

# Accepted Manuscript

Pair-trading profitability and short-selling restriction: Evidence from the Taiwan stock market

Jai-Jen Wang, Jin-Ping Lee, Yang Zhao

PII: S1059-0560(17)30530-0

DOI: [10.1016/j.iref.2017.07.021](https://doi.org/10.1016/j.iref.2017.07.021)

Reference: REVECO 1466

To appear in: *International Review of Economics and Finance*

Received Date: 1059-0560 1059-0560

Revised Date: 1059-0560 1059-0560

Accepted Date: 1059-0560 1059-0560

Please cite this article as: Wang J.-J., Lee J.-P. & Zhao Y., Pair-trading profitability and short-selling restriction: Evidence from the Taiwan stock market, *International Review of Economics and Finance* (2017), doi: 10.1016/j.iref.2017.07.021.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



# Pair-trading profitability and short-selling restriction: evidence from the Taiwan stock market

Jai-Jen Wang,<sup>\*</sup> Jin-Ping Lee,<sup>\*\*</sup> and Yang Zhao<sup>\*\*\*</sup>

## Abstract

This paper examines the profitability of a pair-trading strategy in the Taiwan stock market while considering alternative frequency-distance filters, thresholds for opening a pair trade relationship, reinvestment mechanisms, different lengths of trading period, industry boundary, and the short-selling restriction. In contrast with the recent literature showing that pair-trading strategy returns are insignificant and negative in the Taiwan stock market, we find that the profitabilities of pair trades developed by positions in the Taiwan 50 Index during 1990/1~2016/3 present significant annualized mean returns of 1.84%~3.04%. Moreover, thresholds with different stringent degrees, industry boundary, and alternative reinvestment mechanisms are unable to help pick out more profitable pair-trading portfolios. The distance filter and shorter trading-day setting are more reliable for pair trading. Finally, the deregulation on short selling results in more pair-trading activities, which obviously diminish the profitability of a pair-trading strategy.

**Keywords:** Pair trading; FTSE TWSE Taiwan 50 Index; distance filter; frequency filter; short-selling restriction.

**JEL classification:** G10, G12, G14.

---

<sup>\*</sup> Department of Finance, Feng Chia University, No. 100 Wenhwa Rd., Situn, Taichung, Taiwan 40724. Tel.: +886-04-24517250 x4162, Fax: +886-04-24513796, e-mail: jplee@fcu.edu.tw.

<sup>\*\*</sup> Department of Finance, Feng Chia University, No. 100 Wenhwa Rd., Situn, Taichung, Taiwan 40724. Tel.: +886-04-24517250 x4160, Fax: +886-04-24513796, e-mail: wangjj@fcu.edu.tw.

<sup>\*\*\*</sup> Institute of Finance, National Chiao Tung University, No. 1001 Ta Hsueh Road, Hsinchu 300, Taiwan, e-mail: zy0383905@foxmail.com.

Download English Version:

<https://daneshyari.com/en/article/7355430>

Download Persian Version:

<https://daneshyari.com/article/7355430>

[Daneshyari.com](https://daneshyari.com)