

## Actionable Ideas for the Power to Optimize Your Trades

### Simplifying Pairs Trading

#### **Nick Druett**

Head of EMEA Equities Electronic Trading

Mr. Druett: Twenty-eighteen has been a very strong year for M&A volumes, offering more opportunities for risk arbitrage trading strategies. When executing this kind of trade and other pairs trades there are a number of factors to consider. Finding ways to simplify your trading could help optimize your outcomes.

Order entry is the first challenge, so we've designed our screens to make order entry simpler across multiple vendors. Traders can use specifically designed screens for different types of pair's trade, even when trading complex spread scenarios which may include deal terms for risk arbitrage trades. Where possible tickets include real-time spread calculations to ensure accuracy in your decision making before routing to the market.

The next challenge is for the algorithm to ensure you are trading within your specified spread limit. This can be a simple ratio limit or a more complex risk arbitrage spread where traders are trying to capture a premium, discount or cash spread. BofAML offers different trading urgencies which allow the trader to ensure they trade within their limit whilst also maximizing liquidity sourcing across passive, aggressive and dark orderbooks.

The final challenge is managing market impact and legging risk when trading stocks with different liquidity profiles across the day. For example, one stock might be liquid enough to complete in 30 minutes at the desired trading speed but it could take 2 hours to complete the other leg. Traders can manage impact by controlling participation across individual securities and the pair as a whole, while legging risk is managed automatically within user specified tolerances.

For other actionable insights across asset classes, check out the rest of our Trader Insights series or contact your sales rep