

# Introduction

## Different Types of data -

- Cross-sectional data : Cross sectional data can obtained by taking multiple observation from multiple individuals at same point in time.
- Timeseries data : Timeseries data can obtained by taking multiple observations from same source at different points of time.
- Panel data : Panel data is collection of multiple observations over multiple points in time. It is combination of cross-sectional data and Time-series data.

The **Nifty50** data that used is Time series data from **APR-2010** to **MAR-2018**.

# Internal structure of time series

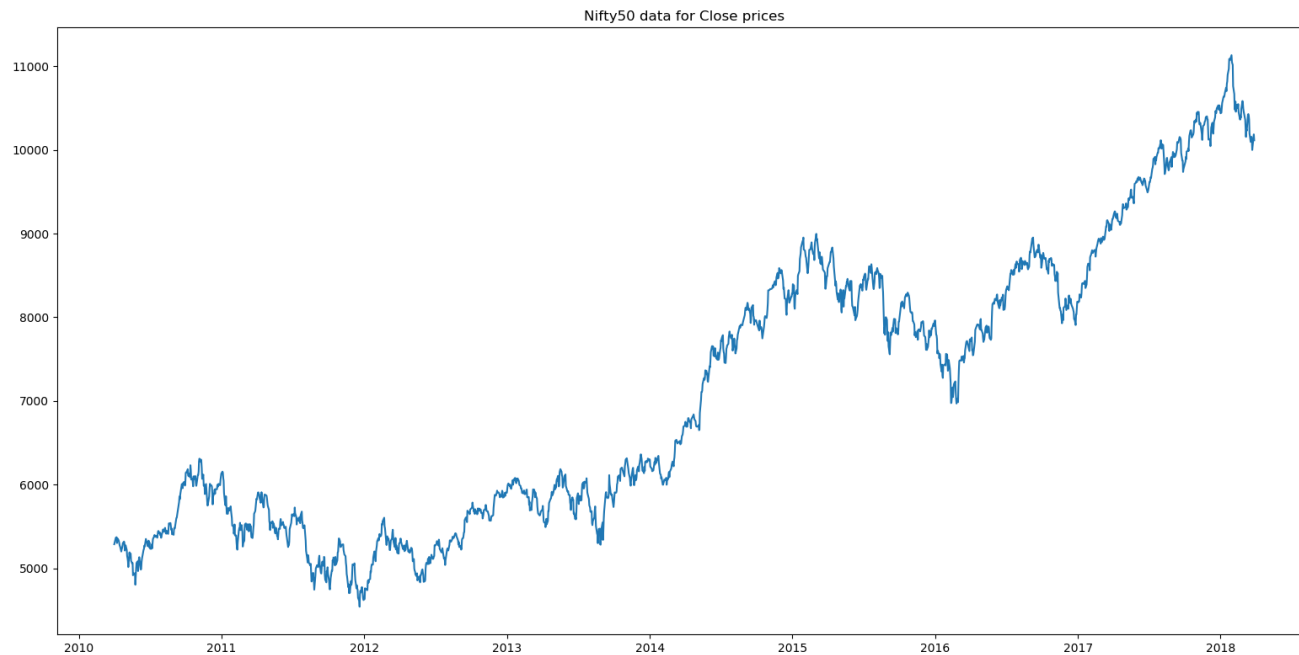
A Time series is a combination of General trend, Seasonality, Cyclic movements and Unexpected variations.

- A timeseries can be expressed as  $x_t = f_t + s_t + c_t + e_t$

Where,

- $f_t$  is Trend component
- $s_t$  is Seasonal component
- $c_t$  is cyclic component
- $e_t$  is irregular component
- $t$  is the time index at which observations about the series have been taken

- **General Trend** : When there is Upward or downward movement present in data in a long run, is Known as general trend.



- **Seasonality** : If repetitive patterns present in data which occurs over known periods of time are known as seasonality. Mostly, presence of seasonality can be reveals by exploratory data analysis.
- **Cyclical movements** : If there are movements observes after every few units of time and do not have fixed periods of variations are known as cyclic movements.
- **Unexpected variations** : Occurance of sudden changes in time series which are rarely repeted. This component also known as residuals.

# Stationary time series

A timeseries is known as stationary when it is free from Trend and seasonality. Its statistical properties like mean, variance, autocorrelation etc are constant over time.

- check stationarity of timeseries : To check stationarity of timeseries we can-
  - i. Plot Rolling statistics of timeseries
  - ii. Apply Augmented Dickey Fuller test

- By plotting Rolling statistics we can easily identify trend component.



- Augmented Dickey fuller test is statistical test to check the stationarity of timeseries. It uses null hypothesis testing where  $H_0$  rejected if p-value is greater than 0.05.

Test Statistic	-0.371803
p-value	0.914701
#Lags Used	1.000000
Number of Observations Used	1985.000000
Critical Value (1%)	-3.433649
Critical Value (5%)	-2.862997
Critical Value (10%)	-2.567546
dtype: float64	
Time Series is not stationary	

# Methods to detrending data

1. Differencing
  2. Regression
  3. Statistical function
- **Differencing** : Differencing is processs of taking difference original timeseries with itself by lag.  
example of time series with lag 1 -

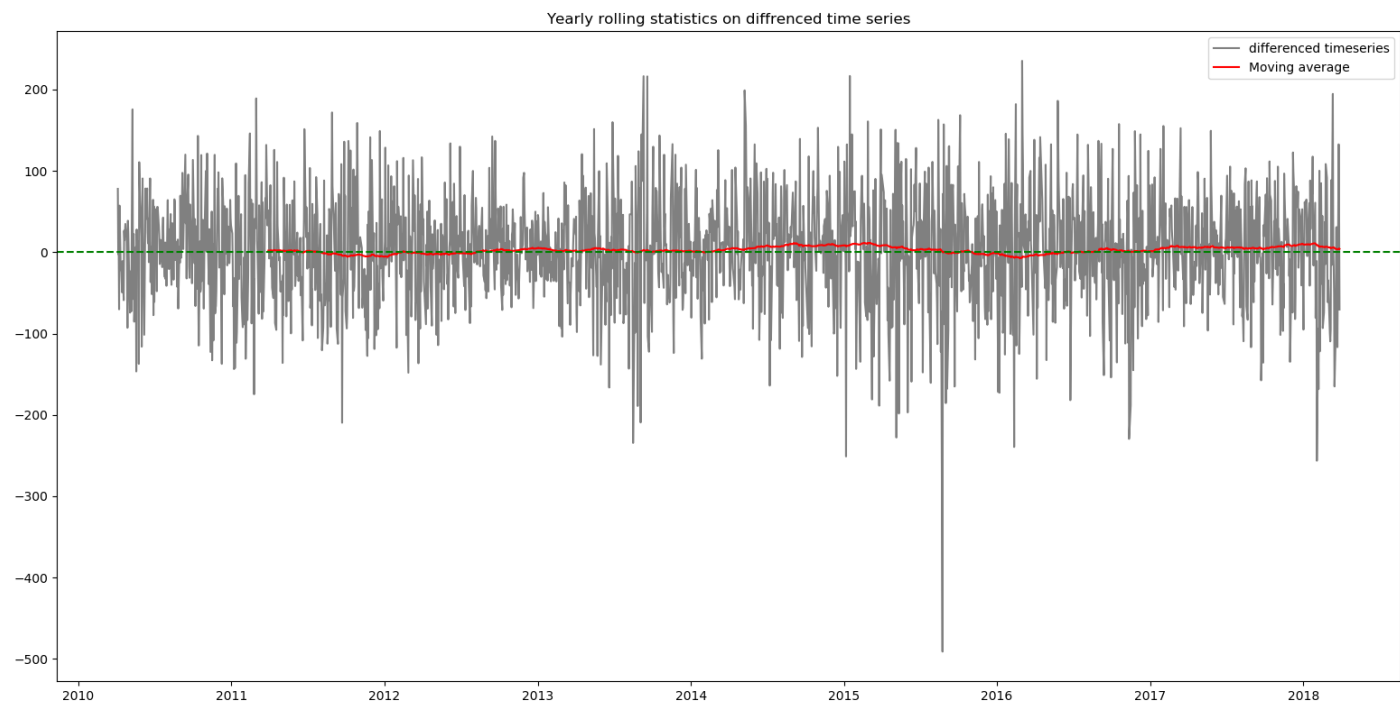
$$\Delta x_t = x_t - x_{t-1}$$

Where,  $\Delta x_t$  is stationary time series.

$x_t$  is original time series.

$x_{t-1}$  is time series with lag 1.

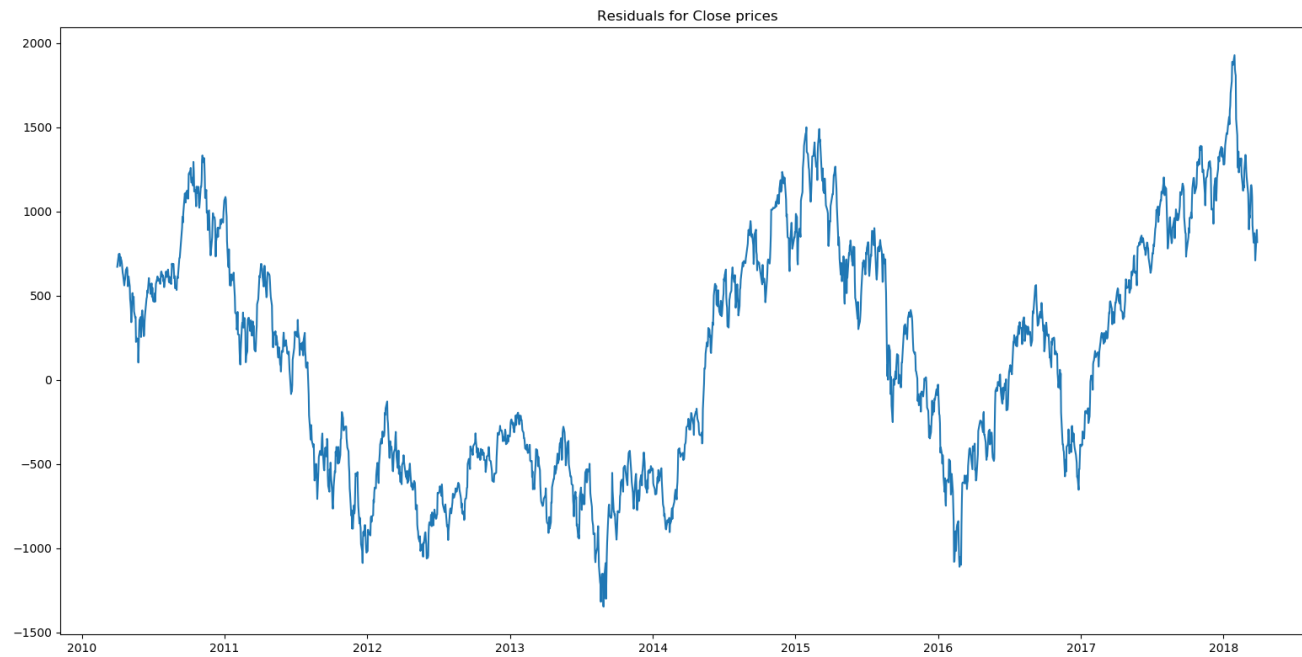




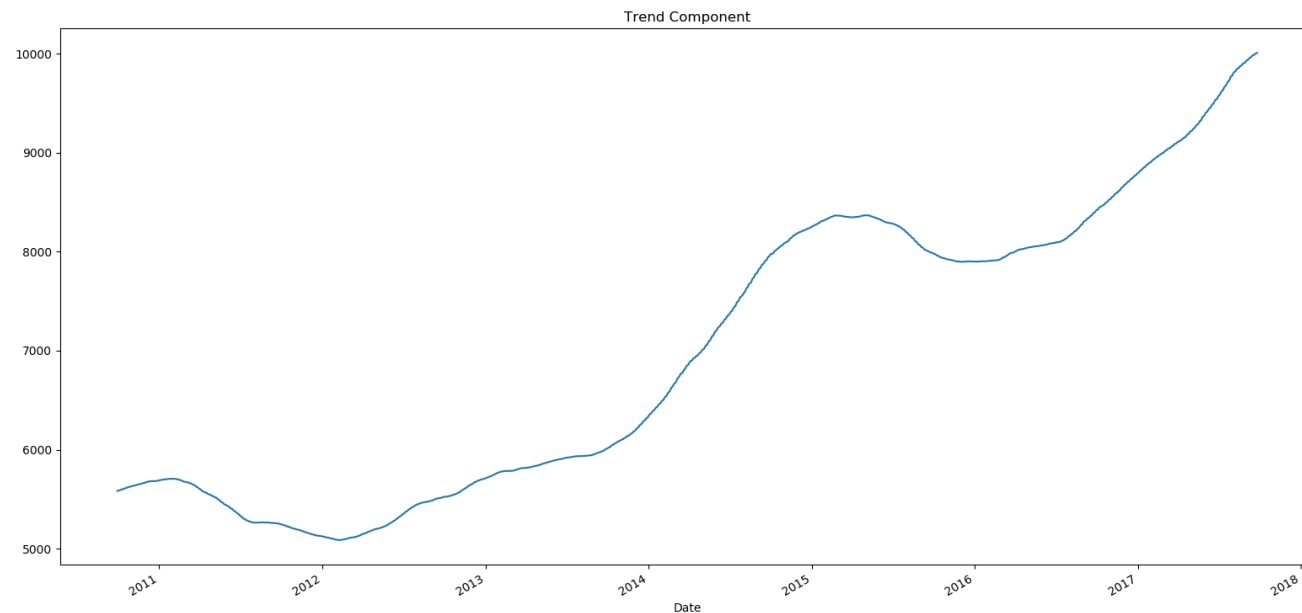
- **Regression** : Regression is useful to find trend line and to remove trend component, take difference between original time series and trend line.



- After removing trend we will get Residuals.



- **Statistical function** : In python a function named `seasonal_decompose` is present in library `statsmodels.tsa.seasonal` which separate Observed data(i.e. original data), trend component, seasonal component and residuals.



# Forecasting

There are many Statistical models for timeseries forecasting. Among them ARIMA is widely used model which is combination of Autoregressive, Integration(differencing) and Moving average models.

- Autoregression : This model gives output which depends on its own previous values.
- Differencing : Integration or differencing makes series stationary.
- Moving Average : This model analyze data points by creating series of averages of subsets of data.

