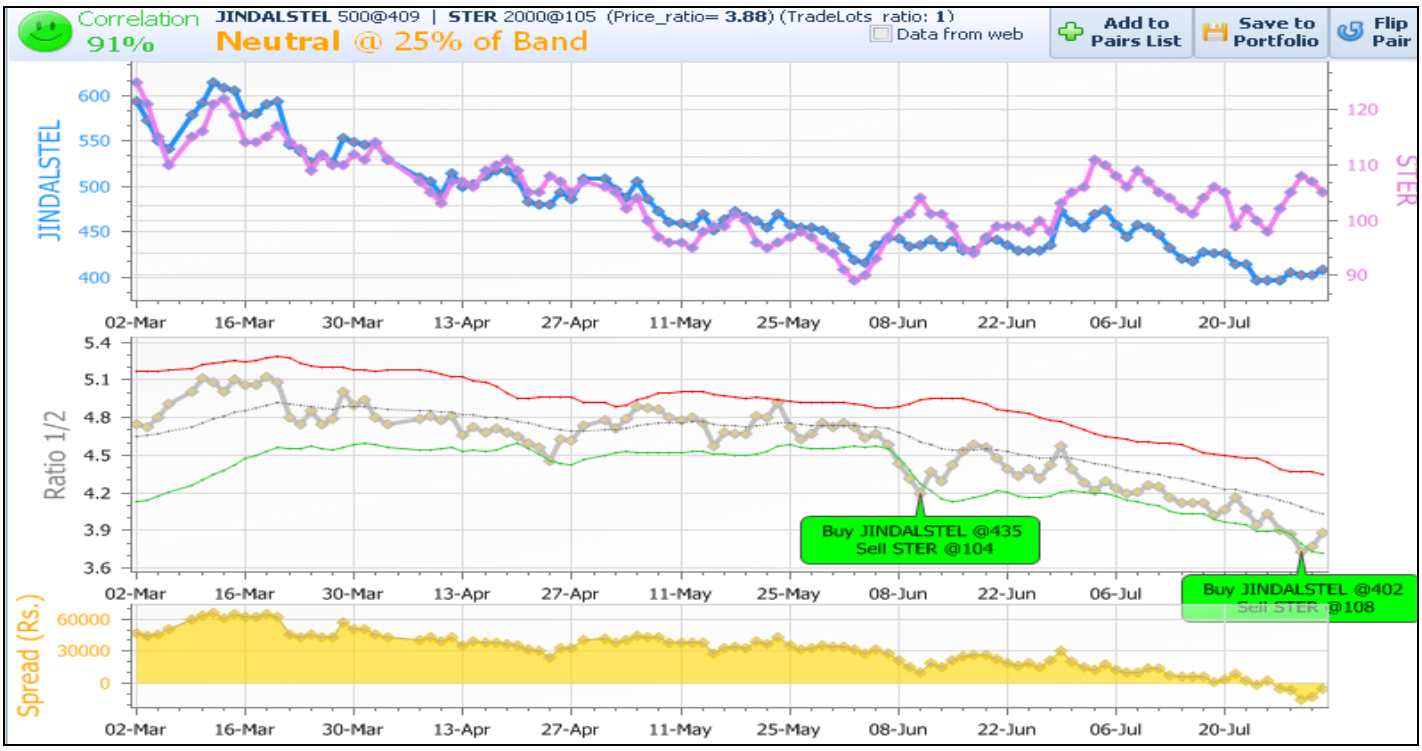
Pair Trading Strategy

August 02, 2012

One could initiate a statistical pair trade on the expectation that **Jindal Steel** will outperform **Sterlite** in the near term.							
Start Date	Buy/Sell	Stock	Entry Price	Entry Ratio	Target Ratio	Stop Loss	Time Horizon
02-Aug-2012	Buy	Jindal Steel Aug Fut.	409.00	3.88	4.04	3.77	1-4 Weeks
	Sell	Sterlite Aug Fut.	105.00				

The strategy is to be executed by buying 1 lot of **Jindal Steel Aug Future** and selling 1 lot of **Sterlite Aug Fut**. Entry ratio is 3.88 and mean ratio for the pair is 4.04. The pair is trading way below its recent price ratio and we expect the pair to move near to its mean of 4.04 and above.



Key Statistics

Current ratio is 3.88
Target ratio is 4.04
120 days correlation 91%
Profit Expected from Pair Strategy: `.7700 *
Maximum loss possible: `.6500 *
* Calculated keeping the lower price variable constant

Stock Name	Jind St.	Ster
Action	Buy	Sell
Lot Size	500	2000
Future Price	409.00	105
Value	204500	210000
Difference	5500	
Ratio	3.88	

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