



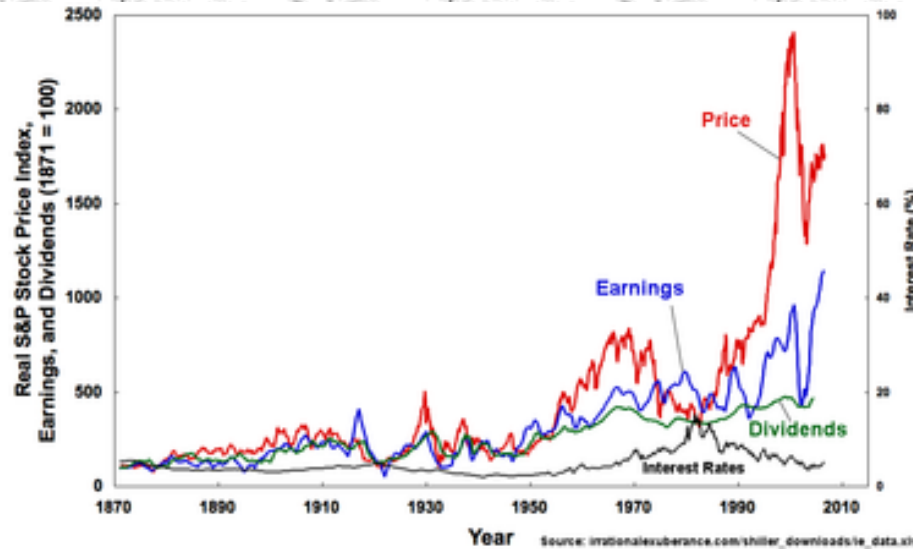
Department of Information Science & Engineering

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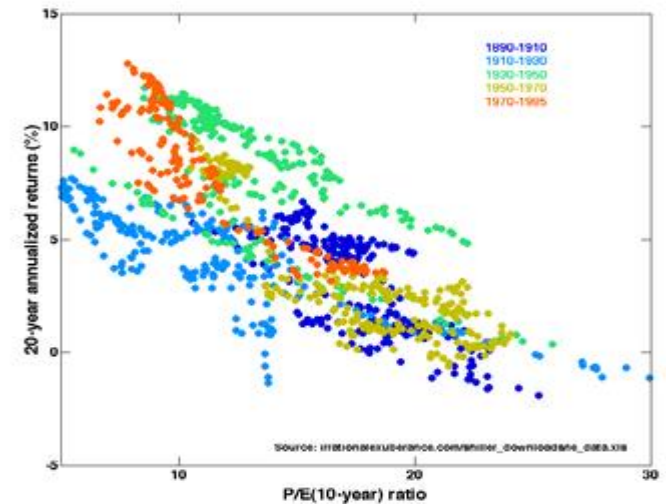
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INTRODUCTION

A **stock market**, **equity market**, or **share market** is the aggregation of buyers and sellers of [stocks](#) (also called shares), which represent [ownership](#) claims on businesses; these may include *securities* listed on a public [stock exchange](#), as well as stock that is only traded privately, such as shares of private companies which are sold to [investors](#) through [equity crowdfunding](#) platforms. Investment is usually made with an [investment strategy](#) in mind. The strategy and the tools that we use to predict the price movement of Assets here, will be 5 day moving average.



[Robert Shiller](#)'s plot of the S&P Composite Real Price Index, Earnings, Dividends, and Interest Rate



Price-Earnings ratios as a predictor of twenty-year returns based upon the plot by [Robert Shiller](#)

5 Day Exponential Moving Average

What Is an Exponential Moving Average (EMA)?

An exponential moving average (EMA) is a type of [moving average](#) (MA) that places a greater weight and significance on the most recent data points. The exponential moving average is also referred to as the exponentially [weighted](#) moving average. An exponentially weighted moving average reacts more significantly to recent price changes than a simple moving average [simple moving average](#) (SMA), which applies an equal weight to all observations in the period.



Exponential Moving Average (EMA)

[ek-spə-'nen(t)-shəl 'mū-vīŋ 'ā-v(ə-)rīj]

A type of moving average that places a greater weight and significance on the most recent data points.

Investopedia

Formula for Exponential Moving Average (EMA)

$$EMA_{\text{Today}} = \left(\text{Value}_{\text{Today}} * \left(\frac{\text{Smoothing}}{1 + \text{Days}} \right) \right) + EMA_{\text{Yesterday}} * \left(1 - \left(\frac{\text{Smoothing}}{1 + \text{Days}} \right) \right)$$

where:

EMA = Exponential moving average



OBJECTIVES

- I. To predict the price movement of financial Instruments using 5 Day EMA.
- II. To predict the price movement of stocks and commodities using past history and data.
- III. *For better risk management:* To decrease the risk and maximise the profit margin of trades.
- IV. *Liquidity Planning:* Companies around the world take on a lot of debt. This is done to enable them to expand faster. However, with higher debt, the risk of default is also increased. If a company fails to manage its cash-flow appropriately, it stands the risk of going insolvent.
- V. *Minimization of human emotions:* The most significant pro of algorithmic trading is the minimization of human emotions. The strategies are pre-formulated and there is no room for the traders to get affected by their emotions.
- VI. *Ability to Backtest:* The new algorithms created are first backtested using historical data. This helps to test whether the strategy will work or not.
- VII. *Improved Order Entry Speed:* Algo trading processes the trades automatically. As soon as the trade criteria are met, the algorithm responds to the market change and generates orders.



Literature Survey

<https://www.geeksforgeeks.org/stock-price-prediction-using-machine-learning-in-python/>

<https://www.simplilearn.com/tutorials/machine-learning-tutorial/stock-price-prediction-using-machine-learning>

<https://github.com/matplotlib/mplfinance/blob/master/examples/addplot.ipynb>

[https://stackoverflow.com/questions/63967999/mplfinance-moving average of specific column](https://stackoverflow.com/questions/63967999/mplfinance-moving-average of specific column)

https://www.youtube.com/watch?v=rO_cqa4x60o

Proposed Methodology

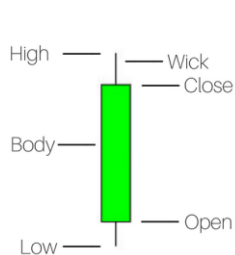
The Strategy

The 5 Day EMA is plotted against the price movement of a particular stock. The main psychology behind the strategy is that the market overvalues the bad and undervalues the good, like Superman and Clark Kent.

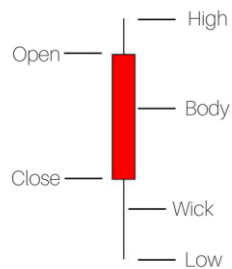
The price tends to usually reverse and average out over a 5 day period a short or a sell signal will be generated when the price of a certain stock is above the 5 Day EMA. The algorithm automatically identifies such trades and executes them at market price. The timeframe which will be used here will be 5m candles.

Candlestick Chart Patterns

Daily Bullish Candle



Daily Bearish Candle



The Trend Trading Blog



karanprashanth3 published on TradingView.com, Dec 07, 2022 08:37 UTC+5:30

ADANI TOTAL GAS LTD, 5, NSE O3696.85 H3696.85 L3696.85 C3696.85 -13.05 (-0.35%) Vol1

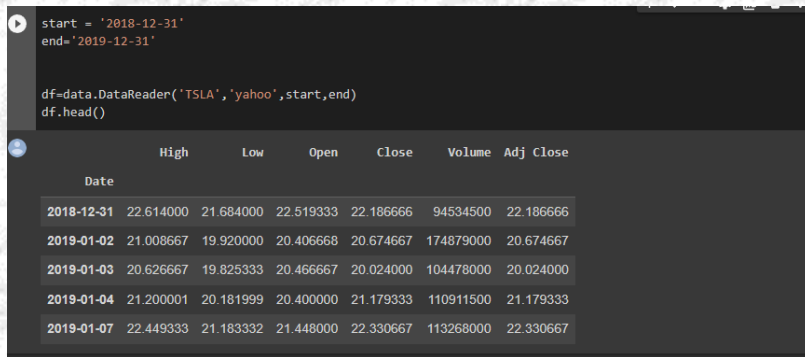


TradingView

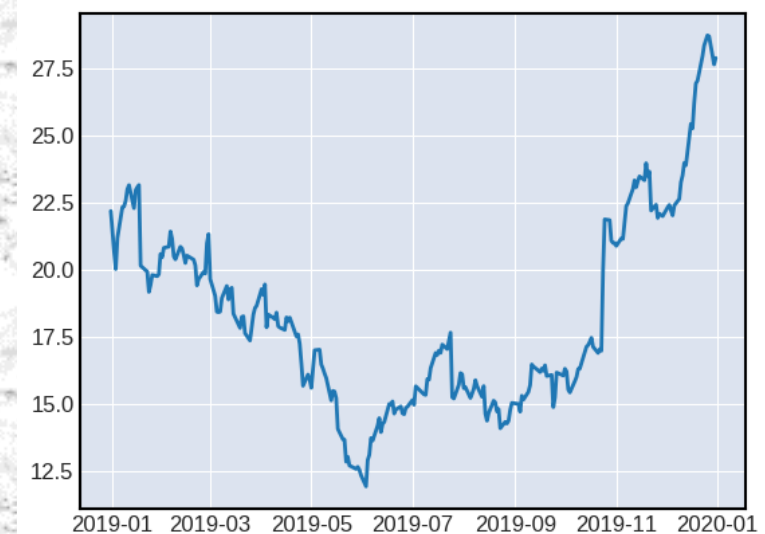
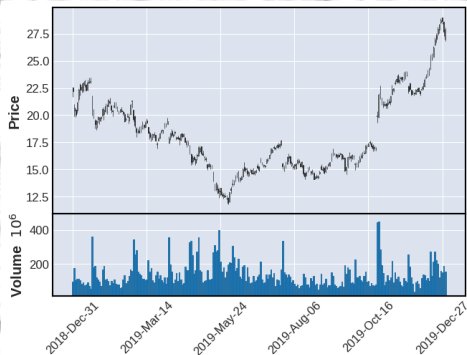
The strategy worked beautifully on Adani total gas on 7th Dec, 8:37 am The trade gave a 1:2.5 RR Ratio. We stand to make about 5000rs on a Capital of 1,00,000 in a matter of 90 minutes

System Architecture and Design

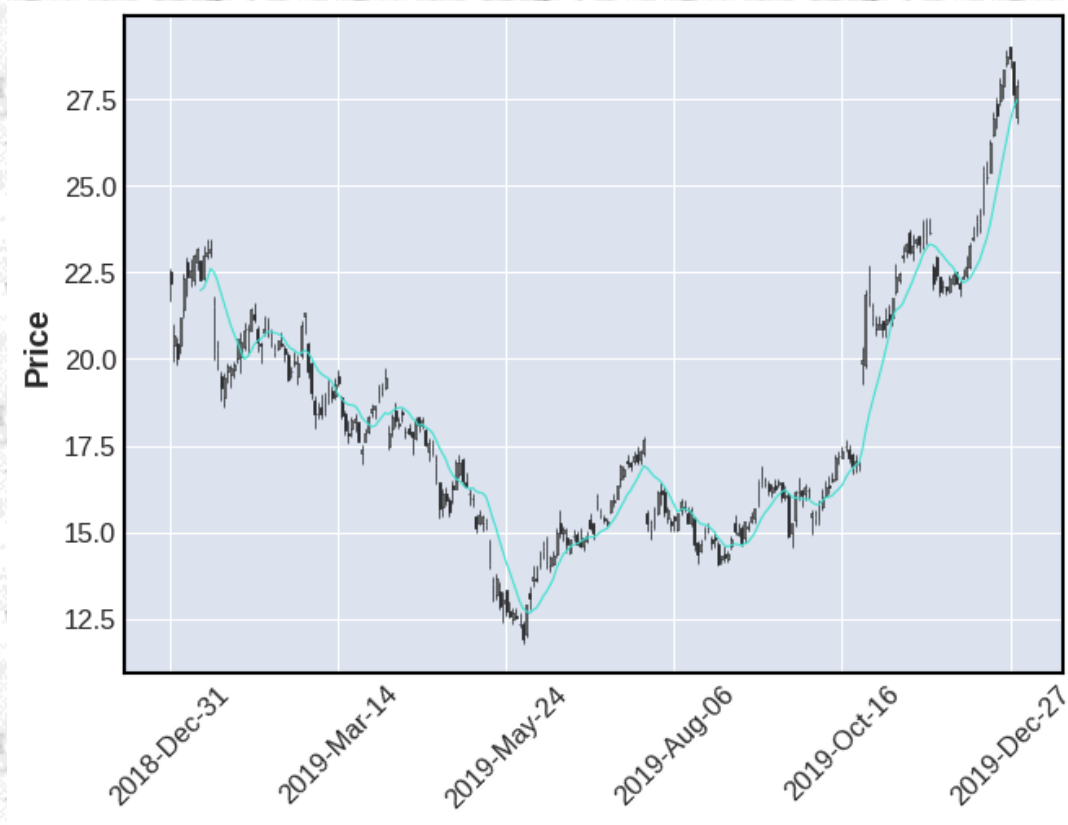
```
import numpy as np
import pandas as pd
import matplotlib.pyplot as plt
import pandas_datareader as data
import datetime as dt
```



```
mpl.plot(df, type='candle', volume=True)
plt.plot(df.Close)
```




```
ema = df.Close.ewm(com=2).mean()  
ema
```



The working project:

[pbltest2.ipynb - Colaboratory \(google.com\)](https://colab.research.google.com/notebooks/pbltest2.ipynb)

Subject Mapping

Engineering Mathematics - III (21MTB31)

The Exponential Moving averages is a part of our syllabus in module 1 of time series forecasting. We were taught how to calculate the moving averages over different time period and how this particular concept is useful in our daily life and economics

Formula for Exponential Moving Average (EMA)

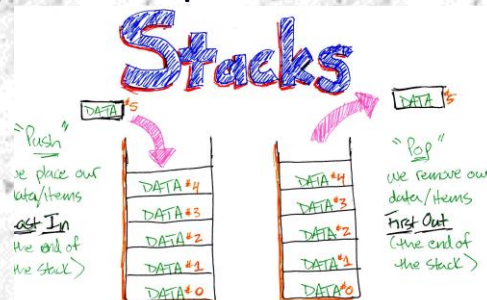
$$EMA_{\text{Today}} = \left(\text{Value}_{\text{Today}} * \left(\frac{\text{Smoothing}}{1 + \text{Days}} \right) \right) + EMA_{\text{Yesterday}} * \left(1 - \left(\frac{\text{Smoothing}}{1 + \text{Days}} \right) \right)$$

where:

EMA = Exponential moving average

Data Structure and Applications (21CS35)

We are taught how to utilize the least possible space and how to make the algorithms more efficient



Validation

5 ema strategy(Traders Carnival) - Backtest Report - HtmlView

Statistics | Charts | Trades | Formula | Settings | Symbols | Monte Carlo

Symbol	Trade	Date	Price	Ex. date	Ex. Price	Profit	% Profit	Shares	Position value	Cum. Profit	# bars	Profit/bar	MAE	MFE
GODREJCP	Long (p		470.00			267.44		2	133.72	-0.21%	1.13%			
ASIANPAINT	Long (p		126.05			557.19		2	144.87	-0.07%	0.85%			
AUROPHARMA	Long (n		777.20			333.21		2	-111.99	-0.45%	0.17%			
BHEL	Long (p		666.10			836.63		2	251.71	-0.25%	1.08%			
BRITANNIA	Long (p		516.65			1,235.16		3	132.84	-0.43%	0.88%			
RECLTD	Long (p		449.10			1,675.33		8	55.02	-0.48%	0.94%			
COALINDIA	Long (n		692.95			1,440.41		9	-26.10	-0.39%	0.04%			
BERGEPAINT	Long (p		021.60			1,851.64		13	31.63	-0.31%	0.89%			
DRREDDY	Long (n		285.00			1,682.89		22	-7.67	-0.28%	0.50%			
BOSCHLTD	Long		900.10			1,735.33		24	2.19	-0.23%	0.69%			
CUB	Long		967.10			1,726.89		24	-0.35	-0.32%	0.90%			
AXISBANK	Long		140.00			1,846.74		23	5.21	-0.37%	0.52%			
BANKBARODA	Long		808.80			1,779.69		23	-2.92	-0.20%	0.55%			
GAIL	Long		640.61			1,778.52		22	-0.05	-0.42%	0.45%			
EXIDEIND	Long (p		746.50			2,127.61		4	87.27	-0.35%	0.76%			
AMARAJABAT	Long (n		853.60			1,836.95		2	-145.33	-0.56%	0.22%			
GRASIM	Long (p		814.40			2,091.75		4	63.70	-0.16%	0.57%			
PIDILITIND	Long (p		505.00			2,738.66		4	161.73	-0.66%	1.35%			
GLENMARK	Long (n		397.60			2,360.30		6	-63.06	-0.68%	0.29%			
HDFCBANK	Long (n		612.62			2,007.36		13	-27.15	-0.63%	0.27%			
MCDOWELL-N	Long (n		593.50			1,798.30		18	-11.61	-0.34%	0.28%			
KOTAKBANK	Long		640.00			1,682.88		22	-5.25	-0.29%	0.32%			
HDFCBANK	Long (n		615.00			1,311.02		3	-123.95	-0.66%	0.16%			
JINDALSTEL	Long (n		715.00			645.74		3	-221.76	-1.24%	1.24%			
HDFC	Long (n		078.60			214.82		2	-215.46	-0.93%	0.39%			
PEL	Long (n		709.30			-95.08		2	-154.95	-0.55%	0.17%			
BAJAJ-AUTO	Long (p		734.00			71.74		2	83.41	-0.27%	0.41%			
TORNTPOWER	Long (profit)	06-01-2015 09:30:00	160.8	06-01-2015 10:30:00	163.65	861.98	1.70%	315	50,652.00	933.72	5	172.40	-0.87%	1.77%
IOC	Long (max loss)	06-01-2015 09:45:00	84.375	06-01-2015 10:30:00	83.925	-307.38	-0.60%	604	50,962.50	626.34	4	-76.84	-0.53%	0.07%
NAUKRI	Long (profit)	06-01-2015 09:45:00	843.95	06-01-2015 10:30:00	850.325	346.92	0.69%	60	50,637.00	973.26	4	86.73	-0.15%	0.76%
CONCOR	Long (profit)	06-01-2015 10:00:00	1,361.55	06-01-2015 10:30:00	1,378.05	559.48	1.14%	36	49,015.80	1,532.74	3	186.49	-0.40%	1.21%
BRITANNIA	Long (max loss)	06-01-2015 09:45:00	935	06-01-2015 11:00:00	925.5	-548.16	-1.09%	54	50,490.00	984.58	6	-91.36	-1.02%	0.74%

When back tested the strategy made over 300% a year beating the average annual return of the nifty 50 index which returns about 12%pa.

The back test was on over 27,000 stocks over a 5 year period

Future Scope and Enhancement

Machine Learning and Data Science will play a huge role in the financial industry in the upcoming years. Automated bots and tools which use Machine Learning will definitely improve our lives for better or worse. Our existing algorithm is one such example of what machine learning is truly capable of. The Algorithm can be further

Enhanced by use of multiple chart and candlestick patterns which occur in the higher and lower chart timeframe, by using such tools and methods the probability and possibility of finding high conviction trades which have a high risk : reward ratio increases we can also position size better and give the best possible return on the users capital. The algorithm has huge upside potential as we continue to feed multiple data points and charts for the enhancement of the algorithm