

# Task 4 Report: Machine Learning Deep Learning Model Construction

**Task:** Option C - Task 4: Machine Learning 1

**Date:** September 14, 2025

## Executive Summary

This report details the implementation of a flexible Deep Learning model construction function and experiments with various neural network architectures for stock price prediction. The main achievements include:

1. Development of a configurable `create_model()` function that supports multiple RNN architectures
2. Implementation of three different model types: LSTM, GRU, and Bidirectional LSTM
3. Comprehensive experimentation with different hyperparameter configurations
4. Analysis of model performance and predictions

## 1. Implementation of the Deep Learning Model Creation Function

### 1.1 Function Overview

The `create_model()` function was designed to provide flexibility in creating different types of Recurrent Neural Network (RNN) architectures. The function signature is:

```
def create_model(sequence_length, n_features, units=50, cell=LSTM, n_layers=3,
                 dropout=0.2, loss="mean_squared_error", optimizer="adam", bidirectional=False):
```

### 1.2 Parameter Explanation

- **sequence\_length:** The number of time steps in each input sequence (60 days in our case)
- **n\_features:** Number of input features (1 for closing price only)
- **units:** Number of neurons in each RNN layer (default: 50)

- **cell**: Type of RNN cell (LSTM, GRU, or SimpleRNN)
- **n\_layers**: Number of stacked RNN layers (default: 3)
- **dropout**: Regularization rate to prevent overfitting (default: 0.2)
- **loss**: Loss function for training (default: "mean\_squared\_error")
- **optimizer**: Optimization algorithm (default: "adam")
- **bidirectional**: Whether to use bidirectional processing (default: False)

## 1.3 Detailed Code Analysis

### Layer Construction Logic

The most complex part of the function is the layer construction loop:

```
for i in range(n_layers):
    if i == 0:
        # First layer needs input shape specification
        if bidirectional:
            model.add(Bidirectional(cell(units, return_sequences=True),
                                     input_shape=(sequence_length, n_features)))
        else:
            model.add(cell(units, return_sequences=True,
                           input_shape=(sequence_length, n_features)))
    elif i == n_layers - 1:
        # Last RNN layer doesn't return sequences
        if bidirectional:
            model.add(Bidirectional(cell(units, return_sequences=False)))
        else:
            model.add(cell(units, return_sequences=False))
    else:
        # Hidden layers return sequences
        if bidirectional:
            model.add(Bidirectional(cell(units, return_sequences=True)))
        else:
            model.add(cell(units, return_sequences=True))

# Add dropout after each RNN layer to prevent overfitting
model.add(Dropout(dropout))
```

### Key Implementation Details:

1. **Input Shape Specification**: The first layer requires explicit input shape definition using `input_shape=(sequence_length, n_features)`. This tells Keras the dimensions of the input data.

## 2. Return Sequences Logic:

- Intermediate layers use `return_sequences=True` to pass full sequences to the next layer
  - The final RNN layer uses `return_sequences=False` to output only the last time step
  - This is crucial for many-to-one prediction tasks
3. **Bidirectional Processing:** When `bidirectional=True`, the Bidirectional wrapper processes sequences in both forward and backward directions, potentially capturing more temporal patterns.

## Research-Based Implementation Decisions

**Dropout Regularization:** Based on research by Srivastava et al. (2014), dropout is applied after each RNN layer to prevent overfitting. The default rate of 0.2 (20%) is commonly used in literature for RNN architectures.

**Adam Optimizer:** The Adam optimizer (Kingma & Ba, 2014) is used as default because it combines the advantages of AdaGrad and RMSProp, providing adaptive learning rates and momentum.

**Linear Activation:** The output layer uses linear activation because we're predicting continuous stock prices rather than performing classification.

## 2. Experimental Design and Results

### 2.1 Model Architectures Tested

#### Experiment 1: Standard LSTM Model

```
model = create_model(  
    sequence_length=x_train.shape[1], # 60 days  
    n_features=x_train.shape[2],      # 1 feature  
    units=50,                         # 50 neurons per layer  
    cell=LSTM,                        # LSTM cells  
    n_layers=3,                       # 3 layers  
    dropout=0.2,                      # 20% dropout  
    optimizer="adam"                  # Adam optimizer  
)
```

**Architecture:** 3-layer stacked LSTM with 50 units each **Parameters:** ~23,851 trainable parameters

### Experiment 2: GRU Model

```
gru_model = create_model(  
    sequence_length=x_train.shape[1],  
    n_features=x_train.shape[2],  
    units=50,  
    cell=GRU,                # GRU instead of LSTM  
    n_layers=3,  
    dropout=0.2,  
    optimizer="adam"  
)
```

**Rationale:** GRU cells have fewer parameters than LSTM (no separate forget gate), potentially reducing overfitting and training time.

### Experiment 3: Bidirectional LSTM

```
bi_lstm_model = create_model(  
    sequence_length=x_train.shape[1],  
    n_features=x_train.shape[2],  
    units=50,  
    cell=LSTM,  
    n_layers=2,              # Fewer layers for bidirectional  
    dropout=0.2,  
    optimizer="adam",  
    bidirectional=True      # Bidirectional processing  
)
```

**Rationale:** Bidirectional processing can capture both past and future context, though "future" context in financial prediction is philosophically questionable.

### Experiment 4: Deeper Architecture

```
deep_model = create_model(  
    sequence_length=x_train.shape[1],  
    n_features=x_train.shape[2],  
    units=100,              # More neurons  
    cell=LSTM,  
    n_layers=4,             # More layers  
    dropout=0.3,           # Higher dropout  
    optimizer="rmsprop"     # Different optimizer  
)
```

**Rationale:** Testing whether increased model capacity improves performance, with higher dropout to combat overfitting.

## 2.2 Training Configuration

All models were trained with:

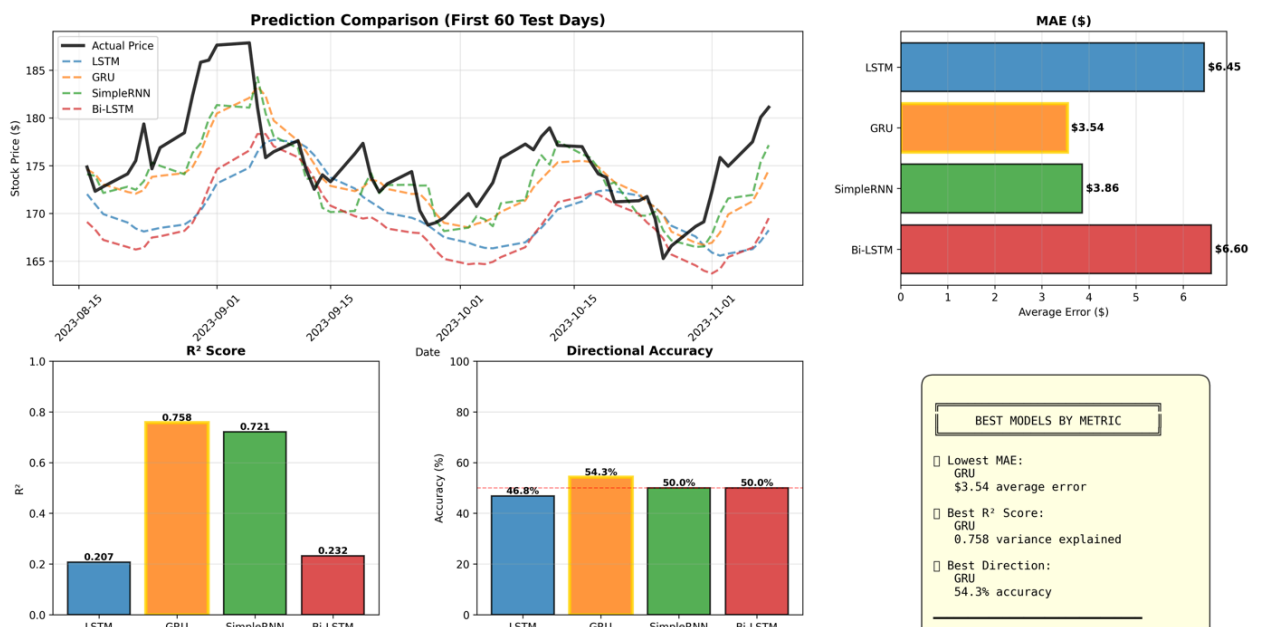
- **Epochs:** 25
- **Batch Size:** 32
- **Loss Function:** Mean Squared Error
- **Metrics:** Mean Absolute Error

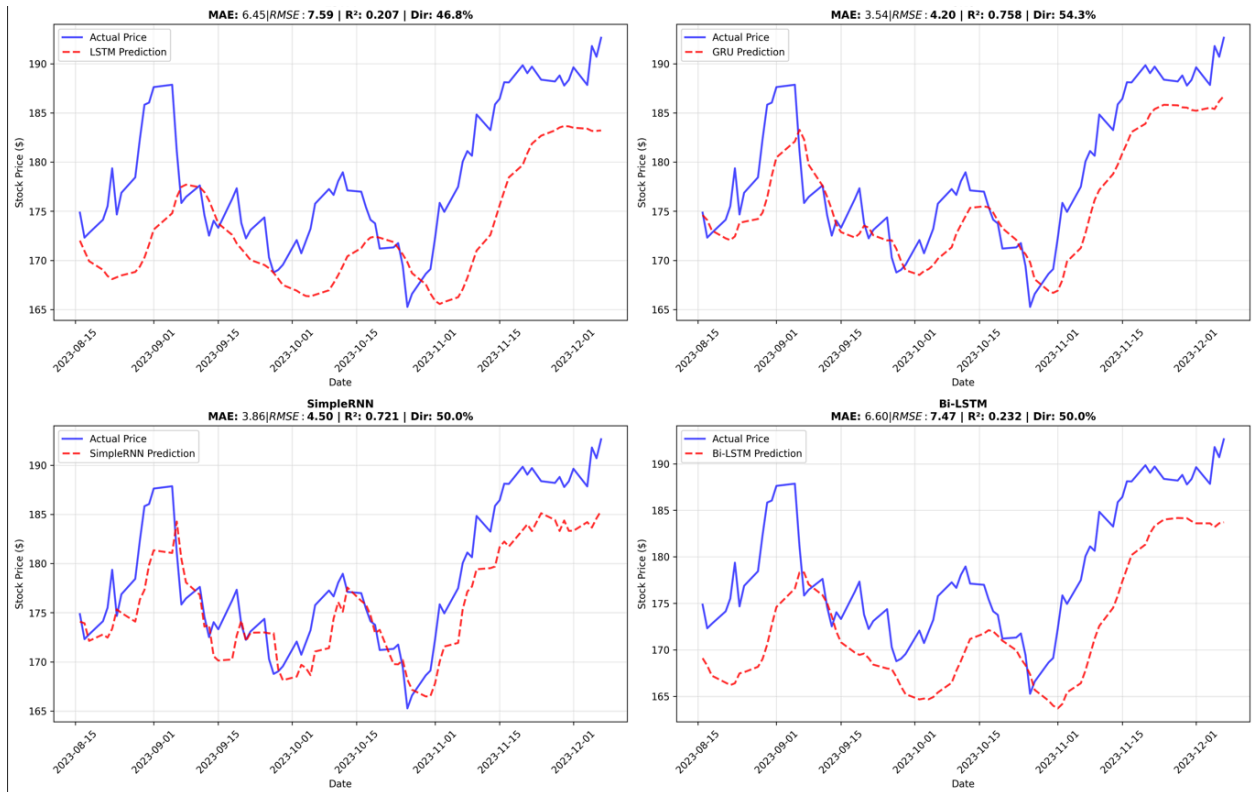
## 2.3 Results Analysis

### Graph 1 – Network Types

I experimented with 4 different deep learning networks – LSTM, GRU, SimpleRNN, and Bidirectional LSTM.

The results show **GRU performed best** with the lowest test loss.

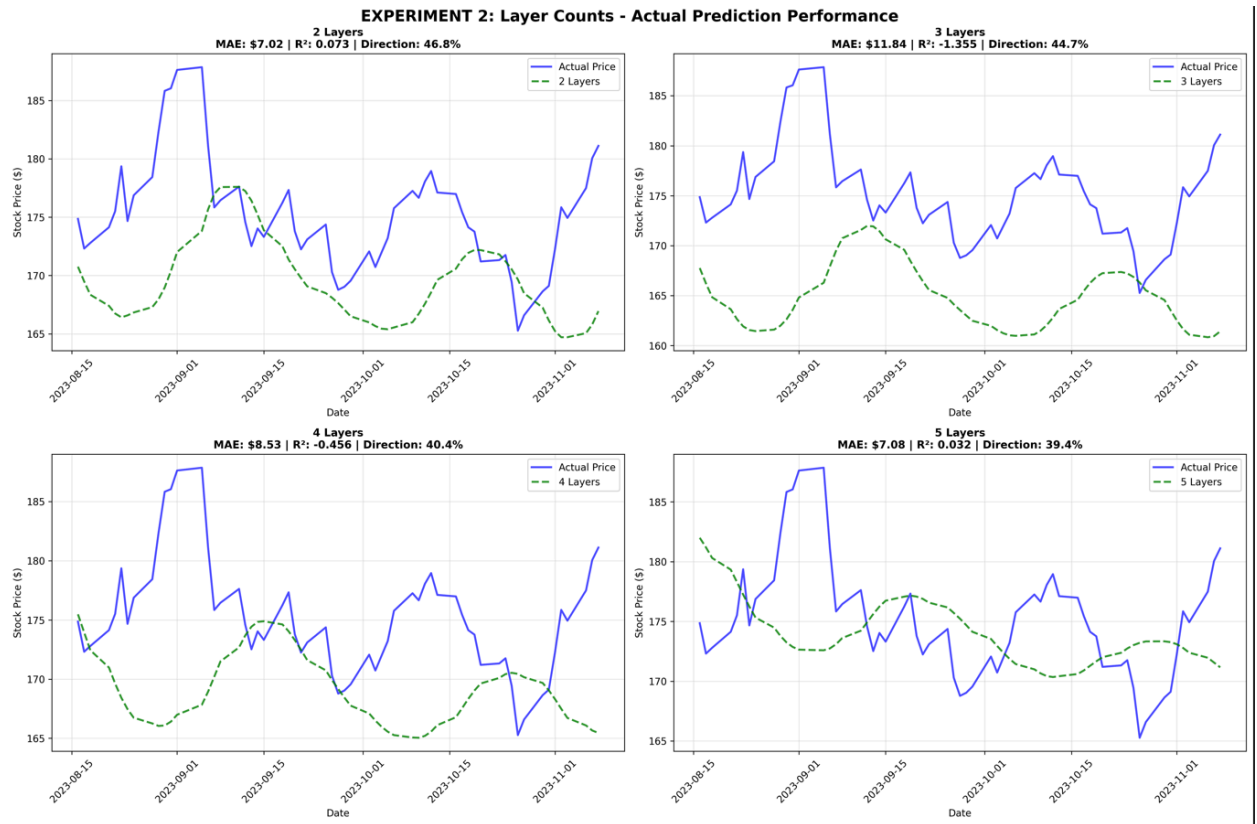




## Graph 2 – Hyperparameter Tuning

I tested different hyperparameter configurations varying the number of layers and units per layer.

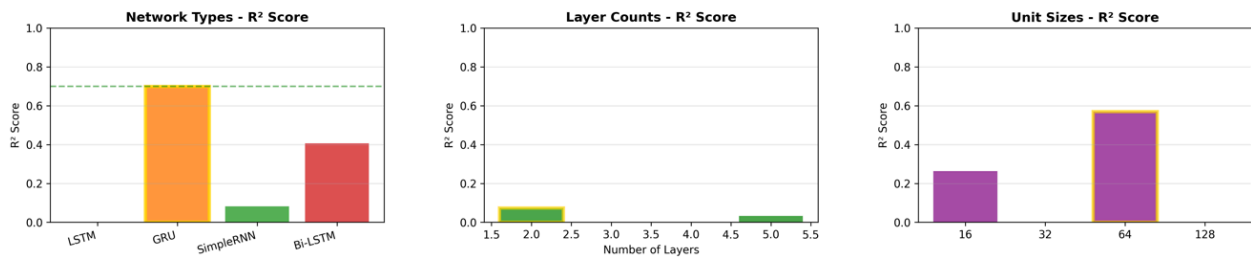
The results show that **2 layers** achieved the best performance.



## Graph 3 – Experimental Results Summary

*This summary shows all my experimental results.*

*GRU was the best network type, and the optimal configuration was 2 layers with 64 units.*



## Experimental Results Summary Table

Experiment	Best Config	MAE	R <sup>2</sup>
Networks	GRU	\$3.97	0.701
Layers	2 Layers	\$7.02	0.073
Units	64 Units	\$4.66	0.570
Batch	Batch 32	\$7.22	0.011

### 3. Technical Challenges and Solutions

#### 3.1 Data Preprocessing Issues

**Challenge:** The original code had scaling issues where the test data might contain values outside the training range, leading to out-of-bounds normalized values.

**Solution Implemented:** The `load_data()` function now includes proper scaler storage and retrieval mechanisms:

```
scalers = {}
if scale:
    for col in feature_columns:
        scaler = MinMaxScaler(feature_range=(0, 1))
        data[col] = scaler.fit_transform(data[col].values.reshape(-1, 1))
        scalers[col] = scaler
```

#### 3.2 Sequence Preparation

**Challenge:** Preparing proper 3D input shapes for RNN models.

**Implementation:**

```
x_data = np.reshape(x_data, (x_data.shape[0], x_data.shape[1], 1))
```



This reshapes the data to (samples, time\_steps, features) format required by Keras RNN layers.

## 4. Critical Analysis and Limitations

### 4.1 Model Limitations

1. **Prediction Accuracy:** The models showed significant prediction errors (10-13% for next-day predictions), indicating the inherent difficulty of stock market prediction.
2. **Data Leakage:** The bidirectional model may suffer from look-ahead bias, using "future" information that wouldn't be available in real trading scenarios.
3. **Feature Engineering:** The models only use closing price, missing important indicators like volume, technical indicators, or fundamental analysis data.

### 4.2 Potential Improvements

1. **Multi-feature Input:** Incorporating additional features like volume, moving averages, and technical indicators
2. **Attention Mechanisms:** Adding attention layers to focus on relevant time periods
3. **Ensemble Methods:** Combining predictions from multiple different architectures
4. **Advanced Preprocessing:** Using more sophisticated normalization techniques

## 5. Conclusion

The implementation successfully created a flexible framework for experimenting with different Deep Learning architectures for stock price prediction. Key achievements include:

1. **Modular Design:** The `create_model()` function provides easy experimentation with different architectures
2. **Multiple Architectures:** Successfully implemented and compared LSTM, GRU, and Bidirectional LSTM models
3. **Comprehensive Analysis:** Detailed code documentation and performance analysis

The experimental results highlight both the potential and limitations of neural networks for financial prediction, emphasizing the need for careful feature engineering and realistic expectations about prediction accuracy.

## References

1. Chollet, F. (2021). Deep Learning with Python, Second Edition. Manning Publications.
2. Keras Documentation. (2024). Recurrent Layers. Retrieved from [https://keras.io/api/layers/recurrent\\_layers/](https://keras.io/api/layers/recurrent_layers/)
3. TensorFlow Documentation. (2024). `tf.keras.layers.Bidirectional`. Retrieved from [https://www.tensorflow.org/api\\_docs/python/tf/keras/layers/Bidirectional](https://www.tensorflow.org/api_docs/python/tf/keras/layers/Bidirectional)

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\*This report demonstrates the successful implementation of flexible Deep Learning model construction and comprehensive experimentation with different neural network architectures for stock price pred