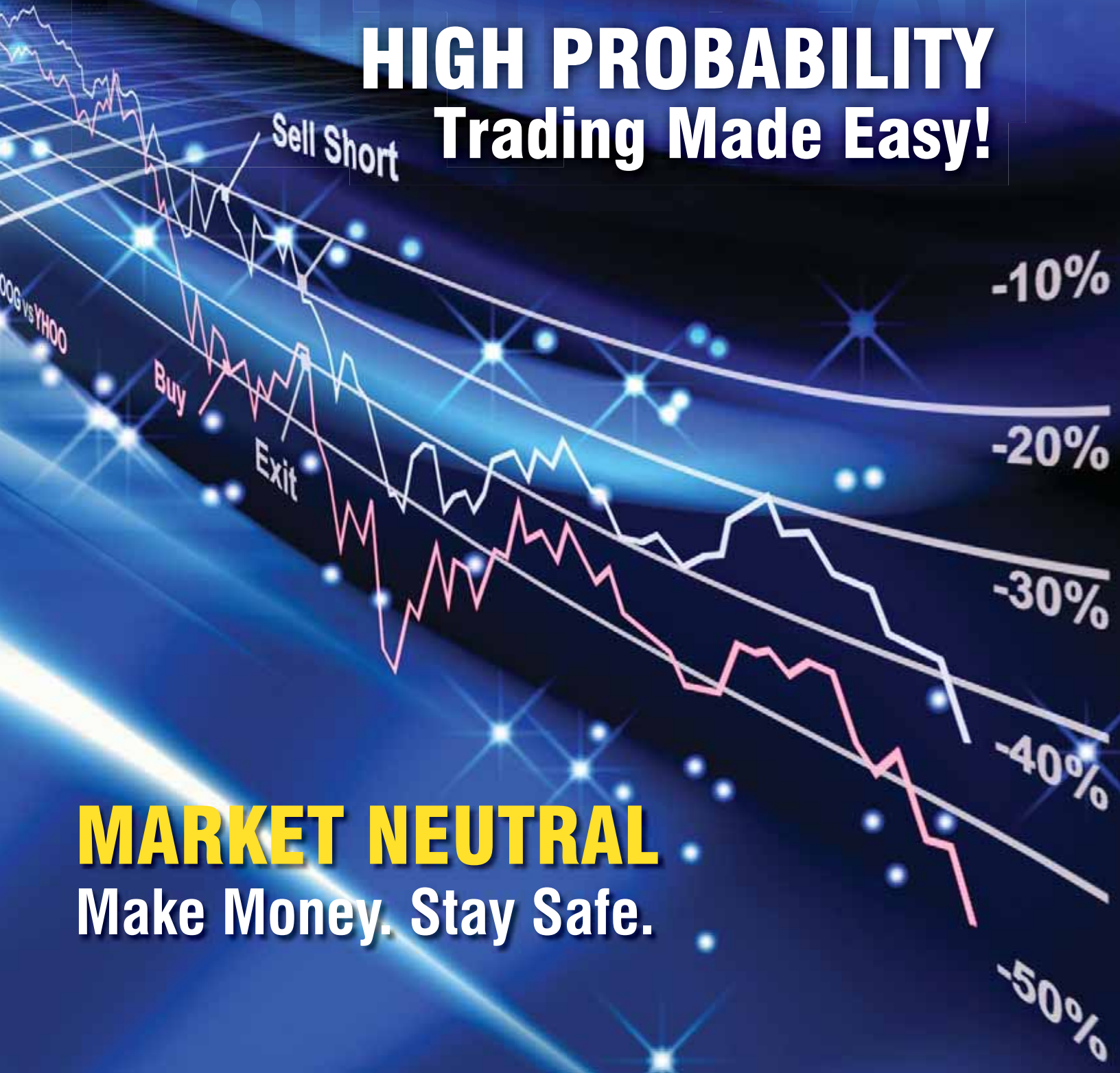


Nirvana's

# PairTrader

**HIGH PROBABILITY  
Trading Made Easy!**



**MARKET NEUTRAL**  
Make Money. Stay Safe.

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# The Secret Wealth Machine

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**Ed Downs**  
CEO and Founder  
Nirvana Systems, Inc.

Sometimes even the best Strategy is going to go long in a down market. While we always expect some losses when we trade, what if you could dramatically reduce them?

What if there was a method that (a) consistently made money and (b) reduced or almost eliminated the MARKET RISK associated with long and short directional positions? That's precisely what pair trading offers.

Pair trading has always been a somewhat sophisticated technique, because of the need to identify "correlated pairs" to engage it. Our NEW PairTrader Module has simplified this process, making it easy to trade pairs for more consistent profits.

The IDEA of Pair Trading is simple: Find two "correlated" vehicles—stocks, indexes, ETFs, or futures that tend to move up and down together. When their relationship gets "out of line", you buy one and sell (short) the other. Then, as the pair comes back in line, sell the first and cover the second. As long as the correlated pair moves back to its normal relationship, there is a guaranteed profit!

Pair trading can be very profitable, because statistically, the odds are in your favor. But the most compelling reason to trade pairs is they help you avoid market risk. If the market suddenly gaps down 300 points one morning, gains on the short position can completely cancel losses on the long side. In fact, you have a reasonable chance to make money.

We know that many of our customers have already been using OmniTrader to trade pairs. Many have been doing this using spreadsheets and rather involved processes to find correlated pairs, and then manually trading both sides.

Not only does PairTrader automate the process of finding correlated pairs, it also automatically generates the Spread charts and allows you to trade the pairs as a unit in Trade Plans! We also provide special Strategies that easily identify the best pair trading opportunities.

We are including a special seminar that explains the pair trading concept so you can easily employ it in your trading. You will learn how to select which pairs to trade and how to trade them for a profit.

As with all of our products, PairTrader comes with a 90 day money back guarantee, allowing you to explore this module and see how you can greatly reduce risk in this uncertain market. Try PairTrader today and discover why this is the preferred trading method for many of the most successful traders!

Sincerely,



Ed Downs  
CEO and Founder  
Nirvana Systems, Inc.





# The Ideal Investment Approach?

## WHY PAIR TRADING MAKES \$ENSE

We all know that securities in the same group tend to move together, but frequently some of these related stocks temporarily separate, only to come back into line a short time later.

The idea of pair trading is to profit from this temporary imbalance between the two related securities. It can be two Oil stocks, two Industrial Equipment stocks, etc. or any two correlated instruments. Once the pair is established, we simply look for deviations from that relationship, then profit from the imbalance.

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Using Pair Trading, we profit from a temporary imbalance between two related instruments.

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To set up the pair trade, we buy one of the correlated instruments while simultaneously shorting the other. This setup allows us to profit from relative price movements between the two with significantly reduced exposure to other market risks. The example to the right illustrates this concept using the stocks.

Many stocks and futures have the highly correlated movement that provides outstanding pair trading opportunities. The problem was that, up until now, it was incredibly difficult to identify the profitable pairs from the sea of possible combinations.

PairTrader has changed all that!

### The Anatomy of a Pairs Trade



The chart at the top of the page shows the price charts for Boston Properties (BXP) and Vornado Realty (VNO). You can see how well these two stocks move together, providing us with a great pair. Below that is the pairs spread chart (BXP-VNO), which is basically a plot of the price difference between the two stocks. The spread chart shows that through July and August, the two stocks moved in a similar manner which creates a tight spread. However, in late September BXP began to fall while VNO held its ground. This move causes the spread to widen, and presents us with a good pair trade opportunity.

In order to take advantage of this move, we buy the pair. In this case, that means we buy BXP and sell VNO. After the trade is taken, BXP began to move up rapidly while VNO stayed relatively flat. A week later, we exit the trade. The short on VNO resulted in a small loss, but the gain we made on the long for BXP far exceeds VNO's loss, and we profit from the pair falling back in sync with each other.

# Reducing Market Risk

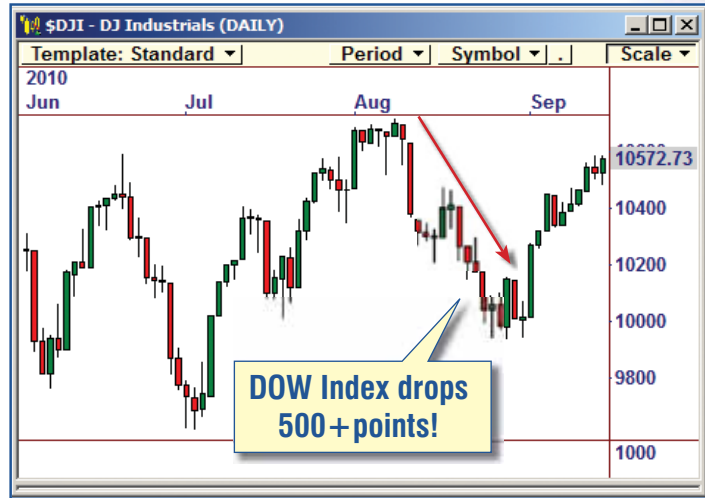


**H**edge funds and large investment firms have been trading pairs for years as a way to take advantage of opportunities with reduced market exposure.

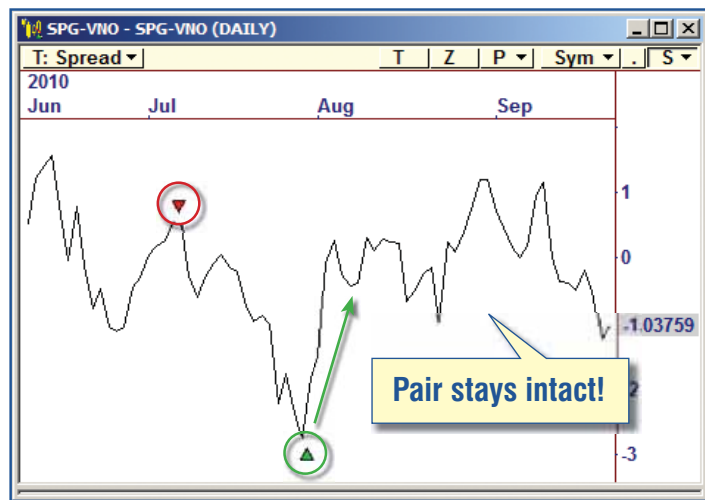
The concept works because “correlated” pairs move together in up and down markets. Take the pair shown to the right between SPG and VNO. The spread for the pair shows an abnormal move in July, signaling a good time to buy the pair. To trade the pair, we buy SPG and sell twice as many shares of VNO.

In the middle of August, the DJIA suddenly shed 500 points. As one would expect, both SPG and VNO dropped along with the market, but since the pair was so well correlated, the spread was able to withstand the market weakness. Net effect—negligible.

This is the essential reason pairs are so attractive—we can identify an out-of-balance relationship in the market with a high profit potential, but also with much of the downside (market) risk eliminated. Of course, there are still risks—a pair can get upside down by moving in opposite directions, but prudent money management techniques can handle this risk as well. Or, one can trade Options on the pair. These topics are covered in the seminar described on page 6.



The weakness in the overall market...

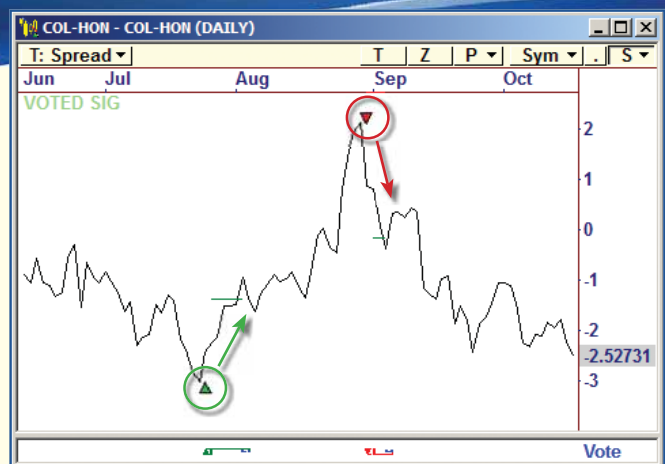


...does not affect the SPG-VNO spread.

## Bollinger Band Pair Strategy

To the right is a snap shot of pair trades generated by PairTrader’s Bollinger Band Pair Strategy (BBP-R). As the spread for COL-HON drifted downward in late July, the BBP-R Strategy fired a long signal and the resulting trade gained almost 1% in only a few days. In late August the spread rises to an abnormal level resulting in a short trade. Once again a profit is realized in less than a week.

The BBP-R Strategy consistently finds great pair trades while keeping drawdowns to a minimum—and it is yours with your purchase of PairTrader!





# Trading Pairs with PairTrader

## 1. Generate Pairs to Trade

If you have ever tried to trade pairs before, be prepared for a pleasant surprise. Simply bring up the PairTrader interface, target two groups or indexes, and click GO. PairTrader will search through all combinations of pairs between the groups and calculate the correlation between every pair. The highest-correlated pairs float to the top, which we then add to the Focus List.

You can define your pairs using Price Ratios or Beta-Weighted Ratios—a topic which is covered in the seminar described on page 6. A Ratio is calculated which will be multiplied by the lower-priced symbol to “equalize” the pair.

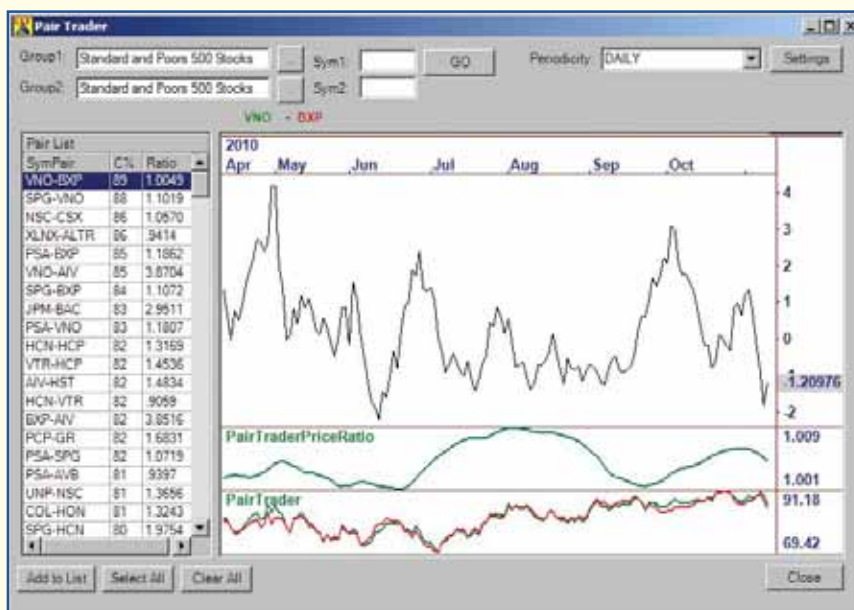
## 2. Generate Signals

You can apply classic technical analysis to the pair charts, use existing Strategies for signal generation, OR you can use the BBP-R Strategy provided with PairTrader. The concept behind this Strategy is to detect abnormal divergence within a well correlated pair. These opportunities provide us with outstanding pair trade entries!

## 3. Trade the Signals

For a Buy signal, we want to buy the first symbol in the pair and short the second. For a Short signal, we do the opposite. We have updated our Trade Plan interface to treat pairs as a single symbol, performing the Buy/Sell on each component of the pair at the same time. When you place a pair trade, a special Trade Plan establishes Profit Targets and Stop Loss Levels on the value of the pair, just like it does for a single symbol. All Stops, including Trailing Profit Stops, Fixed Loss Stops, etc. can be used in your PairTrader Trade Plans.

## HOW IT WORKS



PairTrader Interface



PairTrader Signals & Trading



## Futures Spreads

PairTrader works great on futures. Many commodities traders trade seasonal pairs year after year. You can create either INTER-commodity spreads or INTRA-commodity spreads between contracts with different expiration months.

To the right is a spread on December 2010 Crude Oil vs. June 2011 Crude Oil. While these two contracts are for the same commodity, and the charts look very similar, there is enough divergence between the two to allow for pair traders to profit.



The BBP-R Strategy applied to the spread of December 2010 Crude Oil and June 2011 Crude Oil.

## INCLUDED! NEW SEMINAR

### *The POWER of Pair Trading*

Because pair trading involves trading two securities at the same time, it has up to now not been very accessible to most investors. To help you get the most out of PairTrader, we are including our new seminar, *The Power of Pair Trading*. It takes you through the basic concepts of pair trading, introduces you to the PairTrader software, and shows you how to use this module to create and trade pairs easily! Whether you are new to pair trading, or if you are a seasoned veteran, this seminar will show how to use PairTrader to generate consistent profits with reduced market risk.

#### Seminar Topics Include:

- The Advantage of Market Neutral Trading
- How a Pair Trade is Constructed
- How to Find the BEST Pairs to Trade
- Testing Pair Trades with OmniTrader
- How to Engage the Market with PairTrader
- Pairs on Futures
- and much more!





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-10%

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