

# Reddit: Using Public Sentiment as a Technical Indicator for Investments

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## Introduction

- Given a period of sentiment, can we predict if the future stock price will be bull or bear?
- Investigated Amazon, Disney, Intel, and Tesla stocks.

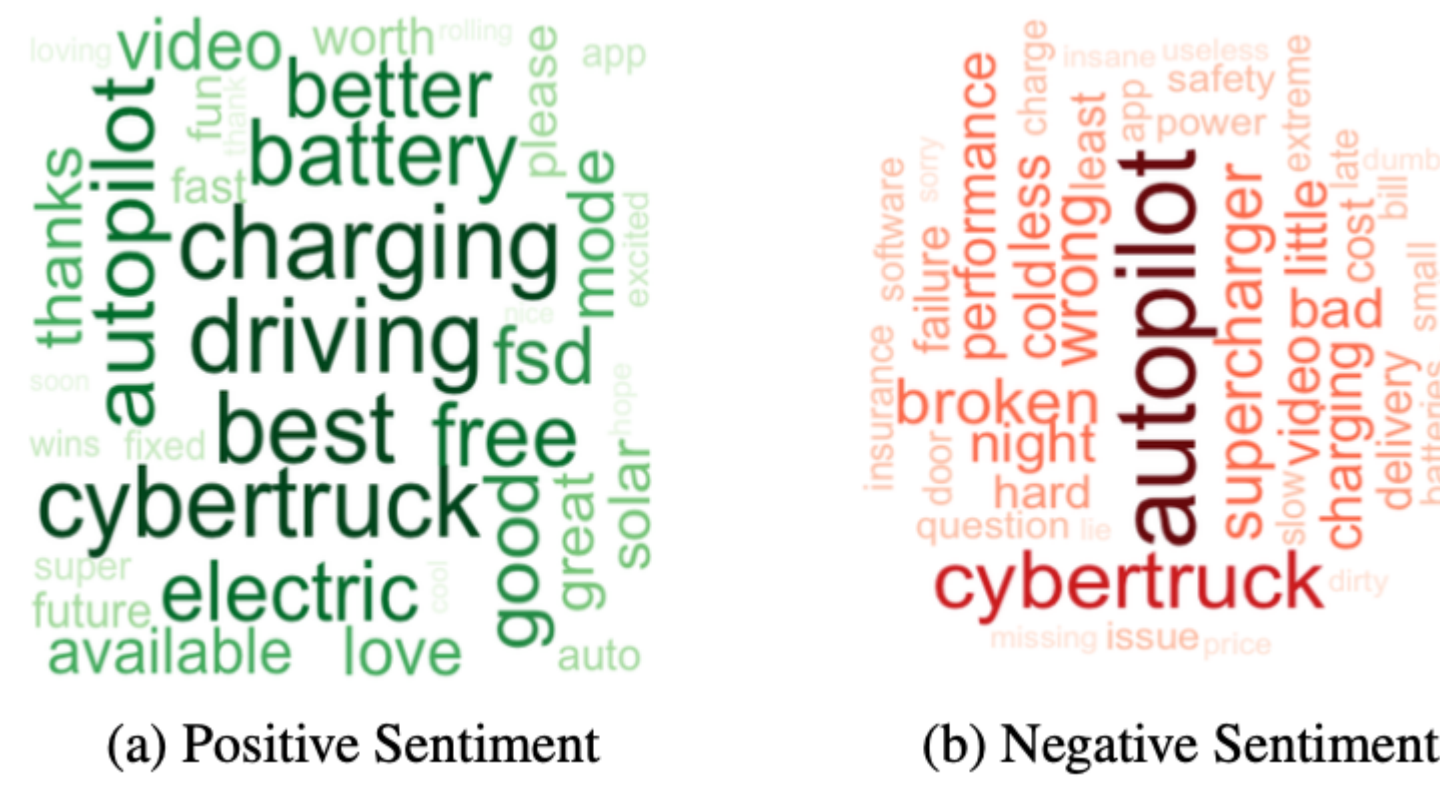
## Methodology

### 1. Gathering and Cleaning Data

- Used Tidyquant to grab stock price data for each company.
- Used Reddit's API to collect all posts and comments for each company.
  - Over 500,000 comments and 10,000 posts collected.

### 2. Sentiment Calculation:

Calculated the sentiment scores using Python's TextBlob library.



$$\text{Daily Weighted Sentiment}_n = \frac{\sum_{n=1}^{\# \text{ Comments}} \text{Sentiment}_n * \text{Score}_n}{\# \text{ Comments}}$$

$$\text{Centered and Scaled Sentiment}_n = \frac{DWS_n - \overline{DWS_n}}{sd(DWS_n)} * IQR(P) + \bar{P}$$

### 3. Moving Average

$$\text{Simple Moving Average}_n = \frac{\sum_{n=1}^{\text{Window Size}} P_n}{\text{Window Size}}$$

$$\text{Weighted Moving Average}_n = \frac{\sum_{n=1}^{\text{Window Size}} W_n * P_n}{\text{Window Size}}$$

$$\text{Exponential Moving Average}_n = EMA_{n-1} - P_n * \frac{2}{n+1} + P_n$$

# Reddit Sentiment is a useful technical indicator for predicting a stock's direction.

## Using Reddit Sentiment to Increase Stock Return Investments



Scan QR code to view GitHub repository.

## Analysis

Sentiment MA vs Price for Disney and Tesla.



Idea: Buy when price below sentiment, sell when sentiment above price.

- Implemented trading algorithm finding optimal buy and sell dates.
- Created back-testing algorithm to calculate return.
- Back-tested all window sizes between 5-50 days using all MA types for price, sentiment, and both.

Stock	Baseline Return	PMA Return	SMA Return	PMA & SMA Return
Amazon	169%	130%	153%	165%
Disney	98%	92%	142%	100%
Intel	95%	79%	119%	151%
Tesla	500%	630%	339%	552%

Computed average returns for each group and stock.

SMA seems to perform well by itself and combined with PMA.

One sided t-test comparing algorithm to baseline return of holding.

$$H_0 : \text{Algorithm Return} \leq \text{Baseline Return}$$

$$H_a : \text{Algorithm Return} > \text{Baseline Return}$$

## T-Test Results

Stock	PMA P-value	SMA P-value	PMA & SMA P-value
Amazon	1.000	1.000	0.851
Disney	0.996	<2e-16	1.000
Intel	1.000	<2e-16	<2e-16
Tesla	<2e-16	1.000	0.061

## Conclusion

- Sentiment MA worked better for Disney and Intel.
- Price MA worked better for Tesla.
- Failed to outperform Amazon baseline.

It was expected that sentiment would not work for every stock.

Promising results from Disney, Intel, and Tesla.

Conclude that sentiment has potential as a valuable technical indicator