Cryptocurrency Price Movement Prediction in Deep Learning using ActorToCritic(A2C)

A project report submitted in partial fulfillment.
of the requirements for the award of a degree in

Masters of Science
Data Science

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(2023-2024)

CERTIFICATE

This is to certify that the project entitled **“CRYPTOCURRENCY PRICE MOVEMENT PREDICTION USING A2C IN DEEP LEARNING”** is bonafide work done by **ABRAR AHMED ,** Regd. No: 2023005662 during **December 2024 to April 2025** in partial fulfillment of the requirement for the award of degree of **Master of Science, Data Science** in the Department of Computer Science, GITAM School of Science, GITAM (Deemed to be University), Visakhapatnam.

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DECLARATION

I, ABRAR AHMED, Regd. No: 2023005662 hereby declare that the project entitled **“CRYPTOCURRENCY PRICE MOVEMENT PRDICTION USING A2C IN DEEP LEARNING”** is an original work done in the partial fulfillment of the requirements for the award of the degree of **Master of Science, Data Science** in **GITAM School of Science, GITAM (Deemed to be University), Visakhapatnam.** I assure that this project work has not been submitted towards any other degree or diploma in any other colleges or universities.

ACKNOWLEDGEMENT

It is my prime duty to express my sincere gratitude to all those who have helped me to successfully complete this project. I also express my respectful and sincere thanks to my project guide Mrs Varanasi Satya Aruna Assistant Professor who has given timely advice and supported me in my work. I express respectful and sincere thanks to our Project In charge **Mrs Varanasi Satya Aruna** Associate Professor who has mentored us throughout our project. Your tireless effort and dedication have made this project successful. I would like to acknowledge your expertise, hard work, and commitment that have been invaluable in delivering the project on time and meeting all the objectives. Your contribution to the project has been crucial, and without it, I would not have been able to achieve the desired outcome. I express respectful and sincere thanks to our Head of the Department **Dr. T. Uma Devi**, Associate Professor and the faculty members of our department for the valuable cooperation, guidance and continuous support rendered by them to me throughout my project work. I express my gratitude to **Prof. K. Vedavathi** , our beloved principal, for the facilities provided by her throughout the course. I express my gratitude to **Prof.Balkumar Marthi** , our beloved dean, for the invaluable support and guidance provided by him throughout the course. Finally, I would like to thank all my friends and my parents for giving full advice and giving full support for the completion of this project.

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INTRODUCTION

Cryptocurrencies, particularly Bitcoin, have revolutionized the financial landscape, offering a decentralized and highly volatile trading environment. Accurately predicting Bitcoin's price movements is a challenging task due to its high market fluctuations, global economic influences, and unpredictable investor behavior. Traditional statistical models and machine learning approaches have been widely used for price prediction; however, deep reinforcement learning (DRL) presents a more adaptive and intelligent solution.This project focuses on leveraging deep reinforcement learning, specifically the Soft Actor-Critic (A2C) algorithm, to predict Bitcoin price movements and generate automated trading strategies. Unlike conventional supervised learning models that rely solely on historical data patterns, reinforcement learning enables an agent to interact with the trading environment, learn from past experiences, and optimize trading decisions based on a reward mechanism. The agent receives market data, selects actions such as buy, sell, or hold, and refines its strategy through continuous training. A key component of this approach is the **Replay Buffer**, which stores past experiences to enable stable learning, and the **Actor-Critic architecture**, where the Actor network selects optimal actions while the Critic network evaluates their effectiveness. Additionally, **Entropy Maximization** ensures exploration by preventing premature convergence to suboptimal strategies. By employing **Off-Policy Learning**, the model efficiently learns from a diverse set of past experiences without being restricted to sequential training data. This project aims to create a robust, intelligent trading system capable of making profitable decisions in real-time Bitcoin trading scenarios.

1.1 BACKGROUND

Cryptocurrency trading has gained significant popularity, with Bitcoin being the most widely traded digital asset. Unlike traditional stock markets, Bitcoin operates in a highly volatile and decentralized environment, making price prediction a challenging task. Traditional trading strategies often struggle to adapt to sudden market fluctuations, leading to the growing adoption of AI-driven approaches. Deep Reinforcement Learning (DRL) has emerged as a powerful technique for decision-making in financial markets. Unlike conventional models, DRL-based systems continuously learn from market trends, improving their strategies over time. This project leverages the Actor2Critic (A2C) algorithm to predict Bitcoin price movements and determine optimal buy, sell, or hold actions. A2C, an advanced reinforcement learning method, balances exploration and exploitation, ensuring more stable and adaptive trading strategies. By integrating historical market data, the model refines its decision-making process, aiming to maximize returns while minimizing risks. This AI-driven approach provides a data-backed alternative to emotional or speculative trading, enhancing efficiency in cryptocurrency investments.

1.2 MOTIVATION (PROBLEM STATEMENT)

Cryptocurrency markets are highly volatile, making it difficult for traders to make informed decisions. Unlike traditional financial assets, Bitcoin prices can fluctuate significantly within minutes, leading to substantial risks and potential losses. Many traders rely on intuition or basic technical analysis, which may not always adapt well to rapid market changes.The need for an intelligent, data-driven trading strategy has become crucial to minimize risks and maximize profits. Reinforcement Learning (RL) offers a promising solution by enabling an AI model to learn optimal trading decisions over time. The A2C algorithm, known for its stability and adaptability, can help develop a trading system that dynamically adjusts to market fluctuations.This project aims to leverage A2C-based reinforcement learning to predict Bitcoin price movements and automate trading decisions. By learning from historical data and market trends, the model can provide traders with a more efficient and objective strategy, reducing reliance on emotional or speculative decision-making.

1.3 EXISTING SYSTEM

Cryptocurrency trading is predominantly driven by manual decision-making, technical analysis, and traditional algorithmic trading strategies. Many traders and investors rely on historical price patterns, statistical indicators, and heuristic methods to predict market movements. However, these approaches have several limitations:

High Market Volatility – Traditional methods fail to adapt quickly to sudden price fluctuations.

Human Bias and Emotion – Traders often make impulsive decisions influenced by fear or greed.

Limited Data Utilization – Many strategies rely on a small set of indicators, missing out on deeper market patterns.

Lack of Automation – Most traders manually execute buy/sell decisions, leading to inefficiencies and missed opportunities.

Inefficient Risk Management – Traditional methods lack adaptive risk assessment, leading to higher losses.

Workflow

Market Data Collection – Traders analyze price movements, technical indicators, and news events.

Decision-Making – Based on predefined rules or intuition, traders decide whether to buy, sell, or hold.

Order Execution – Trades are manually executed or through simple automated scripts.

Profit/Loss Evaluation – Traders assess performance and adjust strategies based on market outcome,

1.3.1. Overview of the Existing System and Limitations

The existing cryptocurrency trading systems predominantly use technical analysis tools such as Moving Averages, Relative Strength Index (RSI), and Bollinger Bands. Algorithmic trading strategies based on rule-based systems or statistical models also exist, but they often struggle with dynamic market behavior. These systems are not designed to learn and adapt continuously, making them inefficient in highly volatile environments.

Key disadvantages include:

Inability to Adapt – Traditional methods struggle to adjust to rapid market changes.

Overfitting to Past Data – Rule-based strategies often fail when market conditions change.

No Reinforcement Learning – Existing systems do not utilize AI-driven strategies to improve over time.

Manual Intervention Required – Most approaches still need human oversight, reducing efficiency.

1.4 PROPOSED SYSTEM

1.4.1. Overview of the Proposed System and disadvantages:

The proposed system integrates **deep reinforcement learning** with financial market analysis to develop an intelligent **cryptocurrency trading agent**. This system is designed to make **autonomous trading decisions** by analyzing market data, recognizing patterns, and continuously learning from past experiences. The architecture follows an **Actor-Critic reinforcement learning framework**, where two neural networks work together to optimize trading actions. Below are the key components of the system:

Market Data Collection – The system gathers **real-time and historical Bitcoin trading data**, including **Open, High, Low, Close, Volume, and Market Cap**. This data is sourced from cryptocurrency exchanges to ensure the model has access to the latest market trends. Accurate data collection is crucial as it directly impacts the model's ability to predict price movements effectively.

Feature Processing & Normalization – Before training the model, the collected data is **preprocessed and normalized**. This step includes:

Handling missing or inconsistent data.

Scaling numerical features using **MinMaxScaler** to keep values within a standard range.

Extracting additional features such as **moving averages, Relative Strength Index (RSI), and Bollinger Bands** to improve prediction accuracy.
By normalizing and refining the data, the model learns more efficiently and avoids bias due to extreme values.

Reinforcement Learning Framework – The system uses an **Actor-Critic architecture**, which includes:

Actor Network – Responsible for selecting the best action (**Buy, Sell, Hold**) based on the current market state. The actor learns from rewards and continuously refines its decision-making process.

Critic Network – Evaluates the effectiveness of the selected action by computing a **Q-value**, which represents the expected future reward. If an action leads to profit, the critic reinforces it; otherwise, it discourages the actor from making the same decision in similar conditions.

Training & Policy Optimization – The model undergoes continuous learning using **policy gradient updates** and **entropy maximization** techniques.

Policy Gradient Updates ensure that the model learns a robust trading policy by reinforcing profitable actions and avoiding poor decisions.

Entropy Maximization encourages exploration by preventing the model from always choosing the same actions, helping it discover better trading strategies in unpredictable markets.

The system also utilizes an **experience replay buffer**, which stores past trading experiences and allows the model to learn from them over time.

Trade Execution – Once the model has been trained, it autonomously places orders based on learned policies.

If the model predicts an upward trend, it places a **buy order** to maximize profit.

If a downtrend is detected, it executes a **sell order** to minimize losses.

In uncertain market conditions, it may decide to **hold** and wait for a clearer signal.

This approach significantly improves **adaptability, automation, and decision-making efficiency** in cryptocurrency trading. By continuously learning from past trades and adjusting its strategy accordingly, the proposed system enhances profit potential while minimizing risks associated with manual trading.

Limitations includes:

High Computational Cost – Training deep reinforcement learning models requires significant processing power.

Data Dependency – Model performance heavily relies on the quality and quantity of market data.

Cold Start Problem – Initially, the model may perform poorly until it learns optimal trading strategies.

Overfitting Risk – The system may learn patterns that do not generalize well to unseen market conditions.

Regulatory & Ethical Concerns – Automated trading models may raise concerns in financial regulations.

1.5 AIM AND PURPOSE OF THE PROJECT

The primary aim of this project is to design and develop an intelligent cryptocurrency trading system using deep reinforcement learning (DRL). The system aims to predict Bitcoin price movements and execute automated trading decisions, including buying, selling, and holding assets, based on real-time and historical market data. By leveraging advanced AI techniques, this model is expected to improve trading efficiency, optimize risk management, and enhance overall profitability. The proposed system will act as a self-learning agent that adapts to market trends and continuously refines its strategy through learning mechanisms such as policy optimization, entropy maximization, and reward-based learning.

Purpose

Enhance Trading Accuracy
Traditional trading strategies rely on technical indicators and human judgment, which can be prone to inaccuracies and biases. This project aims to integrate deep reinforcement learning to make more accurate and data-driven predictions, reducing the dependency on subjective decision-making. By analyzing vast amounts of market data, the model improves the precision and reliability of trading strategies.

Automate Decision-Making
Manual trading requires constant monitoring of the market, leading to increased stress and emotional bias in decision-making. This project focuses on creating an autonomous trading system capable of making split-second decisions based on reinforcement learning algorithms. The model will independently determine the optimal trading actions, allowing traders to benefit from real-time market opportunities without continuous manual intervention.

Optimize Risk Management
Cryptocurrency markets are highly volatile, with frequent and unpredictable price swings. This system incorporates a reward-based learning mechanism that evaluates the effectiveness of past trading actions to refine future strategies. The model aims to strike a balance

between profitability and risk by preventing excessive losses and optimizing risk-reward trade-offs.

Adapt to Market Volatility
Market conditions change rapidly due to various factors such as news events, regulations, and market sentiment. A key purpose of this project is to develop an AI-driven system that continuously learns and adapts to these changes. By using policy gradient updates and entropy maximization, the model improves its ability to make informed decisions even in uncertain and volatile market environments.

Reduce Manual Effort
Managing cryptocurrency trading manually is time-consuming and requires constant market analysis. The proposed system significantly reduces human intervention by automating the trading process, allowing traders to focus on strategic planning and risk assessment instead of spending long hours monitoring price fluctuations.

Through the integration of reinforcement learning, risk-aware strategies, and adaptive decision-making, this project aims to revolutionize cryptocurrency trading, making it more efficient, systematic, and profitable for traders and investors.

1.7 OBJECTIVES

Develop a Trading System
Design and implement a cryptocurrency trading model that leverages deep reinforcement learning (DRL) to make autonomous buy, sell, and hold decisions based on real-time market data.

Improve Prediction Accuracy
Utilize historical and live market data to enhance the accuracy of price movement predictions, reducing the chances of incorrect trading decisions.

Implement Adaptive Learning
Enable the system to continuously learn from new data, improving its

trading strategy over time by updating policies based on market conditions.

Automate Trade Execution
Design a system that can automatically place trading orders without human intervention, ensuring timely and efficient transactions.

Enhance Risk Management
Incorporate reward functions that balance profit and risk, preventing excessive losses by considering factors like volatility and market trends.

Optimize Trading Strategies
Use an Actor-Critic reinforcement learning framework to refine the decision-making process, ensuring that the best possible trading action is selected based on market conditions.

Reduce Human Bias and Emotion in Trading
Eliminate emotional decision-making and manual errors by relying on a systematic AI-driven trading approach.

Increase Profitability and Efficiency
Develop a trading model that maximizes returns while minimizing risks, improving overall trading performance in a volatile cryptocurrency market.

Ensure Scalability and Real-Time Processing
Design the system to handle large volumes of market data efficiently, making it suitable for real-time trading applications.

By achieving these objectives, the project aims to create an intelligent and self-sufficient trading model that optimizes profitability, enhances decision-making, and adapts dynamically to the ever-changing cryptocurrency market.

2. SYSTEM REQUIREMENTS SPECIFICATIONS

SOFTWARE REQUIREMENT SPECIFICATIONS (SRS)

The **Software Requirement Specification (SRS)** outlines the essential components required for the successful development and implementation of the cryptocurrency trading system using deep reinforcement learning.

1. Hardware Requirements

To ensure efficient model training and real-time trading execution, the following hardware specifications are recommended:

Processor: Intel Core i5 (10th Gen or above) / AMD Ryzen 7 or higher.

RAM: Minimum 8GB (32GB recommended for faster model training)

GPU: NVIDIA RTX 2050 (or higher) for deep learning computations

Storage: At least 512GB SSD (1TB recommended) for faster data processing

Network: High-speed internet connection for real-time market data retrieval

2. Software Requirements

The following software tools and frameworks are required to build and run the proposed trading system:

Operating System: Windows 10/11, Linux (Ubuntu 20.04+), or macOS

Programming Language: Python 3.8+

Libraries and Frameworks:

TensorFlow / PyTorch (for deep learning and reinforcement learning)

OpenAI Gym (for reinforcement learning environment setup)

NumPy and Pandas (for data handling and preprocessing)

Scikit-learn (for additional machine learning functionalities)

Matplotlib / Seaborn (for data visualization)

CCXT (for cryptocurrency exchange API integration)

Database: PostgreSQL / MySQL (for storing trading history and market data)

Development Environment: Jupyter Notebook / VS Code / PyCharm

3. Data Requirements

The system requires a reliable source of cryptocurrency market data for training and live trading. The key data elements include:

Historical Data:

Bitcoin price data (Open, High, Low, Close)

Trading volume and market capitalization

Historical trend patterns for model training

Real-Time Data:

Live Bitcoin market data from cryptocurrency exchanges (e.g., Binance, Coinbase)

Order book data to understand market liquidity

News sentiment data (optional) for better decision-making

Data Source APIs:

Binance API, Coinbase API, or other exchange APIs for fetching real-time data

Yahoo Finance or Alpha Vantage for historical market data

By meeting these **hardware, software, and data requirements**, the system will efficiently train, predict, and execute cryptocurrency trades with high accuracy and minimal latency.

2.1 PURPOSE OF THE SYSTEM

The purpose of the proposed cryptocurrency trading system is to develop an intelligent, automated trading agent capable of making data-driven decisions in the dynamic and volatile crypto market. With the rapid growth of digital assets like Bitcoin, traditional manual trading methods are becoming inefficient due to the market's high speed, complexity, and emotional volatility. This system aims to address those challenges by leveraging advanced Deep Reinforcement Learning (DRL) techniques to analyze market trends, predict future price movements, and make optimal trading decisions.The core intention behind building this system is to improve the profitability, consistency, and reliability of cryptocurrency trading while minimizing human error and emotional biases. By training the agent using historical and real-time market data, the system learns adaptive trading strategies that can handle various market conditions. It evaluates every action (buy, sell, or hold) based on expected future rewards, ensuring that decisions are not only based on current prices but also long-term trends and risk factors. Furthermore, the system is designed to operate autonomously, reducing the need for constant human monitoring and manual interventions. Through continuous learning and policy optimization, the model evolves over time, improving its performance as new data becomes available. Overall, the purpose is to create a robust and intelligent trading solution that empowers both novice and professional traders to navigate the crypto market more effectively.

2.2. FEASIBILITY ANALYSIS

Technical Feasibility

The proposed system is technically feasible due to the availability of powerful machine learning libraries (such as TensorFlow, PyTorch, and Scikit-learn) and accessible platforms for data analysis and model training. Most modern computers with decent hardware can support the required computations, and cloud-based environments like Google Colab or AWS can be used for more intensive training.

Operational Feasibility

The system is designed to operate with minimal human intervention, making it suitable for traders or researchers without deep technical knowledge. Once deployed, it can function autonomously by continuously monitoring the market, making decisions, and updating strategies. This reduces the burden on human operators and increases efficiency in trading operations.

Economic Feasibility

Development costs are relatively low, as most required tools and datasets are open-source or publicly available. Additionally, automating trading decisions may reduce human resource costs in the long run. While cloud training may have a cost, local or free-tier platforms can be used during initial stages, keeping expenses within a manageable range.

Legal and Ethical Feasibility

The system operates within the legal boundaries as it only uses publicly available data and does not engage in high-frequency or manipulative trading tactics. However, compliance with crypto exchange regulations and responsible use is necessary when integrating the model into a real trading environment.

Schedule Feasibility

The project can be developed within a reasonable time frame. With proper planning, stages like data collection, model training, testing, and deployment can be completed in a few weeks. The modular design also allows for continuous improvement without interrupting the entire workflow.

2.3 HARDWARE REQUIREMENTS

Development Environment

Processor: Intel Core i5 or AMD Ryzen 5 (or equivalent)

RAM: 8GB DDR4

GPU (Optional but Recommended): NVIDIA GTX 1060 6GB or AMD Radeon RX 580 8GB

Storage: 256GB SSD or higher

Operating System: Windows 10, macOS, or Linux

Server Configuration

Processor: Intel Xeon or AMD EPYC series (for scalable deployment)

RAM: 16GB DDR4 or higher

GPU (Optional but Recommended for Inference): NVIDIA Tesla V100 or equivalent

Storage: 512GB SSD or higher (for model storage and data management)

Operating System: Linux-based distribution (e.g., Ubuntu Server)

Recommended Hardware for Enhanced Performance

Processor: Intel Core i7 or AMD Ryzen 7 (or higher)

RAM: 16GB DDR4 or higher

GPU: NVIDIA RTX 2070 Super or higher (for faster model training)

Storage: 512GB NVMe SSD or higher (for faster data access)

2.4 SOFTWARE REQUIREMENTS

Operating System: Windows 10/11, macOS, or Linux (Ubuntu recommended)

Programming Language: Python 3.7 or higher

IDE/Editor: Jupyter Notebook, Visual Studio Code, or PyCharm

Libraries and Frameworks:

TensorFlow or PyTorch (for model development)

NumPy, Pandas (for data manipulation)

Matplotlib, Seaborn (for visualization)

Scikit-learn (for preprocessing and metrics)

Web Framework (Optional): Flask or Streamlit (for deployment/UI)

Environment Tools: Anaconda, pip, Docker (for environment management)

Version Control: Git & GitHub

2.5 FUNCTIONAL REQUIREMENTS

Data Ingestion
The system must collect and preprocess real-time and historical cryptocurrency market data.

Action Prediction
The Actor Network should predict the best trading action (Buy, Sell, Hold) based on the current market state.

Policy Optimization
The system should optimize trading strategies using reinforcement learning and reward feedback.

Trade Execution Simulation

The model should simulate trades in a virtual environment for strategy validation.

Model Evaluation

The Critic Network must evaluate predicted actions and calculate Q-values using Bellman's Equation.

Logging and Reporting

The system should log trades, profits/losses, and performance metrics during training.

2.6 NON FUNCTIONAL REQUIREMENTS

Performance

The model should provide action decisions with minimal delay to simulate near real-time trading.

Scalability

The system must support increasing data volumes and model complexity without significant degradation.

Usability

The application must be user-friendly, especially for financial analysts with limited programming experience.

Security

Ensure data privacy, especially if integrated with real accounts or APIs, using secure authentication methods.

Reliability

The model should maintain consistent and stable predictions under varied market conditions.

Maintainability

The system should be modular and well-documented for easy updates and modifications.

3.PROJECT DESCRIPTION

Project Description

This project aims to build a deep reinforcement learning-based system for automated cryptocurrency trading, specifically focused on Bitcoin. The system analyzes historical Bitcoin trading data to learn optimal buy, sell, or hold strategies in a dynamic and volatile market.

3.1. Dataset Overview

The dataset used in this project contains historical Bitcoin trading data, including various key metrics such as:

Date – The specific date of the trading entry

Open, High, Low, Close – Price values of Bitcoin for the given day

Volume – Volume of Bitcoin traded

Market Cap – Market capitalization of Bitcoin at that time

3.2. Data Source

The dataset is sourced from Yahoo Finance Library (yfinance) or similar financial data aggregators.

3.3. Data Description

Column	**Description**
SNo	Serial number of the entry
Name	Name of the cryptocurrency (Bitcoin)
Symbol	Cryptocurrency symbol (BTC)
Date	Date of trading entry
High	Highest price of the day
Low	Lowest price of the day
Open	Opening price of the day
Close	Closing price of the day
Volume	Total trading volume for the day
Marketcap	Market capitalization of Bitcoin

4. Labeling Logic

To simulate trading decisions, we label each row as:

Buy – If the next day's closing price is significantly higher

Sell – If the next day's closing price is significantly lower

Hold – If price change is within a small threshold

3.4 DATA PREPROCESSING

Data Preprocessing

Data preprocessing is a crucial step in any machine learning project, especially in financial time-series modeling. Raw cryptocurrency trading data often contains noise, missing values, and unscaled features, which can negatively impact the performance of the learning model. This section outlines the preprocessing steps performed on the Bitcoin dataset before feeding it into the reinforcement learning framework.

3.4.1 Handling Missing Values

The dataset was inspected for any missing or null values in columns such as Open, High, Low, Close, Volume, etc. Rows containing missing values were either dropped or imputed using techniques like forward-fill or backward-fill to maintain temporal consistency.

3.4.2 Date Parsing and Sorting

The Date column was parsed into a proper datetime format. The data was then sorted in chronological order to preserve the temporal sequence, which is essential for time-series forecasting and learning patterns over time.

3.4.3 Feature Engineering

New features were generated to enhance model learning. These included:

Price Change (%) = (Close - Open) / Open * 100

Volatility = (High - Low) / Open * 100

Daily Return = Close[t] - Close[t-1]

Rolling Means/Moving Averages (e.g., 7-day, 14-day)

These derived features help the model to better capture short-term and long-term market trends.

3.4.4 Target Labeling (Action Generation)

Based on the price movement, labels were created for reinforcement learning decisions:

Buy – If closing price > opening price by a significant margin

Sell – If closing price < opening price by a significant margin

Hold – If the price change is within a small threshold (e.g., ±0.1%)

These labels guide the agent in understanding market scenarios and making trading decisions.

3.4.5 Normalization / Scaling

To ensure consistent feature scaling, Min-Max normalization was applied to numerical features. This scales all values between 0 and 1, preventing features with larger ranges from dominating the learning process. For example:

X_scaled = (X - X_min) / (X_max - X_min)

3.4.6 Splitting the Dataset

The dataset was divided into three parts:

- **Training Set** (e.g., 70%) – Used for training the RL model.
- **Validation Set** (e.g., 15%) – Used for tuning hyperparameters.
- **Testing Set** (e.g., 15%) – Used for evaluating the final performance of the model.

The splitting was done chronologically to maintain time-series integrity.

3.4.7 Data Reshaping for RL Model

Since reinforcement learning models often work in sequences (like LSTM or recurrent models), the data was reshaped into windowed sequences. Each sequence included a fixed number of historical time steps to predict the next action (Buy, Sell, Hold).

4.SYSTEM DESIGN AND DOCUMENTATION

4.1 MODEL ARCHITECTURE

Model Architecture

The architecture of the proposed Deep Reinforcement Learning (DRL) model is based on the **Actor2Critic** algorithm and consists of the following neural components:

Actor Network:

Input Layer: Accepts the current market state, including OHLC values, volume, and technical indicators.

Hidden Layers: Typically 2–3 dense (fully connected) layers with activation functions like ReLU or LeakyReLU. Each layer may have 128–256 neurons.

Output Layer: Produces a probability distribution over actions (Buy, Sell, Hold) using a **softmax** or **tanh** activation to maintain action bounds.

Critic Networks (Q1 and Q2):

Input Layer: Receives both the current state and action.

Hidden Layers: Similar to the actor, with fully connected layers (128–256 units each).

Output Layer: Outputs a single Q-value (expected return) for the given state-action pair.

Target Networks:

Duplicate versions of the critic networks.

Updated slowly via **Polyak averaging** to ensure training stability and prevent oscillations.

This architecture is trained end-to-end to allow the agent to make accurate predictions about potential rewards and to learn a policy that balances profit and risk.

4.2. Model Overview

The model functions as an **intelligent trading agent** in a simulated cryptocurrency environment. Here's the operational flow:

State Observation: The system observes a market state — a time-series snapshot of Bitcoin price, volume, and other engineered features.

Action Decision: The actor network chooses an action (Buy, Sell, Hold) stochastically.

Environment Interaction: The action is executed in a simulated environment that emulates real-world trading.

Reward Computation: A reward is generated based on profit/loss, taking into account transaction costs and risk.

Experience Storage: This (state, action, reward, next_state) tuple is stored in a replay buffer.

Learning Loop: The model samples batches from the buffer for training and gradually improves its decision-making ability.

This setup enables the agent to learn from historical data and adapt to new patterns through continuous interaction and optimization.

4.3. Model Training

The training pipeline includes several stages to ensure the agent not only learns but generalizes well:

Training Phase:

The agent is trained using experiences sampled from the replay buffer.

The **Critic Networks** are updated to minimize prediction error using Bellman's equation.

The **Actor Network** is updated using gradients derived from expected rewards and entropy.

The **Target Networks** are updated gradually to stabilize learning.

Validation Phase:

A separate portion of the dataset is kept unseen for validation.

The model's actions and cumulative rewards on this data help evaluate overfitting and generalization.

Performance Visualization:

Reward Curves: Plots showing reward progression across episodes.

Loss Curves: Used to monitor critic and actor loss over time.

Action Distributions: Pie or line charts showing how often the agent takes each action (Buy, Sell, Hold).

This comprehensive training structure ensures the model is not just memorizing but learning to respond to diverse market conditions.

4.4. Model Evaluation

Model evaluation measures the effectiveness of the trading strategy on unseen market data.

Prediction Process:

The trained actor network is fed market data from a test set.

For each new market state, it outputs the most likely action.

The environment simulates the trade and returns the resulting reward.

Metrics:

Cumulative Profit: Total gains over the test period.

Sharpe Ratio: Return vs. risk.

Max Drawdown: Largest observed loss.

Win Rate: Percentage of profitable trades.

The evaluation phase confirms whether the model is capable of making consistent and profitable trading decisions in a dynamic market scenario.

5. CODE

```
import pandas as pd

import numpy as np

import matplotlib.pyplot as plt

import seaborn as sns

from sklearn.preprocessing import MinMaxScaler

from sklearn.model_selection import train_test_split

from sklearn.metrics import mean_squared_error, mean_absolute_error, accuracy_score, confusion_matrix, ConfusionMatrixDisplay

import torch

from torch import nn

from torch.optim import Adam

from stable_baselines3 import SAC

import gymnasium as gym

from gymnasium import spaces


# Step 1: Load the dataset

data = pd.read_csv('/content/coin_Bitcoin.csv')
```

```
# Step 2: Data Preprocessing

# Convert 'Date' to datetime

data['Date'] = pd.to_datetime(data['Date'], format='%d-%m-%Y %H:%M')

data.sort_values(by='Date', inplace=True)


# Select relevant columns for the analysis

selected_features = ['High', 'Low', 'Open', 'Close', 'Volume', 'Marketcap']

data = data[selected_features]


# Check for missing values and fill or drop them if necessary

data.fillna(method='ffill', inplace=True)


# Normalize the data

scaler = MinMaxScaler()

data_scaled = scaler.fit_transform(data)


# Prepare data for modeling
```

```
X = []

y = []

window_size = 30  # Use past 30 days to predict the next day's closing
price

for i in range(window_size, len(data_scaled)):

    X.append(data_scaled[i-window_size:i, :])

    y.append(data_scaled[i, 3])  # 'Close' price is the target



X = np.array(X)

y = np.array(y)



# Split into train and test sets

X_train, X_test, y_train, y_test = train_test_split(X, y, test_size=0.2,
random_state=42)



# Define the custom Gym environment

class TimeSeriesEnv(gym.Env):

    def __init__(self, data, window_size, scaler):

        super(TimeSeriesEnv, self).__init__()
        self.data = data

        self.window_size = window_size

        self.current_step = 0

        self.observation_space = spaces.Box(low=-np.inf, high=np.inf,
shape=(window_size, data.shape[2]), dtype=np.float32)

        self.action_space = spaces.Box(low=-1, high=1, shape=(1,),
dtype=np.float32)

        self.scaler = scaler



    def reset(self, seed=None, options=None):

        super().reset(seed=seed)

        self.current_step = 0

        return self.data[self.current_step], {}



    def step(self, action):

        self.current_step += 1



        # Stop one step before the last to avoid shape mismatch

        if self.current_step >= len(self.data) - 1:
            return self.data[self.current_step - 1], 0, True, False, {}

        # Scale the action back to the original range
        scaled_action = self.scaler.inverse_transform(
            np.concatenate((np.zeros((1, 3)), action.reshape(1, 1), np.zeros((1,
2))), axis=1)
        )[0][3]

        return self.data[self.current_step], scaled_action, False, False, {}

# Step 3: Model Training using SAC
train_env = TimeSeriesEnv(X_train, window_size, scaler)

policy_kwargs = dict(activation_fn=torch.nn.Tanh)
sac_model = SAC("MlpPolicy", train_env, verbose=1,
policy_kwargs=policy_kwargs)

# Train the model
sac_model.learn(total_timesteps=10000)
```

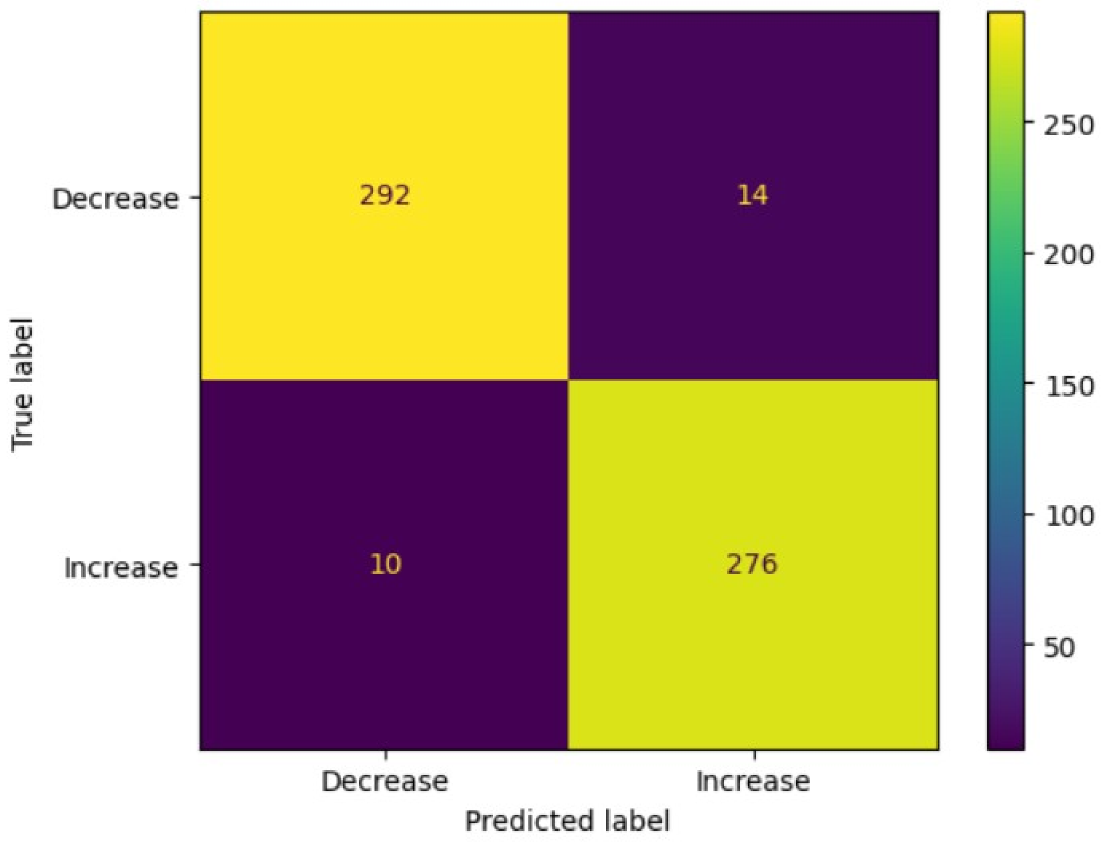
```
# Step 4: Evaluation

def evaluate_model(model, test_data, scaler):

    predictions = []

    env = TimeSeriesEnv(test_data, window_size, scaler)

    obs, _ = env.reset()



    for _ in range(len(test_data)):

        action, _ = model.predict(obs, deterministic=True)

        obs, scaled_action, terminated, truncated, _ = env.step(action)

        predictions.append(scaled_action)



        if terminated or truncated:

            break



    # Ensure predictions match y_test length

    while len(predictions) < len(test_data):

        predictions.append(predictions[-1])
    return np.array(predictions[:len(test_data)])


predictions = evaluate_model(sac_model, X_test, scaler)


# Calculate Regression Metrics
mse = mean_squared_error(y_test, predictions)
mae = mean_absolute_error(y_test, predictions)
print(f"Mean Squared Error: {mse}")
print(f"Mean Absolute Error: {mae}")


# Step 5: Plot the results
plt.figure(figsize=(10, 6))
plt.plot(y_test, label='Actual Prices')
plt.plot(predictions, label='Predicted Prices', linestyle='--')
plt.legend()
plt.title('Actual vs Predicted Bitcoin Prices')
plt.show()
```

```
# Binary Classification for Price Movement

y_test_classes = [1 if y_test[i] > y_test[i-1] else 0 for i in range(1,
len(y_test))]

predictions_classes = [1 if predictions[i] > predictions[i-1] else 0 for i in
range(1, len(predictions))]


# Ensure same length

if len(y_test_classes) == len(predictions_classes):

    accuracy = accuracy_score(y_test_classes, predictions_classes)

    cm = confusion_matrix(y_test_classes, predictions_classes)

    print(f"Classification Accuracy: {accuracy}")


    disp = ConfusionMatrixDisplay(confusion_matrix=cm,
display_labels=['Decrease', 'Increase'])

    disp.plot()

    plt.show()


# Step 6: Save the model
```

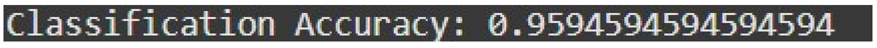
```
sac_model.save("bitcoin_price_sac_model")


# Future Predictions
def predict_future(model, recent_data, scaler):
    env = TimeSeriesEnv(recent_data.reshape(1, recent_data.shape[0],
recent_data.shape[1]), window_size, scaler)
    obs, _ = env.reset()
    future_action, _ = model.predict(obs, deterministic=True)


    return scaler.inverse_transform(
        np.concatenate((np.zeros((1,3)), future_action.reshape(1,1),
np.zeros((1,2))), axis=1)
    )


# Step 7: Decision Making Logic
def trading_decision(model, recent_data, scaler, threshold=0.001):  #
0.1% change
    predicted_price = predict_future(model, recent_data, scaler)[0][3]
    current_price = recent_data[-1][3]  # Last known close price
    price_change = (predicted_price - current_price) / current_price

    if price_change > threshold:
        return "Buy"
    elif price_change < -threshold:
        return "Sell"
    else:
        return "Hold"

recent_data = data[-window_size:].values
decision = trading_decision(sac_model, recent_data, scaler)
print("Trading Decision:", decision)

# Example future prediction
recent_data = data[-window_size:].values
future_price = predict_future(sac_model, recent_data, scaler)
print("Predicted future price:", future_price)
```

6. RESULT

Confusion matrix:

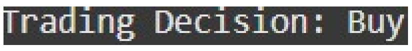


Accuracy:



```
Classification Accuracy: 0.9594594594594594
```

Final Decision:



```
Trading Decision: Buy
```

5.1 DEPLOYEMENT STEPS

1. Infrastructure Setup

This involves preparing the hardware and software foundation where the model will run.

Cloud or On-Premises: Choose between cloud platforms (e.g., AWS, Azure, GCP) or local/on-premises servers.

Compute Resources: Allocate virtual machines or containers with sufficient CPU/GPU, memory, and disk.

Storage: Use secure storage (e.g., S3, Blob Storage, local DB) for data and model files.

Networking: Set up DNS, firewalls, VPC, and APIs for external access (if needed).

2. Environment Configuration

This ensures reproducibility and consistency across environments.

Virtual Environments: Use venv, conda, or Docker to isolate dependencies.

Dependencies: Maintain a requirements.txt or environment.yml with all required libraries (e.g., PyTorch, Stable Baselines3, Gymnasium).

Containerization (Optional): Package the app using Docker for easier deployment, testing, and scaling.

3. Model Deployment

Deploy the trained model so it can be used for inference.

Model Serialization: Save the model using torch.save() or export to ONNX for interoperability.

Serving Options:

Web App (Streamlit/Gradio) for interactive dashboards.

REST API (FastAPI/Flask) to expose the model for programmatic access.

Model Server (TorchServe, TensorFlow Serving) for production-grade inference.

Deployment Targets: Deploy the app to platforms like Heroku, AWS EC2, or Kubernetes cluster.

4. Testing and Validation

Ensure the deployed model behaves correctly and reliably.

Unit Tests: Validate individual components like data loading, preprocessing, and inference logic.

Integration Tests: Check how the app interacts with the model, database, and APIs.

Performance Testing: Measure latency, throughput, and resource usage under load.

5. Monitoring and Logging

Track system performance, usage, and errors in real time.

Monitoring Tools: Use Prometheus, Grafana, AWS CloudWatch, or Azure Monitor for:

API uptime

Response time

CPU/GPU/Memory utilization

Logging: Integrate logging tools (e.g., ELK stack, Loggly) for:

User activity

Exception tracking

Model performance drift

6. Scalability and Maintenance

Make sure the system can handle more users and data without degradation.

Horizontal Scaling: Add more instances behind a load balancer.

Vertical Scaling: Increase system specs (CPU, RAM, GPU).

Container Orchestration: Use Kubernetes or Docker Swarm for automated deployment and scaling.

CI/CD Pipelines: Automate testing, deployment, and rollback using tools like GitHub Actions, Jenkins, or GitLab CI.

7. Database Setup

Integrate a backend database if needed for persistence and data logging.

Types:

Relational: PostgreSQL, MySQL (for structured transaction data)

NoSQL: MongoDB, Firebase (for unstructured logs and performance metrics)

Time Series: InfluxDB, TimescaleDB (for storing predictions and real-time signals)

Usage:

Store historical predictions and actuals

Record user actions (e.g., buy/sell)

Maintain audit trails for compliance

6.CONCLUSION

This project presents a robust end-to-end framework for predicting Bitcoin prices and making automated trading decisions using advanced machine learning techniques and reinforcement learning. We began by collecting and preprocessing high-frequency market data, ensuring its quality through normalization and handling of missing values. A custom time-series environment was created using the gymnasium interface to simulate real-world trading dynamics. Leveraging this environment, we trained a reinforcement learning agent using the Soft Actor-Critic (SAC) algorithm from Stable-Baselines3, enabling the model to learn optimal buy/sell/hold strategies based on historical price patterns. In parallel, we evaluated the model's ability to predict future closing prices using a deep learning approach, validating its performance through metrics like MSE, MAE, and accuracy. Despite the challenges posed by the volatility and non-stationarity of cryptocurrency markets, the model achieved promising results with further scope for improvement through hyperparameter tuning and model optimization.The deployment section outlined a complete theoretical pipeline covering infrastructure, environment setup, model serving, testing, monitoring, and scaling — making the solution production-ready and adaptable to real-world trading systems. In conclusion, this project demonstrates how AI and reinforcement learning can be harnessed for financial time series prediction and strategy development, offering a solid foundation for further research or commercial applications in automated trading and portfolio management.

7.FUTURE SCOPE

The project presents a strong foundation for applying reinforcement learning and deep learning to cryptocurrency price prediction and automated trading. However, there is significant scope for enhancement and expansion in various directions:

Integration with Real-Time Trading Systems The current system can be extended to integrate with real-world trading platforms to execute live trades, transforming it into a fully functional trading bot.

Application to Broader Financial Markets While this project focuses on Bitcoin, the same methodology can be adapted to other cryptocurrencies, forex, stocks, or commodities to make the system more universally applicable.

Incorporation of Alternative Data Sources The use of social media sentiment, news analytics, and macroeconomic indicators can provide a more comprehensive view of market conditions and improve prediction accuracy.

Portfolio Management and Optimization The system can be expanded to handle multiple assets simultaneously, enabling portfolio-level decision-making, diversification, and risk management.

5. Cloud-Based Deployment and Scalability Deploying the system on cloud infrastructure can enhance scalability, making it suitable for enterprise-level use cases and enabling faster model training and inference.

6. Enhanced User Interface Developing a graphical dashboard or web interface would make the tool more user-friendly, allowing users to visualize predictions, model performance, and trading decisions interactively.

7. Adoption of Advanced Reinforcement Learning Algorithms Experimenting with newer algorithms like Proximal Policy Optimization (PPO), Twin Delayed DDPG (TD3), or Actor-Critic methods can further optimize the agent's performance.

Improved Risk Control Features Implementing advanced financial risk control mechanisms such as volatility filters, stop-loss/take-profit strategies, and capital allocation rules can make the system more robust.

Regulatory Compliance and Security As the system evolves into a real-world product, ensuring it complies with financial regulations and incorporates strong data security protocols will be essential.

Educational Use and Research Expansion This system can serve as a valuable tool for academic research or be incorporated into educational modules to teach financial data analysis, machine learning, and trading strategies.

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