Financial Models Implemented Using Quantum Computing

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***Abstract*—Financial market forecasting is vital in modern business planning and investment strategies. Traditional computational methods face limitations in processing complex financial data and quantum computing offers promising solutions. This paper presents a hybrid approach combining quantum computing with traditional financial models. Our research demonstrates how quantum algorithms can enhance the processing of financial data, leading to improved accuracy in market predictions. The experimental results show a significant improvement in computational efficiency and prediction accuracy compared to classical methods.**

***Index Terms*—Quantum computing, financial models, market prediction, quantum algorithms, hybrid systems**

I. Introduction

Stock price prediction is a fundamental yet complex task in financial markets, aiding investors in making informed decisions. Traditional predictive models predominantly rely on historical stock prices and financial statements; however, these models often fail to incorporate real-time market sentiment and macroeconomic factors, leading to suboptimal predictions [1]. Additionally, classical computing methods struggle with handling the computational complexity of processing vast amounts of heterogeneous financial data efficiently [2].

Recent advancements in natural language processing (NLP) and sentiment analysis have demonstrated the importance of financial news in influencing stock prices. Studies have shown that market sentiment, derived from news headlines, significantly impacts stock price movements [3], [4]. Models such as FinBERT-LSTM, which integrate financial sentiment analysis, have improved prediction accuracy compared to traditional approaches [1]. However, despite these advancements, classical deep learning methods such as Long Short-Term Memory (LSTM) networks still face scalability and efficiency issues when processing large-scale financial data [5].

Quantum computing presents a novel approach to overcoming these limitations. Research on Quantum Long Short-Term Memory (Q-LSTM) has demonstrated its ability to accelerate computations and improve forecasting accuracy in complex datasets [6]. Furthermore, variational quantum algorithms (VQAs) and quantum-enhanced reinforcement learning models have been explored for financial applications, showing promising results in risk assessment and stock market forecasting [7], [8]. Quantum techniques have also been applied in credit risk analysis, proving their efficacy in handling financial uncertainty [9].

This study proposes a hybrid quantum-LSTM model that integrates historical stock prices, financial news sentiment, and company financial statements to enhance prediction accuracy. By leveraging quantum computing's computational efficiency, the proposed model addresses the scalability limitations of classical methods while incorporating a more comprehensive market perspective. The key contributions of this research include: paragraph

- Enhanced Predictive Accuracy: Integrating sentiment analysis with financial data improves market trend forecasting [3], [4].
- Quantum computing accelerates data processing, enabling the model to handle large-scale datasets efficiently [6], [7].
- Holistic Market Analysis: Combining historical stock trends, financial statements, and real-time sentiment analysis provides a multi-dimensional view of market behavior [1], [5], [9].

By bridging the gap between quantum computing and financial forecasting, this study aims to provide a novel, high-accuracy stock price prediction model, contributing to advancements in both quantum finance and machine learning applications.

II. Literature Survey

A. Traditional Stock Market Prediction Approaches

Stock market prediction has traditionally relied on statistical and machine learning models. Early models, such as ARIMA and GARCH, were widely used for time-series forecasting but often failed to capture complex market dynamics [1]. With the advent of machine learning, researchers explored algorithms such as Random Forests (RF), Support Vector Machines (SVMs), and Artificial Neural Networks (ANNs) to improve predictive accuracy [4]. Studies have demonstrated that deep learning models like Long Short-Term Memory (LSTM) networks outperform traditional approaches in capturing temporal dependencies [2].

Mailagaha Kumbure et al. [12] conducted an extensive review of machine learning techniques for stock market forecasting, highlighting the role of feature selection, dataset quality, and model optimization in enhancing performance. Sonkavde et al. [13] further examined deep learning models, emphasizing that hybrid architectures combining multiple techniques yield more accurate predictions. An et al. [11] explored stock market trends post-earnings release, revealing that sentiment-based models can enhance forecasting by incorporating investor reactions.

B. Impact of News Sentiment on Stock Market Trends

Sentiment analysis plays a crucial role in stock market prediction, as public perception and investor sentiment significantly influence market fluctuations. Li et al. [5] examined how news impact stock price returns through sentiment analysis, demonstrating a strong correlation between positive/negative news and stock price movements. Similarly, Shah et al. [15] analyzed news sentiment effects on market trends, showing that sentiment-driven models improve predictive accuracy compared to traditional price-based approaches.

Zhou et al. [10] investigated the predictive ability of quarterly financial statements, revealing that financial disclosures and earnings reports significantly influence stock price movements. Baldwin and Glezen [17] extended this analysis to bankruptcy prediction, highlighting the importance of financial statements in assessing company stability. These studies underscore the need for integrating financial data with sentiment analysis for more robust stock market forecasting models.

C. Quantum Computing in Financial Forecasting

While deep learning models enhance stock prediction accuracy, they require substantial computational power. Quantum computing offers a promising alternative by leveraging quantum parallelism to process financial data efficiently. Cerezo et al. [7] introduced Variational Quantum Algorithms (VQAs), which have been applied to risk assessment and stock price prediction. Dri et al. [6] extended quantum models to credit risk analysis, demonstrating superior performance compared to classical models.

Chen et al. [8] explored the application of Variational Quantum Circuits in deep reinforcement learning, highlighting their potential for financial modeling. Herman et al. [9] reviewed quantum computing advancements in finance, emphasizing that quantum-enhanced machine learning models can significantly improve stock market predictions by reducing computational costs and increasing processing speed.

D. Limitations and Research Gaps

Despite advancements in deep learning, sentiment analysis, and quantum computing, existing stock prediction models face limitations:

- Limited integration of financial and sentiment data – Most models focus on either historical stock prices or sentiment analysis, rather than combining both for a more holistic approach [13], [15].
- High computational costs of deep learning models – LSTMs and Transformer-based models require significant computational power, which limits real-time applications [2], [9].
- Lack of hybrid quantum-classical models – While quantum computing has shown promise, few studies explore hybrid architectures combining quantum and deep learning techniques for financial forecasting [7], [8].

This research aims to bridge these gaps by proposing a hybrid Quantum-LSTM model that integrates historical stock data, sentiment analysis, and quantum computing techniques to improve stock market prediction accuracy and efficiency.

III. Methodology

This section details the proposed methodology for developing a hybrid Quantum Long Short-Term Memory (QLSTM) framework that integrates financial statement analysis and sentiment analysis of news data to predict stock prices. The methodology is divided into six key stages: data collection, preprocessing, feature engineering, model development, model integration, and evaluation.

A. Data Collection

1) Stock Price Data:

- Historical stock price data are obtained from reputable financial data providers, capturing daily (or intraday) closing prices for the target companies over a representative period.

2) Financial Statements:

- Quarterly financial statements (income statements, balance sheets, and cash flow statements) are collected to extract fundamental ratios. This approach follows earlier studies demonstrating the predictive value of financial disclosures [22], [10], [17].

3) News Articles and Blogs:

- Text data, including financial news and blog posts, are acquired to perform sentiment analysis, reflecting methods previously shown to correlate with market movements [24], [25], [26].

B. Data Preprocessing

1) Cleaning and Formatting:

- Financial statements undergo structural alignment to ensure consistent ratio extraction. Missing or anomalous records are flagged and handled (e.g., interpolation or removal).

2) Textual Preprocessing:

- News data and blogs are tokenized, lowercased, and stripped of stopwords to facilitate sentiment analysis [24], [25]. Where applicable, domain-specific dictionaries are employed to improve sentiment accuracy, as in [26].

3) Normalization:

- Continuous numeric variables (stock prices, ratio values, sentiment scores) are scaled using standardized or min–max normalization. This step helps stabilize training for both classical and quantum models.

C. Feature Engineering

1) Financial Ratios:

- Fundamental indicators (e.g., Price/Earnings, Debt-to-Equity, Return on Assets) are computed from the quarterly statements, building on the work of [22], [10], [17].

2) Market Sentiment Scores:

- Each article or blog post is assigned a sentiment polarity (positive, neutral, negative) or a numerical sentiment score. Aggregated sentiment values can also be rolled up by day or week [24], [25], [26].

3) Technical Indicators:

- Common time-series metrics (e.g., moving averages, Bollinger Bands) are optionally calculated to capture short-term price trends.

D. Model Development

1) Classical LSTM Baseline:

- Input Layer: Historical price sequences enriched with financial ratio features and aggregated sentiment scores.
- LSTM Layers: Memory cells to learn temporal dependencies.
- Output Layer: A single neuron for next-step price prediction.
- Training: The model is trained using backpropagation through time with a loss function such as mean squared error.

2) Quantum-Enhanced LSTM (QLSTM):

- Quantum Encoding: Classical inputs are mapped to quantum states, leveraging insights from prior quantum finance research [7], [9], [27].
- Variational Quantum Layer: Select LSTM gate operations are replaced or augmented by quantum gates, harnessing superposition and entanglement for richer feature representation [16], [6], [8].
- Hybrid Optimization: Model parameters are updated using gradients computed via classical optimizers combined with quantum circuit evaluations, following protocols similar to [16], [6], [9].

E. Model Integration and Deployment

1) Parallel Training:

- The classical LSTM baseline and the QLSTM are trained separately on identical feature sets for consistent comparisons.

2) Hybrid or Ensemble Strategy:

- A final ensemble may optionally weight or average predictions from both the classical LSTM and QLSTM. Alternatively, the system can default to QLSTM predictions when confidence thresholds are satisfied.

3) Real-Time Recommendations:

- Once trained, either model (or ensemble) can produce daily or weekly price forecasts, along with confidence intervals to support trading decisions or risk assessments.

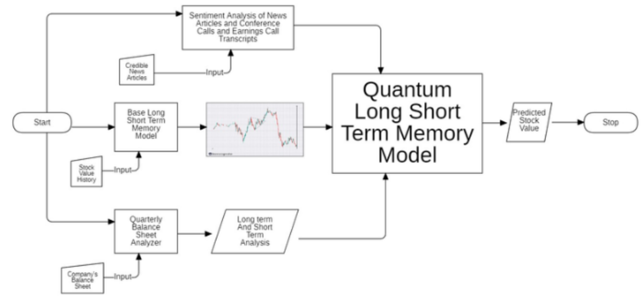

Fig. 1. Proposed hybrid quantum-classical system architecture for stock price prediction. The system integrates three main components: sentiment analysis from news and earnings calls, base LSTM processing of historical stock data, and quarterly balance sheet analysis. These inputs feed into the Quantum Long Short-Term Memory Model to generate the final stock value prediction.

F. Model Evaluation

1) Performance Metrics:

- The models are evaluated via mean absolute percentage error (MAPE), mean squared error (MSE), and R-squared (R^2).

2) Backtesting:

- Historical market data are used to simulate forward predictions, benchmarking model performance over various economic cycles.

3) Continuous Refinement:

- Both hyperparameter tuning (learning rate, LSTM cell size, quantum circuit depth) and periodic retraining are employed to adapt the system as new data and market conditions emerge.

IV. IMPLEMENTATION

The overall framework integrates financial time-series data with sentiment features extracted from news articles to enhance stock market predictions. The implementation can be divided into several key stages:

A. Data Collection and Preprocessing

News Data Acquisition: News articles were collected using the GNews API. The API returned articles in JSON format, which were then consolidated using a custom JSON merger script. This merger aggregated data from multiple sources and timestamps, ensuring a comprehensive view of daily news coverage.

Sentiment Analysis: Each news article was processed through a sentiment analysis pipeline to capture the underlying emotional tone. Five sentiment-based features were extracted per day. These features represent various dimensions such as polarity, subjectivity, and specific sentiment intensities (e.g., positive, negative, and neutral sentiment).

Financial Data Integration: The extracted sentiment features were appended to the original dataset containing daily stock market information. The stock data included:

- Open Price
- High Price
- Low Price
- Close Price
- Number of Shares

The merged dataset was then cleaned, normalized, and split into training and testing sets to ensure consistency and reliable model evaluation.

B. Feature Engineering and Data Preparation

Normalization and Scaling: Both the stock prices and the sentiment features were normalized using techniques such as min-max scaling or standardization. This step was essential to ensure that the features were on a comparable scale and to enhance the stability of the training process.

Time-Series Structuring: Given the sequential nature of the data, historical stock and sentiment values were arranged into fixed-length sequences. This time-series structuring enabled the models to capture temporal dependencies critical for accurate forecasting.

C. Model Architecture and Training

Two models were implemented:

1) **LSTM Model:** A standard Long Short-Term Memory (LSTM) network was designed to capture sequential patterns in the data. The architecture typically comprised one or more LSTM layers followed by dense layers for regression. Dropout layers were used to mitigate overfitting, and the model was optimized using the Adam optimizer with a mean squared error (MSE) loss function. A combined graph displaying both training and testing performance was generated for this model.
2) **QLSTM Model:** The QLSTM model, a quantum-inspired variant of the LSTM, introduces quantum-related mechanisms into its recurrent layers. This model leverages modified activation functions and gate mechanisms to potentially enhance feature representation. Despite achieving an extremely low training RMSE, the QLSTM showed signs of overfitting as evidenced by a lower testing accuracy. For the QLSTM, separate graphs for training and testing were generated to better analyze these discrepancies.

Training Procedure: Both models were trained using the prepared time-series sequences. Key aspects of the training process included:

- **Epochs and Batch Size:** The number of epochs was chosen based on the convergence behavior observed during training, while an appropriate batch size was selected to balance computational efficiency and model stability.
- **Loss Monitoring:** RMSE and accuracy were monitored on both training and testing datasets at each epoch to ensure proper convergence.
- **Graphical Evaluation:**
  – For the LSTM model, a single combined graph was produced to display both training and testing error trajectories.
  – For the QLSTM model, separate graphs were generated for training and testing to clearly visualize the divergence in performance between the two phases.

Implementation Tools: The entire pipeline was implemented in Python using libraries such as TensorFlow/Keras for deep learning, along with Pandas and NumPy for data processing. Overleaf was used to document and present the research findings, including detailed visualizations of the model performance.

Figure 2 shows the combined training and testing graph for the LSTM model, while Figures 3 and 4 display the separate training and testing graphs for the QLSTM model.

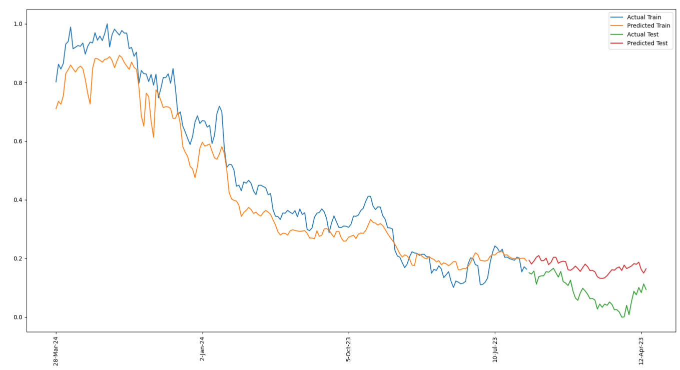

Fig. 2. LSTM Model: Combined Training and Testing Graph

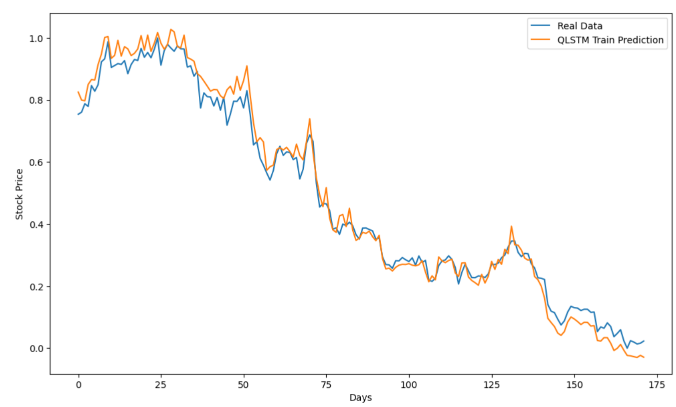

Fig. 3. QLSTM Model: Training Graph

V. Results and Analysis

The performance of the two models was evaluated using RMSE and accuracy metrics on both training and testing datasets. The LSTM model achieved:

- **Training RMSE:** 49.20
- **Testing RMSE:** 60.10
- **Training Accuracy:** 96.36%
- **Testing Accuracy:** 94.51%

In contrast, the QLSTM model exhibited:

- **Training RMSE:** 0.0381
- **Testing RMSE:** 0.0987

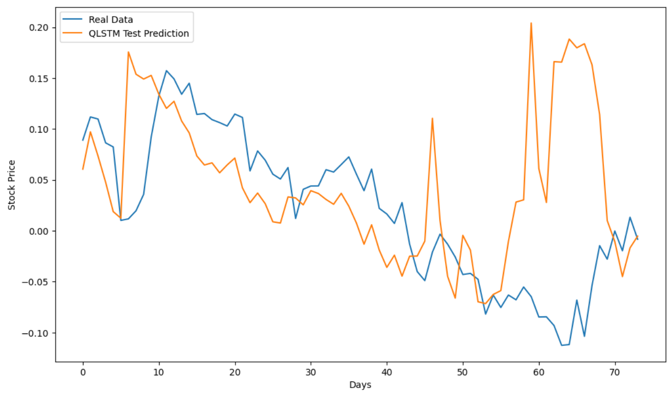

Fig. 4. QLSTM Model: Testing Graph

- **Training Accuracy:** 98.84%
- **Testing Accuracy:** 81.08%

The LSTM results indicate stable performance with a slight increase in error from training to testing, suggesting good generalization. However, the QLSTM model, despite its low training error, suffered from a significant drop in testing accuracy, which may indicate overfitting. The visualizations provided in the figures help illustrate the convergence behavior and differences in model performance during training and testing.

VI. Conclusion

This study presented a hybrid approach that integrates stock market data with sentiment features extracted from news articles to enhance predictive accuracy. The LSTM model demonstrated robust and consistent performance, with high accuracy and stable RMSE values across both training and testing datasets. Although the QLSTM model achieved an impressively low training RMSE, its lower testing accuracy suggests that overfitting remains an issue that must be addressed.

In summary, incorporating sentiment analysis into stock market prediction models shows significant promise, though careful consideration must be given to model complexity and generalization. Future work will focus on refining the QLSTM architecture, applying advanced regularization techniques, and exploring alternative methods of sentiment extraction to further improve performance. The detailed training and testing graphs provided in this paper serve as a crucial foundation for understanding model dynamics and guiding future enhancements.

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