# Report on Bachelor / Master Thesis

**Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague**

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|---|---|
| **Student:** | **Jakub Šedivý** |
| **Advisor:** | **Aleš Maršál** |
| **Title of the thesis:** | **Pairs trading at CEE markets** |

***OVERALL ASSESSMENT*** *(provided in English, Czech, or Slovak):*

*Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.*

**Contribution**

The goal of the thesis is to design pairs trading strategy which would prove profitable at CEE markets (Prague Stock Exchange, Bucharest Stock Exchange and Budapest Stock Exchange).

The main contribution of the paper is the application of two different methodological approaches, method of distance and co-integration, to CEE markets. These markets are specific by lower size, diversity of industries and liquidity compared financial markets in Western Europe or North America where pairs trading was extensively studied and exploited.

Jakub finds that there is no "free lunch" at the CEE markets. By simple application of co-integration or distance method investors cannot **consistently** earn abnormal return at CEE markets.

**Methods**

Author demonstrates that he got familiar with basic basic time series concepts. He proves that he is able to apply the co-integration and distance method to his research question. He also demonstrates that he is able to work with the methodology of the state of the art literature in the field. In the application of distance method author closely follows Gatve, Goetzmann and Rouwenhorst (2006, Review of Financial Studies).  The same paper is also chosen to be a guideline for performance evaluation. Co-integration follows the standard Engle and Granger (1987) approach.

Data are taken from Reuters and some directly from the local exchanges. The data set is split into two sub-samples. First, the formation period is constructed where co-integration and distance method are estimated. The performance evaluation is run then on the second subsample.

**Literature**

Author provides nice literature review introducing the reader in to the pairs trading and demonstrates that he got familiar with the relevant backround literature.

**Manuscript form**

The thesis manuscript form fullfills the standards of undergraduate thesis.

Jakub demonstrates that he is familiar with the related literature. The methodology corresponds to the level of bachelor thesis. The arguments in the thesis are clear and comprehensive. To wrap it up, I consider this thesis well written and fully satisfying the standards of master thesis at Charles University.

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**SUMMARY OF POINTS AWARDED** *(for details, see below):*

| CATEGORY | | POINTS |
|---|---|---|
| *Contribution* | *(max. 30 points)* | 29 |
| *Methods* | *(max. 30 points)* | 29 |
| *Literature* | *(max. 20 points)* | 20 |
| *Manuscript Form* | *(max. 20 points)* | 15 |
| **TOTAL POINTS** | *(max. 100 points)* | **93** |
| **GRADE** | **(1 – 2 – 3 – 4)** | |

*NAME OF THE REFEREE: Aleš Maršál*

*DATE OF EVALUATION:*

_____
*Referee Signature*

## EXPLANATION OF CATEGORIES AND SCALE:

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

| Strong | Average | Weak |
|--------|---------|------|
| 20 | 10 | 0 |

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

| Strong | Average | Weak |
|--------|---------|------|
| 30 | 15 | 0 |

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

| Strong | Average | Weak |
|--------|---------|------|
| 30 | 15 | 0 |

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

| Strong | Average | Weak |
|--------|---------|------|
| 20 | 10 | 0 |

### Overall grading:

| TOTAL POINTS | GRADE | | |
|--------------|-------|------------------|----------------------------|
| 81 – 100 | 1 | = excellent | = výborně |
| 61 – 80 | 2 | = good | = velmi dobře |
| 41 – 60 | 3 | = satisfactory | = dobře |
| 0 – 40 | 4 | = fail | = nedoporučuji k obhajobě |