited this is not as easy as short IWM and buy SPY.
- IWM is a \$134.00 ETF
- SPY is a \$ 226.00 ETF
- Pairs trading is about how to covert and trade one product versus another and there are many factors in play.

Trading Pairs with Options...

- Maybe you do not have the capital to buy one stock and sell another stock short.
- Or maybe you are trading in an IRA or tax deferred account and cannot create short positions.
- Have no fear, pairs strategies can be equally as powerful using defined risk options and vertical spread trades.
- Sounds fancy? It's not! You can substitute the underlying stock or ETF with options spreads in a matter a minutes.

Pairs are Everywhere!



Lets Do This Pairs Thing!

- Ok lets build a trade in GLD vs GDX...
- First, GLD must be aligned with GDX.
 - GLD is a \$115.50 ETF with a 10% volatility.
 - GDX is a \$24.20 ETF with a 42% volatility.
- The key to pairs is knowing how to align the two underlying's into one happy couple!

Finding Happy Pairs Trades...

- Comparison Charts
- Pairs Correlation
- Statistical data (scanning for opportunities).
- Aligning shares of your Pairs Trade.
- Don can show you how to do all of this 😊



Fear NOT the Pairs Trade!

- You may not know Pairs Trading OR have limited experience in placing ANY trades.
- We can show you HOW and WHEN to place a Pairs Spread in a matter of a few hours.
- TheoTrade creates detailed recipes for every strategy including Pairs Trades
- You would not bake a cake without a recipe, so why trade without one!

Why Doesn't Everyone Do This?

- Here is what you NEED to KNOW!
 - ✓ What stocks or etf's can I trade this on?
 - ✓ How do I determine what to “pair” together?
 - ✓ Position sizing?
 - ✓ Aligning the two underlying's into one Pairs Trade.
 - ✓ What is the correct correlation for the trade?
 - ✓ Can I do this with options and which options do I use?
 - ✓ How do I execute the trade?
 - ✓ When do I exit?
 - ✓ What to do in a losing position?

THEOTRADE RECIPES IN TRADING

Criteria... it's what we at TheoTrade do!

Trading is about Answering the What Ifs

- What makes good setups and candidates for a Pairs Trade?
- How do I buy one stock and sell another?
- How much capital do I commit to these Pairs Trades?
- If I trade Pairs Options what Strike Price Options do I buy/sell and how many?

TheoTrade Has Your Answers

- TheoTrade has the answer to your trade related questions!
- We Build Recipes with definitive criteria and checklists for each strategy and each unique variable you will encounter.

How, When, Why, at What Price?

- This is just the beginning of the many variables you will face while constructing Pairs Trades...

The Secret is in the Sauce

- Now you may be thinking... hey I can read about “Pairs”... well think again!
- The following strategies and corresponding criteria requires the utmost attention to detail.
- We spent MONTHS fine tuning this trade setup and criteria, when we approach the section on criteria **FOLLOW the STEPS** to build a trade!
- Would you like the criteria to build an a Pairs Trade?

Pairs Trading: The Final Frontier

- Trade Instructor: Don Kaufman
- Class is available immediately with unlimited access
- Entry and exit criteria checklist available immediately for download.
- As an added bonus
 - BONUS #1: Pairs Trading 101: 3 Part Correlation and Comparison Series
 - BONUS #2: Options 201: Vertical and Calendar Essentials
 - BONUS #3: Futures 101: Introduction to Futures Products
- **\$197 www.TheoTrade.com/pairs**

TheoTrade.com/Pairs

Pairs Trading: The Final Frontier – Curriculum

- The best setups for pairs trading so you can take complete advantage of this non-directional, market neutral strategy.
- Why correlations are snapping back in alignment like never before making this an ideal time to learn about Pairs Trading.
- How to trade pairs trades with stocks, ETF's, options, or futures so you can best utilize your capital; trade with as little as \$5,000!

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Pairs Trading: The Final Frontier – Curriculum (continued)

- How to build your own Pairs trading systematic setups and how to enter, exit and execute each trade without being glued to your computer screen.
- Step by step criteria to construct unique Pairs Trades, taking you through a recipe with formulaic accuracy for creating your own trades.
- How pairs trading puts the statistical odds in your favor from the initiation of each trade setup.

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Pairs Trading: The Final Frontier – Curriculum (continued)

- Discover why trading market relationships and NOT direction has been a go-to strategy of countless hedge funds and trading firms for decades.
- How Pairs Trading negates market risk so you can reduce your exposure to the midst of the most extreme market volatility.
- How pairs trading can be one of the safest ways to generate consistent returns whether the market goes up, down, or sideways.
- How you can build a market neutral trading strategy that can profit in any kind of market

**Or Would You Like Access to EVERY Class
We Have Ever Done?**

**And Access to EVERY Class We Will Do for
the next YEAR?**

**Here's what's included in the TheoTrade
Curriculum...**

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- All of the bonuses with the class AND
- Options 101: The Basics and Beyond
- Options 301: Volatility Essentials
- Guide to Selling High Probability Spreads
- The Next Big Short: Risk Twist Spread Class
- Surviving the Extreme Volatility
- Iron Up: Iron Condors for You and Me
- Sell Premium and Manage Risk
- Covered Calls: Income Generation for Your Stocks
- Essential Skills for Consistency in Trading Class
- Weekly Options Class
- Butterfly's Guide to Weekly Returns Class
- Technical Analysis 101: A Comprehensive Guide to Becoming a Better Trader Class
- Fractal Energy Trading Class
- RSI Unleashed Class: Building a Comprehensive Trading Framework
- Plan or Get Slaughtered Class
- Increasing Vertical Spread Probabilities with Technical Analysis
- Small Account Options Trading Workshop
- The Top Ten Skills for Growing a Small Account
- Plus a MINIMUM of 1 class per month!

\$997 ONE YEAR of EVERYTHING WE DO!

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