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## Forecasting on the spread between two stocks in pairs trading

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## Abstract

This thesis is about to forecast the spread between the two stocks traded in pairs with 1- and 2-step-ahead in two different ways: directly forecast the spread series using an univariate AR model; and indirectlyforecast the spread series through the forecasting of the prices of the associated stocks using a multivariate VAR yielded ECM model. The fore-casting process follows a time series cross-validation procedure and the Naive forecasting approach is used as a benchmark. The results indicate that none of the AR or VAR yielded ECM model is outperform the Naive approach, however the ECM model is in overall more accurate than the simple AR model.

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