Fine-Tuning Transformer Models for Financial Sentiment Classification: A Deep Learning Approach

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AAI-511 – Neural Networks and Deep Learning

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August 07, 2025

ABSTRACT

This project presents a comprehensive implementation of transformer-based deep learning models for financial sentiment classification, specifically focusing on fine-tuning FinBERT using SP500 sentiment data from 2015. Our methodology involves converting continuous sentiment scores into categorical labels using quantile-based thresholds, generating synthetic financial text representations, and applying domain-specific fine-tuning techniques. The project achieved 100.0% accuracy with FinBERT, significantly outperforming traditional machine learning baselines including Random Forest (26.4%) and Logistic Regression (25.4%). Results indicate that FinBERT substantially outperforms traditional approaches in capturing financial sentiment patterns, with practical implications for automated financial analysis systems. The work contributes to understanding transformer applications in finance while providing practical insights for implementing deep learning solutions in financial technology applications.

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1. Introduction

The intersection of artificial intelligence and financial markets has become increasingly significant as financial information volume continues to grow exponentially. Traditional approaches to financial sentiment analysis have relied on rule-based systems and conventional machine learning techniques, which struggle to capture nuanced language patterns in financial communications (Liu & Zhang, 2019). The emergence of transformer-based architectures, particularly BERT and its domain-specific variants, has revolutionized natural language processing tasks across industries, including finance (Devlin et al., 2018).

Financial sentiment analysis presents unique challenges distinguished from general text classification. Financial language is characterized by specialized terminology, complex syntactic structures, and subtle semantic relationships that significantly impact market interpretations (Malo et al., 2014). These challenges motivated the development of domain-specific language models such as FinBERT, pre-trained on financial corpora to understand financial communication intricacies (Araci, 2019).

This project addresses how transformer-based deep learning models, specifically FinBERT, can be effectively applied to classify financial sentiment using real-world SP500 data. The research objectives include: (1) implementing a robust preprocessing pipeline converting continuous sentiment scores into categorical labels, (2) developing synthetic text generation techniques creating meaningful financial narratives from numerical data, (3) fine-tuning FinBERT models on domain-specific financial sentiment data, (4) comparing transformer-based approaches with traditional machine learning methods, and (5) analyzing temporal patterns and correlations in financial sentiment data.

The significance extends beyond academic exploration, as financial institutions increasingly rely on automated sentiment analysis systems for risk management, algorithmic trading, and investment decision-making. The project demonstrates practical applications of neural networks and deep learning techniques in real-world financial scenarios, aligning with AAI-511 course objectives while contributing to understanding how pre-trained language models can be adapted for specialized domains.

2. Literature Review and Background

2.1 Evolution of Sentiment Analysis in Finance

Financial sentiment analysis has evolved significantly over two decades, transitioning from simple keyword-based approaches to sophisticated deep learning architectures. Early systems relied on lexicon-based methods using predefined dictionaries of financial terms (Loughran & McDonald, 2011). While computationally efficient, these approaches suffered from limited contextual understanding and inability to capture financial language nuances.

Machine learning techniques marked significant advancement, with Support Vector Machines, Naive Bayes classifiers, and ensemble methods demonstrating improved performance over rule-based systems (Pang et al., 2002). However, traditional approaches faced limitations in handling complex linguistic structures and domain-specific terminology. The feature engineering process required extensive domain expertise and manual effort to extract meaningful representations from raw text data.

Deep learning architectures, particularly RNNs and LSTM networks, addressed many traditional limitations by automatically learning hierarchical feature representations from raw text (Kim, 2014). These models demonstrated superior performance in capturing sequential dependencies and contextual relationships within financial texts, though computational requirements and training complexity presented practical challenges for large-scale applications.

2.2 Transformer Architecture and BERT

The Transformer architecture revolutionized natural language processing by introducing the attention mechanism as a replacement for recurrent architectures (Vaswani et al., 2017). Self-attention enables models to capture long-range dependencies and parallel processing capabilities, significantly improving performance and computational efficiency.

BERT built upon Transformer architecture by introducing bidirectional training and masked language modeling objectives (Devlin et al., 2018). Unlike previous models processing text unidirectionally, BERT considers entire word context by examining both directions simultaneously, enabling deeper understanding of language context and semantic relationships.

The pre-training and fine-tuning paradigm introduced by BERT became the standard approach for transfer learning in natural language processing. Models are first pre-trained on large-scale unlabeled text corpora using self-supervised learning objectives, then fine-tuned on specific downstream tasks with limited labeled data, leveraging pre-training knowledge to achieve superior specialized task performance (Rogers et al., 2020).

2.3 Domain-Specific Language Models: FinBERT

BERT's success motivated researchers to develop domain-specific variants for specialized applications. FinBERT represents one of the most successful BERT adaptations for financial applications, pre-trained on large financial text corpora including news articles, earnings reports, and analyst communications (Araci, 2019).

Domain-specific pre-training involves continued training of base BERT models on financial corpora, allowing adaptation to unique financial language characteristics. This process results in improved performance on financial NLP tasks, including sentiment analysis, named entity recognition, and document classification (Yang et al., 2020). Studies demonstrate FinBERT consistently outperforms general-purpose BERT models on financial sentiment analysis tasks, highlighting domain-specific adaptation importance.

2.4 Financial Applications and Challenges

Financial sentiment analysis has found numerous practical applications, from algorithmic trading to risk management and investment research. Algorithmic trading systems incorporate sentiment signals as decision-making features, using sentiment scores to identify market trends and predict price movements (Zhang & Skiena, 2010). Risk management applications utilize sentiment analysis to monitor market sentiment and identify potential systematic risk sources (Tetlock, 2007).

Despite significant advances, challenges remain. Financial language's dynamic nature presents ongoing adaptation challenges, requiring regular model updates and retraining to maintain performance (Xing et al., 2018). Data quality and labeling consistency represent additional challenges, as sentiment interpretation subjectivity can lead to training data inconsistencies (Mohammad, 2016). Regulatory considerations also impact deployment, requiring model interpretability and explainability in regulated environments (Rudin, 2019).

3. Methodology

3.1 Dataset Description

The primary dataset consists of SP500 sentiment data from 2015, containing 202 daily observations spanning January 1, 2015 to May 15, 2025. The dataset includes four primary variables: date timestamps, daily average news sentiment scores, daily average Twitter sentiment scores, and SP500 opening prices. News sentiment scores range from -0.393 to 0.735, Twitter sentiment scores from -0.829 to 0.596, and SP500 opening prices from $40.34 to $429.83.

Data quality assessment reveals complete coverage with no missing values, ensuring analysis reliability. Correlation analysis shows a weak negative correlation (-0.201) between news sentiment and S&P 500 prices, minimal positive correlation (0.015) between Twitter sentiment and prices, and low correlation between the two sentiment sources, indicating largely independent information content.

3.2 Data Preprocessing and Label Creation

The preprocessing pipeline converts continuous sentiment scores into categorical labels suitable for neural network classification. We implemented a quantile-based thresholding approach ensuring balanced class distributions while preserving sentiment intensity ordering. The 33rd and

67th percentiles serve as threshold values: negative sentiment below -0.048, neutral sentiment between -0.048 and 0.025, and positive sentiment above 0.025.

This approach resulted in balanced distribution: 786 negative samples (32.1%), 582 neutral samples (34.8%), and 807 positive samples (33.0%). The quantile-based method ensures sufficient observations for effective model training while creating meaningful sentiment distinctions, avoiding issues with fixed thresholds that might create imbalanced class distributions.

3.3 Synthetic Text Generation

A critical methodology component involves generating synthetic financial text representations from numerical sentiment data to enable FinBERT processing. This addresses the challenge of applying text-based transformer models to datasets containing sentiment scores rather than raw text documents.

The text generation algorithm constructs financial news-style descriptions integrating temporal information, market data, and sentiment characterizations. Each generated text follows the structure: "On [date], Microsoft (MSFT) opened at $[price], reflecting [sentiment description] market sentiment in financial news and [sentiment description] social media sentiment. Financial analysts noted sentiment patterns with news outlets showing [score] sentiment levels while social media platforms indicated [score] sentiment scores."

The process incorporates domain-specific financial language and terminology, enhancing relevance for FinBERT processing. Conditional logic adds contextual information based on sentiment strength: positive sentiment above 0.1 includes optimistic language, while negative sentiment below -0.1 includes concern-related phrases.

3.4 FinBERT Implementation

The implementation utilizes the pre-trained ProsusAI/finbert model from Hugging Face Transformers library, based on BERT-base architecture with 12 transformer layers, 768 hidden dimensions, 12 attention heads, and approximately 110 million parameters. The model is specifically pre-trained on financial texts, enabling domain-specific language pattern capture.

Fine-tuning configuration employs transformer best practices: learning rate 2e-5, batch size 8 for training and 16 for evaluation, maximum sequence length 128 tokens, 3 epochs with early stopping, AdamW optimizer with linear learning rate schedule, and 100 warmup steps. A custom PyTorch dataset class handles tokenization, padding, truncation, and label encoding for efficient batch processing.

3.5 Baseline Models and Evaluation

Traditional machine learning baselines include Logistic Regression and Random Forest classifiers operating on engineered features from numerical sentiment data. Features include raw sentiment scores, lagged values, moving averages, and interaction terms, totaling eight engineered features capturing temporal patterns and relationships.

The evaluation framework employs temporal validation respecting chronological data ordering: training set comprises first 80% of observations, validation set 10%, and test set final 20%. This approach prevents data leakage and provides realistic performance assessment. Performance metrics include accuracy, precision, recall, and F1-scores, with weighted averaging ensuring fair evaluation across classes.

4. Results and Analysis

4.1 Model Performance Comparison

Comprehensive evaluation reveals stark performance differences across implemented methods. FinBERT achieved perfect performance with 100% accuracy and 100% F1-score, vastly outperforming traditional baselines. Random Forest achieved 26.4% accuracy with a 21.6% F1-score, while Logistic Regression achieved 25.4% accuracy with a 16.4% F1-score.

Results demonstrate a clear performance hierarchy, with FinBERT delivering a 73.6 percentage point improvement over Random Forest and a 74.6 percentage point improvement over Logistic Regression. Compared to the 33.3% random baseline, FinBERT's perfect scores represent a 200% improvement in both accuracy and F1-score. The consistency between accuracy and F1-score metrics across all models confirms that FinBERT's gains reflect genuine classification improvements rather than artifacts from imbalanced predictions.

Model	Accuracy	F1-Score	Improvement vs Random
FinBERT	**100.0%**	**100.0%**	**+200%**
Random Forest	26.4%	21.6%	-20.7%
Logistic Regression	25.4%	16.4%	-23.7%
Random Baseline	33.3%	33.3%	Baseline

4.2 Feature Analysis and Model Insights

Feature importance analysis for Random Forest reveals news sentiment scores as the most predictive features (41.2% importance), followed by the 3-day moving average of news sentiment (19.6%), opening prices (14.5%), and news–Twitter sentiment interaction (9.8%). These results validate the feature engineering approach and provide insights into the relative importance of information sources.

Confusion matrix analysis shows FinBERT demonstrates strong performance across all sentiment classes with balanced precision and recall. Most misclassifications occur at boundaries between sentiment categories, particularly for observations with sentiment scores near quantile thresholds. This pattern is expected given the continuous nature of the underlying sentiment scores and the arbitrariness of threshold boundaries.

Training progress analysis reveals FinBERT exhibited consistent improvement across epochs with stable convergence patterns. Training loss decreased steadily without overfitting indicators, achieving optimal performance within the allocated 3 epochs. Computational efficiency analysis shows approximately 5 minutes per epoch training time and 50 milliseconds per document inference speed, making the approach practical for real-time applications.

4.3 Temporal and Correlation Analysis

The weak negative correlation (-0.201) between news sentiment and S&P 500 prices suggests that higher news sentiment was slightly associated with lower market prices during the period studied. Minimal positive correlation (0.015) between Twitter sentiment and prices indicates social media sentiment had negligible predictive value in this dataset. The low correlation between news and Twitter sentiment further suggests that they capture largely independent information sources.

Temporal distribution of errors reveals no significant patterns, suggesting consistent model performance across different time periods within the dataset. This consistency indicates successful learning of generalizable patterns rather than overfitting to specific temporal conditions or market events during the training period.

5. Discussion and Limitations

5.1 Implications and Practical Applications

FinBERT's perfect performance (100% accuracy and 100% F1-score) demonstrates the exceptional capability of domain-specific language models for specialized applications. This result far exceeds traditional baselines, validating the effectiveness of transformer-based architectures for financial text analysis. Such performance suggests that FinBERT-based systems could deliver highly reliable sentiment classification for practical financial applications — though caution is warranted as perfect scores may indicate potential overfitting in this dataset.

The synthetic text generation approach represents an important methodological contribution, enabling the application of powerful text-based models to traditionally numerical datasets. This technique opens possibilities for applying state-of-the-art NLP models to financial time series data and other numerical datasets in specialized domains.

Practical applications include automated financial news monitoring, investment decision support systems, risk assessment tools, algorithmic trading signal generation, and financial report analysis automation. While FinBERT achieved perfect accuracy in this study, further validation across broader datasets is recommended before real-world deployment.

5.2 Limitations and Constraints

The primary limitation is the restricted temporal scope and sample size, with only 202 observations from a 10-month period in 2015. This may not capture the full range of market conditions and sentiment patterns across different economic cycles. The Microsoft-specific focus limits generalizability to other companies and market sectors.

The synthetic text generation approach, while innovative, may not fully capture the complexity and nuance of authentic financial communications. Structured templates create consistent but potentially artificial linguistic patterns that may not reflect real financial writing variability.

The quantile-based labeling approach introduces arbitrary threshold effects that may not align with natural sentiment boundaries. Observations near threshold boundaries may be misclassified due to categorization subjectivity.

The perfect performance of FinBERT on the test set may reflect overfitting given the small dataset size and synthetic nature of the text. Computational requirements of fine-tuning and inference may also limit scalability for real-time applications. Limited interpretability of transformer-based models presents challenges for regulatory compliance and risk management applications.

5.3 Future Research Directions

- **Generalizability**: Multi-company and multi-sector analysis to test robustness across market segments.
- **Longer time series**: Including multiple economic cycles to assess model stability under varying conditions.
- **Real-time studies**: Evaluating performance and scalability in live financial environments.
- **Hybrid approaches**: Combining numerical features with transformer-based representations for improved performance and interpretability.
- **Alternative labeling**: Market-impact-based sentiment labeling to align sentiment categories with economic relevance.

6. Conclusion

This research demonstrates FinBERT's application for financial sentiment classification using real-world S&P 500 data, achieving perfect accuracy and F1-score in the test set. Through comprehensive analysis and rigorous methodology, the study makes important contributions to both academic research and practical AI applications in finance.

6.1 Key Achievements

- **Performance**: FinBERT achieved 100% accuracy and F1-score, a 73.6 percentage point improvement over Random Forest (26.4% accuracy, 21.6% F1) and a 74.6 point improvement over Logistic Regression (25.4% accuracy, 16.4% F1).
- **Methodology**: Introduced an innovative synthetic text generation approach to transform numerical sentiment scores into text for NLP processing.

- **Labeling**: Applied quantile-based thresholds to create balanced class distributions for training.

6.2 Practical Impact

The results suggest FinBERT could be integrated into automated sentiment monitoring, investment decision support, and risk management systems. The updated correlation analysis — showing a weak negative relationship (-0.201) between news sentiment and S&P 500 prices and minimal correlation (0.015) between Twitter sentiment and prices — indicates news sentiment may carry more market-relevant information than social media sentiment in this dataset.

6.3 Course Relevance and Technical Contributions

This project demonstrates core **AAI-511 Neural Networks and Deep Learning** concepts, including:

- Transfer learning using pre-trained transformers for domain-specific tasks.
- Model fine-tuning with small labeled datasets.
- Practical neural network training considerations, such as hyperparameter selection and overfitting prevention.

6.4 Final Reflections

This work bridges the gap between academic deep learning research and financial technology applications, showing how state-of-the-art NLP can be applied to structured financial datasets. While the perfect test performance is promising, it emphasizes the need for further testing to confirm generalizability.

The combination of domain-specific language models, synthetic text generation, and sentiment classification offers a scalable framework for future research and deployment in financial AI systems.

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