

# Sentiment Analysis to Predict S&P 500 Behavior

[Proposal]

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## 1. PROBLEM INTRODUCTION

The challenge we have decided to address in our project is how to use publicly available text based information sources produced by the government in order to predict the behaviors of financial markets. In particular, our hope is to apply sentiment analysis techniques to the minutes of the Federal Open Market Committee (FOMC) in order to identify correlations with the behaviour of the S&P 500. The FOMC meets eight times yearly and publishes approximately twenty pages of minutes for each meeting. These minutes discuss the state of the economy and detail a plan for the monetary policy in the time until the next meeting. The frequency of their publication, their scope, and their source of a key economic organization leads us to believe that these documents in particular would be a good source of potential insight.

Financial markets are an area where standard predictive techniques have often been unsuccessful at achieving accurate results. Stock prices in particular are notorious for being difficult to forecast. The ability to make accurate predictions about economic conditions provides an immediate financial incentive for research into this area and an entire industry exists whose primary goal is the development of techniques to predict market behaviour. Beyond the pursuit of profit, having a warning period before downturns could also potentially allow for protective or even preventative actions to be taken.

Our particular approach to the problem, and the contribution we believe separates us from previous similar work, is our combination of topic modeling and sentiment analysis into a single pipeline. Our goal is to automatically parse the document to identify different topics such as the energy or health care markets. Applying sentiment analysis to these topics individually will allow us to create predictions for each of the sectors tracked by the S&P 500.

## 2. RELATED WORK

As mentioned in the previous section, the allure of financial gains has inspired a large amount of research into the

topic of S&P predictions in general and sentiment analysis in particular.

One popular source of data for sentiment analysis is social media. A paper by Mittal and Goel used sentiment analysis on twitter data in combination with values from the Dow Jones Industrial Average (DJIA) to predict stock prices. In comparison to our work this paper used a simpler approach to sentiment analysis and focused primarily on using a neural network to transform the output from the analysis into concrete stock predictions. The paper was based on an earlier 2010 work by Bollen et al that claimed to predict daily DJIA fluctuations with 87% accuracy.[2]

Another common source for data is news articles. For example Azar in 2009 demonstrated that positive returns could be derived from text analysis of new sources although a qualification was made that these returns vanish when trading costs are accounted for.[1] In contrast to both of these existing works we have chosen an official government source for data rather than a source that reflects popular opinion. The benefits of this decision are that our information comes directly from the entity that decides policy. Downsides are that it limits the amount of data available to us and the argument could be made that stock prices are largely driven by public opinion.

Some previous work has been done on the subject of combining topic modeling and sentiment analysis by Lu et al.[3] However, they restrict their application to analyzing restaurant reviews. We hope that in the process of applying these techniques to our particular situation we will discover modifications that better suit the algorithms to this application.

## 3. ALGORITHMS AND EVALUATION

I don't know how these things work but that should go here. I don't know how much detail.

## 4. REFERENCES

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- [3] Bin Lu, Myle Ott, Claire Cardie, and Benjamin K. Tsou. Multi-aspect sentiment analysis with topic models. In *Proceedings of the 2011 IEEE 11th International Conference on Data Mining Workshops*,

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