A drawing of a cartoon character

Description automatically generated

Jeff Levesque

https://github.com/jeff1evesque/ist-736 | Final Project

IST-736: Market Sentiment

PRofessor gates

Table of Contents

[Introduction 2](#_Toc18957790)

[Hardware 2](#_Toc18957791)

[Data Preparation 3](#_Toc18957792)

[Twitter API 3](#_Toc18957793)

[Quandl API 4](#_Toc18957794)

[Joining Data 5](#_Toc18957795)

[Exploratory 5](#_Toc18957796)

[Stop Words 5](#_Toc18957797)

[Topic Model 5](#_Toc18957798)

[Latent Dirichlet Allocation 6](#_Toc18957799)

[Selected Topics 7](#_Toc18957800)

[Sentiment Analysis 10](#_Toc18957801)

[Analysis 12](#_Toc18957802)

[Baseline Results 15](#_Toc18957803)

[Classification 15](#_Toc18957804)

[Time series 20](#_Toc18957805)

[Granger Causality 25](#_Toc18957806)

[Select Results 25](#_Toc18957807)

[Classification 25](#_Toc18957808)

[Time series 25](#_Toc18957809)

[Granger Causality 25](#_Toc18957810)

[Conclusions 26](#_Toc18957811)

[Appendix A 27](#_Toc18957812)

# Introduction

Do the opinions of Financial Analysts on Twitter impact market sentiment and volatility? There are many financial analysts on twitter offering investment advice to millions of people daily. These analysts also have other mediums outside of Twitter, including TV shows, blogs and newspaper columns. However, Twitter can provide twitter sentiment towards the market that analysts are portraying daily. For example, Jim Cramer is arguably the most famous financial analyst today, having over 1.1 million followers on Twitter, and host of the popular Mad Money television series. While audience members often look to financial analysts such as Jim Cramer, one may question whether their advice impacts the investment decisions of followers, and in turn, impacting market volatility?

Market volatility is a statistical measure of dispersion relative to security or market index. Generally, higher volatility is a sign of greater risk since the range of possible values vary relatively more[[1]](#footnote-1). Market volatility can be tracked by using the CBOE Volatility Index (VIX). The VIX is a market index that represents the market's expectation of 30-day forward-looking volatility. It is derived from the price inputs of the S&P 500 index options; it provides a measure of market risk and investors' sentiments. The VIX is considered a reflection of investor sentiment; the higher the VIX is up, the higher the levels of investor anxiety and market volatility.

If there is a correlation between the sentiment being portrayed by these analysts towards the market and the level of market volatility for that day, then this information can be a valuable tool for investors to incorporate into their investment strategy. Having advanced knowledge of when a market is about to increase in volatility would be invaluable to investors allowing them to adjust their portfolios preempting the market risk. Tweets have been known to impact the market before, on May 5th 2019, President Trump tweeted negatively about a Trade War with China and the VIX rose by as much as 46.1% intra-day the next market day, while the Dow Jones Industrial Average plunged by as much as 471 points .

# Hardware

Exploratory and classification models were computed on an 8GB, 3.00GHz machine. Similarly, timeseries consisting of ARIMA and LSTM models were generated on the same machine, initially implementing 750 epochs for the LSTM models. Passing through a single quandl dataset, and generating timeseries analysis on each of the five financial analysts, took approximately 75 minutes, or roughly 15 continuous hours:

* Jimcramer
* ReformedBroker
* TheStalwart
* LizAnnSonders
* SJosephBurns

Once coding structures were determined, the CPU architecture was replaced with a p2.xlarge[[2]](#footnote-2) instance. This consisted of 1GB GPU, 61GB of RAM, and 4 vCPU. Specifically, a CUDA based tensorflow[[3]](#footnote-3) replaced the CPU tensorflow variant. Moreover, the earlier timeseries controller[[4]](#footnote-4) was re-executed with 1500 epochs and experienced roughly 10-20% performance boost.

# Data Preparation

## Twitter API

The Twitter API[[5]](#footnote-5) was implemented using an approved Twitter developer[[6]](#footnote-6) account. A python template file (config--TEMPLATE.py) was created containing dummy text representing the secret key and tokens provided with the Twitter developer account. This file was copied as config.py, with values properly substituted. Changes were a requirement of the general application implementing the Twython[[7]](#footnote-7) package. Within the application, two main twitter functionalities were streamlined. The first allowed general querying through a set of parameters[[8]](#footnote-8), while the second allowed querying content for specified twitter screen names. This functionality was provided using the user timeline component[[9]](#footnote-9).

Five screen names were queried:

* Jimcramer
* ReformedBroker
* TheStalwart
* LizAnnSonders
* SJosephBurns

Corresponding code generated dataframe structures, for each of the above screen names, then outputted to an associated csv file[[10]](#footnote-10). On future executions, if the corresponding csv file already exists, then the twitter api did not duplicate exiting files.

Furthermore, the parameters collected from the twitter accounts were screen\_name, created\_at, and full\_text. Each account was collected using a rate\_limit=900[[11]](#footnote-11). This ensured that the maximum number of tweets could be collected per screen name. However, due to the request limit, roughly 15 minutes

needed to transpire before re-executing, to obtain the maximum content for the successive screen name. Thus, a little over 1.5 hours was required to initially generate local csv files.

Finally, a default start\_date = datetime(3000, 12, 25) and end\_date = datetime(1000, 12, 25) was defined. This definition was created to represent the datetime range for a given twitter screen name. Specifically, the initial start\_date was compared to each tweet for a given user. If a tweet exists with an earlier datetime, this was set as the new start\_date. This type of logic was extended similarly for the end\_date. This maximized value allows the functional tweet domain to accurately map to the quandl historical range.

## Quandl API

Like the Twitter API, the python Quandl API[[12]](#footnote-12) was utilized to acquire market data, including the Nasdaq index. An account was needed to obtain the associated API key, and the same config.py was utilized, respectively. Moreover, the date range was maximized[[13]](#footnote-13) in order to obtain the largest possible dataset. While obtaining data was not as restricted by the same rate limit as Twitter, a local csv file was created. This ensures integrity and optimization in case a future study extends with additional datasets. While five different columns were returned, only the Index Value was utilized for successive calculations, described in sections below:

* Trade Date
* Index Value
* High
* Low
* Total Market Value
* Dividend Market Value

Finally, as described earlier, market data range, was predicated on the maximized tweet domain.

|  |
| --- |
|  |
| Figure 1: domain mapping from Twitter API (x) and Quandl Data f(x)[[14]](#footnote-14). |

## Joining Data

To simplify processing, tweets were aggregated by created\_at and screen\_name. If an account tweeted multiple times a given day, each full\_text instance was concatenated to a single string. This allowed sentiment measure to be computed as a time series. Furthermore, each twitter account data was merged on Trade Date = created\_at column. Moreover, later classification tasks were predicated on comparing the current day market value with the previous day. Thus, some edge cases needed to be considered:

1. If the first Index Value is nan, drop the instance
2. If successive (n+1) index has a previous step nan, skip and do nothing
3. If successive (n+1) index is nan, set market values to previous day and concatenate current full\_text with previous day.

Additionally, if a given day contained an empty string for full\_text, this instance was dropped, and the dataframe index was reset.

# Exploratory

Initial exploration was performed for each twitter screen name, and overall aggregation. Specifically, word clouds, vader sentiment, and topic modeling was determined for each twitter screen name. Finally, word clouds and sentiment measures were repeated on the overall dataset.

## Stop Words

Two set of stop words[[15]](#footnote-15) were utilized during exploration, and later analysis:

* stopwords: general stop words for topic modeling and vectorization
* stopwords\_topics: combined with general stopwords and for topic modeling

## Topic Model

Topic Modeling (TL)[[16]](#footnote-16) was implemented against the five financial analysts mentioned above. Specifically, the corresponding twitter accounts were fed into the twitter API[[17]](#footnote-17) using the Twython[[18]](#footnote-18) python package. Then, the collected data was tokenized[[19]](#footnote-19) using CountVectorizer[[20]](#footnote-20) to obtain the term frequency (TF):

 **(equation 1)**

Specifically, the TF is the ratio of word occurrences divided by the total number of terms in the given document, inputted into the LatentDirichletAllocation[[21]](#footnote-21) method.

### Latent Dirichlet Allocation

The implemented codebase[[22]](#footnote-22) provides the ability to utilize a deterministic Non-Negative Matrix Factorization (NMF), and the probabilistic Latent Dirichlet Allocation (LDA) for topic modeling. While a comparison of the approaches could be analyzed, the benefits would not significantly outweigh additional computing. Without loss of generality, only the LDA was used. Furthermore, since latent variables are inferred (rather than observed) through iteration and maximization steps, the overall model follows a generative pattern.

 **(equation 2)**

However, to better understand the generative process, consider a simple case – predicting the topic of a token (x). This can be expressed as the joint probability of the word and topic:

 **(equation 3)**

In the above (equation 3), θ represents the per document topic distribution, and β the per corpus topic distribution. Furthermore, the likelihood component denotes the distribution of words for a given topic, while the prior signifies the number of topics for a given document. Moreover, the product of all token probabilities represents the probability a given document belongs to a specific topic[[23]](#footnote-23). LDA can be generalized and expressed as a distribution:

 **(equation 4)**

However, both θ and z are unknown hyperparameters, so approaches such as maximum likelihood estimation (MLE) cannot be performed directly. Instead, the Expectation-Maximization (EM) LDA[[24]](#footnote-24) was utilized. This process involves iteratively computing latent variables of the posterior distribution from equation 4. Since derivation of the posterior cannot be computed easily, an alternative posterior is used in place:

 **(equation 5)**

In this step, inferential statistic is used to approximate the best γ, and φ, minimizing the difference with the true posterior distribution[[25]](#footnote-25).

### Selected Topics

While the number of topics was chosen to be 10 for each financial analyst, an elbow method could be implemented to dynamically determine an appropriate number of topics. However, due to limited compute resources and timeline, this is left for future enhancements. Results from the below exploratory step, determined the associated quandl[[26]](#footnote-26) code for later analysis:

* FNYX\_QQQ
* FNSQ\_SPY
* BATS\_AMZN
* BATS\_GOOGL
* BATS\_AAPL
* BATS\_NFLX
* BATS\_MMT
* FNYX\_MMM
* PET\_RWTC\_D
* PR\_CON\_15YFIXED\_IR
* PR\_CON\_30YFIXED\_APR

Furthermore, for completeness additional codes were later analyzed:

* CBOE\_VX1
* COMP-NASDAQ

|  |  |
| --- | --- |
|  |  |
| Figure 2: LDA for JimCramer. | **Figure 3:** LDA for JimCramer. |

|  |  |
| --- | --- |
|  |  |
| Figure 4: word cloud for LizAnnSonders. | **Figure 5:** word cloud for LizAnnSonders. |

|  |  |
| --- | --- |
|  |  |
| Figure 6: word cloud for ReformedBroker. | **Figure 7:** word cloud for ReformedBroker. |

|  |  |
| --- | --- |
|  |  |
| Figure 8: LDA for SJosephBurns. | **Figure 9:** LDA for SJosephBurns. |

|  |  |
| --- | --- |
|  |  |
| Figure 10: LDA for TheStalwart. | **Figure 11:** LDA for TheStalwart. |

## Sentiment Analysis

Tweets associated with financial analysts were measured for positive, negative, and neutral sentiments. Using the python Vader package[[27]](#footnote-27), tweets were found more neutral, then positive, and negative, respectively. Next, aggregated words by topic from LDA, were used for sentiment measures for each financial analyst[[28]](#footnote-28). Since 10 topic models were generated, each x-label corresponds to a computed topic, with three associated measures of sentiment varying along the y-axis. Like the twitter sentiments, the overall topic models have similar Vader sentiment measures – neutral, positive, and negative.

|  |  |
| --- | --- |
|  |  |
| Figure 12: twitter sentiment for JimCramer. | **Figure 13:** lda sentiment for JimCramer. |

|  |  |
| --- | --- |
|  |  |
| Figure 14: twitter sentiment for LizAnnSonders. | **Figure 15:** lda sentiment for LizAnnSonders. |

|  |  |
| --- | --- |
|  |  |
| Figure 16: twitter sentiment for ReformedBroker. | **Figure 17:** lda sentiment for ReformedBroker. |

|  |  |
| --- | --- |
|  |  |
| Figure 18: twitter sentiment for SJosephBurns. | **Figure 19:** lda sentiment for SJosephBurns. |

|  |  |
| --- | --- |
|  |  |
| Figure 20: twitter sentiment for TheStalwart. | **Figure 21:** lda sentiment for TheStalwart. |

# Analysis

A baseline exploration was conducted on the Nasdaq and VIX index, then expanded to other indices to determine – “Can market sentiment from financial analysts predict stock prices”? To begin, time series data consisting of stock index or volume (xi) needed to be converted to set of classes used as the target vector during classification. First, the upper threshold limit (l) was determined for stock index or volume:

 **(equation 6)**

Once the upper limit (l) is determined, the associated threshold(s) are computed:

 **(equation 7)**

Finally, a moving average is taken with several considerations. First, a lag parameter (L) is used to smooth the data, possibly eliminating trend. This value is alternatively known as a moving average (MA) or sliding window. To begin, the filter average (favg) and filter standard deviation (fstd) are computed for each threshold (T) on a given financial analyst (A):

 **(equation 8)**

 **(equation 9)**

A threshold parameter (T) defines the number of standard deviations above MA, which a point (Ai) is classified as a signal (sj)[[29]](#footnote-29).

 **(equation 10)**

 **(equation 11)**

Using equation 10, when Bj > Cj, the influence parameter (I) provides context whether past signals exceeding a z-score threshold, should be used to determine successive threshold values. Values range between [0, 1], where zero values have no influence on calculating successive threshold values, while a value of one is weighted with greater importance:



Conversely, when Bj <= Cj, the same values update using the current value:



The average and standard deviation filters from equation 8 and 9 are updated as follows:

 **(equation 12)**

Moreover, if no threshold is computed, a default behavior is applied. Specifically, stock prices or volume measures (xi) were binned into classes when individual values exceed a previous defined step, namely (up, down) 🡪 (0, 1). Thus, “up” was assigned if the current day Index Value was greater than the previous day; otherwise, assigned down:

 **(equation 13)**

In this study, an initial of TA = [0.5, 2] was utilized, rather than using the provided equation 6 and equation 7. However, not many signals exceed beyond two standard deviations. Therefore, the assignment was further reduced TA = [0.5]. Without loss of generality, an update function has been coded in python[[30]](#footnote-30), allowing the earlier system of equations to update the corresponding filters in order to better discriminate future signals against noise. Furthermore, the array of points classified as either signal or noise (see equation 13), becomes the target vector (y) to the vectorized tweets (X) from financial analysts (A):



 **(equation 14)**

Specifically, the term frequency-inverse document frequency (TFIDF) was applied to each set of tweets (xi) for a given financial analyst (A). Since the overall data distribution sometimes was unbalanced, two rules governed whether a given class (ci) has an insufficient amount of data. If any of the following conditions were true, the corresponding vector vi from X, as well as corresponding (ci) instances from the target vector (y) are removed:

|  |  |
| --- | --- |
| 1. |  |
| 2. |  |

Once completed, data was split into 80% train, and 20% test. Bernoulli Naïve Bayes (BNB), Multinomial Naïve Bayes (MNB), and Support Vector Machine (SVM) were trained equation 14.

Additionally, timeseries methodologies, including, ARIMA, and Long Short-Term Memory (LSTM) were applied on earlier Vader sentiment scores. Using the grangercausalitytests[[31]](#footnote-31) method, the causality test provides insight whether sentiment scores could forecast time series – stock Index or Volume measures. While the Granger test is ideal for the ARIMA model, autocorrelation (ACF) and partial autocorrelation (PACF) were not utilized in determining appropriate (p,q,d) components for stationarity. A future study may utilize both ACF and PACF to find optimal hyperparameters. However, a custom grid search[[32]](#footnote-32) method could provide an automated method, implicitly resolving stationarity.

## Baseline Results

Baseline analysis was conducted using the volatility index (VIX), serving as a benchmark for successive measurements. While results were computed for jimcramer, LizAnnSonders, and ReformedBroker, only results for LizAnnSonders[[33]](#footnote-33) was considered. This determination was largely made, since corresponding confusion matrices were only slightly less biased.

### Classification

Various classification algorithms were implemented, using a custom stop word list[[34]](#footnote-34), and standard TF-IDF implementation:

* Support Vector Machines (SVM)
* Bernoulli Naïve Bayes (BNB)
* Multinomial Naïve Bayes (MNB)

The classification task was repeated, with the remaining corpus being suffixed a part-of-speech (POS) tag before the TF-IDF. The intention of this approach was merely exploratory, since the resulting corpus increases sparsity:

* Support Vector Machines (SVM-POS)
* Bernoulli Naïve Bayes (BNB-POS)
* Multinomial Naïve Bayes (MNB-POS)

The daily VIX “Total Volume” was utilized with the peak z-score methodology[[35]](#footnote-35) (described above) to eliminate irrelevant data points. The remaining signal points were binned into classes based on a default threshold implementation (see equation 11 and equation 13):

|  |  |
| --- | --- |
| VIX Total Volume for LizAnnSonders | |
|  |  |
| Figure 22: overall classification results | **Figure 23:** z-score signal indicator |

However, the above classifiers only train if there are enough instances in the constructed dataframe, consisting of tweets in one column, with associated sentiment scores in separate columns. Specifically, the number of rows must satisfy the following constraint:



Furthermore, the dimensionality of tweets was reduced using the Porter stemmer[[36]](#footnote-36) and chi-squared[[37]](#footnote-37). Specifically, after applying the stemmer, followed by the TF-IDF vectorizer, the top 1000 words were selected using the chi-squared. The resulting corpus was trained against the provided target vector. The baseline results do not provide insight beyond a comparative benchmark. Furthermore, the below results were selected, primarily for being better balanced:

|  |  |  |
| --- | --- | --- |
| Classification: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 24: BNB (POS) | **Figure 25:** MNB (POS) | **Figure 26:** SVM (POS) |

**Note:** the lightly shaded areas of Figure 21 and Figure 22 have assigned value 10.

To further check False-Positive with True-Positives, the precision, recall, and f-score are computed respectively. Specifically, precision was used to measure the ratio of correctly predicted positive labels against the entire positive labels.

 **(equation 15)**

Generally, high precision is related to low false positives[[38]](#footnote-38). Similarly, recall was calculated to measure the ratio of correctly positive labels against the entire labels for the given class.

 **(equation 16)**

Finally, the f-score combined the former scores to produce a harmonic mean[[39]](#footnote-39).

 **(equation 17)**

|  |  |  |
| --- | --- | --- |
| Check: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 27: BNB (POS) | **Figure 28:** MNB (POS) | **Figure 29:** SVM (POS) |

As shown in Figure 24 – Figure 26, MNB (POS) and SVM (POS) have the best combination of precision, recall and f-score. However, depending on a single execution may rely too much on chance. Thus, a k-fold[[40]](#footnote-40) implementation was utilized having n\_splits=5, repeated 750 times.

|  |  |  |
| --- | --- | --- |
| K-fold: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 30: BNB (POS) | **Figure 31:** MNB (POS) | **Figure 32:** SVM (POS) |

The remaining k-fold model iterations did not (noticeably) exceed performance and can be reviewed separately[[41]](#footnote-41). The train and test distribution were reviewed for Figure 21 - Figure 23:

|  |  |  |  |
| --- | --- | --- | --- |
| Train Distribution: VIX Total Volume for LizAnnSonders | | | |
|  |  |  | |
| Figure 33: BNB (POS) | **Figure 34:** MNB (POS) | **Figure 35:** SVM (POS) | |
| Test Distribution: VIX Total Volume for LizAnnSonders | | | | |
|  |  | |  | |
| Figure 36: BNB (POS) | **Figure 37:** MNB (POS) | | **Figure 38:** SVM (POS) | |

The train distribution shows balance, providing the model a balanced learning opportunity. However, both MNB (POS) and SVM (POS) test data were noticeable unbalanced.

Additionally, the corpus utilized TF-IDF before train, with coding facilities to determine the top N weighted words used during classification. This functionality was available for all classifiers, as well as the MNB – capable of attaining word scores associated with negative, or positive sentiments. However, the selected words were often characterized by numerical values from the corpus. Moreover, the implemented chi-squared provided similar yet more general facilities to determine the top N chi-squared selected words:

|  |
| --- |
| Coding snippet: get\_top\_chi2() |
| self.wscores = pd.DataFrame(  list(zip(  self.get\_feature\_names(),  self.chi2.scores\_,  self.chi2.pvalues\_  )),  columns=['feature', 'score', 'pval']  )  self.wscores = self.wscores.sort\_values(  by='score',  ascending=False  ).head(top\_words) |
| Figure 39: brain/algorithm/text\_classifier.py[[42]](#footnote-42) |

Furthermore, the chi-squared was applied after the TF-IDF vectorizer, to reduce dimensionality to the top 1000 words:

|  |  |  |
| --- | --- | --- |
| Top 25 chi2: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 40: BNB (POS) | **Figure 41:** MNB (POS) | **Figure 42:** SVM (POS) |

Due to limitation of the port stemmer, the over-generalized words are more difficult to discern. Some commonalities between the three models indicate the following top stemmed words:

* worsethanexpect
* norm
* skill
* tell

Some generalization can be made regarding words being related to the temporal characteristic of stock movement, and geographic representation of the United States and Asia. However, the earlier implemented LDA, better characterizes topics for the overall corpus.

### Time series

Time series models were created using the Vader sentiment scores derived from each financial analyst tweet corpus. Additionally, an overall timeseries model for a given stock index/volume was created, independent of any financial analyst. Trained models include the ARIMA and the LSTM neural network variant. These two different models were trained, with the intention of providing a level of comparison, like the variety of models utilized for classification. Moreover, the mean squared error (MSE) provides a basis of comparison between the two models.

In general, the ARIMA model is a regression methodology which includes three components (p,q,d) to help predict successive future values:

* AR (p): autoregression – previous N weighted time series value(s) regressed to predict current or future observation.
* I (q): integrated – differencing term to ensure constant mean and variance (stationary)
* MA (d): moving average – previous N weighted error terms averaged to predict current or future observation

This modeling technique often requires stationarity, to ensure predicted value(s) are relevant and not caused by trends or seasonal time dependencies. More generally, if stationarity is assumed, then the distribution is time independent, or roughly the same at the different times. This permits the use of statistical inferencing from the stochastic distribution[[43]](#footnote-43). To induce stationarity, the ACF and PACF plots can be used to determine optimal MA or AR terms, respectively. Some suggested rules can be reviewed in Appendix A below.

In this study, rather than utilizing the ACF or PACF, a grid-search implementation was deployed with the Dickey-Fuller test[[44]](#footnote-44). Specifically, the (p,q,d) parameters were allowed to vary with a range(0, 3). The null hypothesis assumes non-stationarity, while p <= 0.05 assumes the given combination is stationary. Furthermore, an associated mean squared error (MSE) was computed for each combination. Only significant models were given consideration, while the lowest MSE model for a given analyst/sentiment case was selected. This approach was also implemented for the general case – stock value/volume. Furthermore, each value in the time series was log transformed:



In general, the recommended minimum observations for the ARIMA model is between 50 – 100[[45]](#footnote-45). However, in the VIX case for LizAnnSonders, the requirement was not met during train:

|  |  |  |
| --- | --- | --- |
| ARIMA Train Distribution: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 36: negative (0,2,1) | **Figure 37:** neutral (0,2,1) | **Figure 38:** positive (0,2,0) |

Nevertheless, the trained model characterizes somewhat reliable predictions, for the negative and neutral sentiments, and drastically unpredictable for positive sentiments:

|  |  |  |
| --- | --- | --- |
| ARIMA Test Distribution: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 36: negative (0,2,1) | **Figure 37:** neutral (0,2,1) | **Figure 38:** positive (0,2,0) |

Similarly, the LSTM model was trained against Vader sentiment scores. Unlike the ARIMA implementation, there is no general guideline on the size of the train data. Often, the convergence of the neural network is a function of the data complexity. In general, the LSTM framework, a variant of the recurrent neural network (RNN), greatly differs from traditional regression models. Rather than requiring stationarity through time series differencing, LSTM focuses on persisting information through a gated system. This gated system was intended to solve the challenges of the vanishing gradient[[46]](#footnote-46), a characteristic of uncoiling N + 1 RNN layers, each consisting of a single tangent activation function.

|  |  |
| --- | --- |
|  |  |
| Figure 39: coiled RNN | **Figure 40:** uncoiled RNN cells |

In this study, since four cells were utilized with large number of epochs (initially 750, then increased to 1500), cell states are susceptible to converge to zero. As a result, the LSTM architecture is better suited, providing the three gate alternative, instead of one[[47]](#footnote-47):

|  |  |
| --- | --- |
|  |  |
| Figure 41: coiled LSTM | **Figure 42:** uncoiled LSTM cells |

1. Forget gate: sigmoid function multiplies cell states (Ct-1) in the given input matrix zero (forget) or one to persist the given data
2. Input gate: sigmoid function decides what values will be updated
3. Tanh layer: creates new cell state vector (Ct)
4. Output gate: sigmoid function decides which cell state (squashed from neighboring tanh layer) to persist

|  |  |
| --- | --- |
|  |  |
| Figure 43: previous (Ct-1), w/updated cell state (Ct) | **Figure 44:** previous hidden state supplied into current cell |

In this study, each of the four cells consists of the same attributes:

* 50 units: number of neurons in each cell
* Sigmoid activation: output zero for negative values, else one for positive values
  + replaces the generalized tanh function
* Return sequences: return the hidden state to the next cell
* Dropout layer: reduce overfitting by ignoring 0-100% of neurons in each cell

Since the trained models utilized a relatively small dataset, some overfit was allowed. Namely, the dropout layer was ignored and assigned zero. Future studies, with additional data, may elect to involve the dropout layer to a greater degree. Additionally, the more cells that are used in a stacked network, the greater the amount of data that is needed for train. Though, no specific rules exist, a deeper network is often more complicated, requiring more train data. Conversely, simpler datasets often suffice using 1-2 cells. In this study, rather than using a suggested 2 cell network, four cells were stacked, then trained with 1500 epochs.

The deployed LSTM is much like the earlier autoregressive ARIMA component. Specifically, the previous N=4 steps was used to predict the next M=1th position. While the LSTM class[[48]](#footnote-48) allowed the prediction of the next (M + x)th step, this was not formally explored. Moreover, each time series train data was scaled using MinMaxScaler[[49]](#footnote-49). The intention was to downscale potential large values, to better facilitate LSTM convergence.

|  |  |  |
| --- | --- | --- |
| LSTM Train Distribution: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 44: negative | **Figure 45:** neutral | **Figure 46:** positive |

The trained LSTM models show moderate/significant performance for each sentiment, while the earlier ARIMA, exhibited significant results for each sentiment, excluding positive:

|  |  |  |
| --- | --- | --- |
| LSTM Test Distribution: VIX Total Volume for LizAnnSonders | | |
|  |  |  |
| Figure 45: negative | **Figure 46:** neutral | **Figure 47:** positive |

Moreover, the ARIMA model(s) benefited from the grid-search style implementation, by determining (p,q,d) hyperparameters. This optimization helped select the best/significant MSE model(s). However, the LSTM model(s) did not utilize concepts of hyperparameter tuning. Thus, when comparing the available MSE scores, ARIMA models generally outperform LSTM.

|  |  |  |
| --- | --- | --- |
| MSE: VIX Overall Sentiment/Volume | | |
|  |  |  |
| Figure 48: ARIMA sentiment | **Figure 49:** LSTM sentiment | **Figure 50:** LSTM volume |

Furthermore, while each LSTM model was limited to 1500 epochs, with greater computing, higher number of epochs could produce better models, with lower MSE.

### Granger Causality

## Select Results

### Classification

### Time series

### Granger Causality

# Conclusions

# Appendix A

To determine the optimal AR, or MA terms for a given (possibly differenced) series, first construct the corresponding ACF or PACF plots. The following rules serve as guidelines to determine ARMA terms[[50]](#footnote-50):

* **Rule 6:** If the PACF of the differenced series displays a sharp cutoff and/or the lag-1 autocorrelation is positive--i.e., if the series appears slightly "underdifferenced"--then consider adding an AR term to the model. The lag at which the PACF cuts off is the indicated number of AR terms.
* **Rule 7:** If the ACF of the differenced series displays a sharp cutoff and/or the lag-1 autocorrelation is negative--i.e., if the series appears slightly "overdifferenced"--then consider adding an MA term to the model. The lag at which the ACF cuts off is the indicated number of MA terms.
* **Rule 8:** It is possible for an AR term and an MA term to cancel each other's effects, so if a mixed AR-MA model seems to fit the data, also try a model with one fewer AR term and one fewer MA term--particularly if the parameter estimates in the original model require more than 10 iterations to converge.
* **Rule 9:** If there is a unit root in the AR part of the model--i.e., if the sum of the AR coefficients is almost exactly 1--you should reduce the number of AR terms by one and increase the order of differencing by one.
* **Rule 10:** If there is a unit root in the MA part of the model--i.e., if the sum of the MA coefficients is almost exactly 1--you should reduce the number of MA terms by one and reduce the order of differencing by one.

1. <https://www.investopedia.com/terms/v/volatility.asp> [↑](#footnote-ref-1)
2. <https://aws.amazon.com/ec2/instance-types/p2/> [↑](#footnote-ref-2)
3. <https://aws.amazon.com/marketplace/pp/B07HKBBY5J> [↑](#footnote-ref-3)
4. <https://github.com/jeff1evesque/ist-736/blob/master/brain/controller/timeseries.py> [↑](#footnote-ref-4)
5. <https://developer.twitter.com/en/docs/tweets/search/api-reference/get-search-tweets> [↑](#footnote-ref-5)
6. <https://developer.twitter.com/en/apps> [↑](#footnote-ref-6)
7. <https://twython.readthedocs.io/en/latest/> [↑](#footnote-ref-7)
8. <https://developer.twitter.com/en/docs/tweets/search/api-reference/get-search-tweets.html> [↑](#footnote-ref-8)
9. <https://developer.twitter.com/en/docs/tweets/timelines/api-reference/get-statuses-user_timeline.html> [↑](#footnote-ref-9)
10. <https://github.com/jeff1evesque/ist-736-hw/tree/master/data> [↑](#footnote-ref-10)
11. <https://developer.twitter.com/en/docs/basics/rate-limiting.html> [↑](#footnote-ref-11)
12. <https://www.quandl.com/tools/python> [↑](#footnote-ref-12)
13. <https://github.com/jeff1evesque/ist-736/blob/9652d7aa79dc576ca5ad671effbb76362beaa72a/app.py#L227> [↑](#footnote-ref-13)
14. <https://en.wikipedia.org/wiki/Domain_of_a_function> [↑](#footnote-ref-14)
15. <https://github.com/jeff1evesque/ist-736/blob/master/utility/stopwords.py> [↑](#footnote-ref-15)
16. <https://github.com/jeff1evesque/ist-736/blob/master/resources/topic-modelling-with-scikitlearn.pdf> [↑](#footnote-ref-16)
17. <https://developer.twitter.com/en/docs/tweets/search/overview/standard.html> [↑](#footnote-ref-17)
18. <https://twython.readthedocs.io/en/latest/> [↑](#footnote-ref-18)
19. <https://github.com/jeff1evesque/ist-736/blob/master/brain/algorithm/topic_model.py#L110-L117> [↑](#footnote-ref-19)
20. <https://scikit-learn.org/stable/modules/generated/sklearn.feature_extraction.text.CountVectorizer.html> [↑](#footnote-ref-20)
21. <https://scikit-learn.org/stable/modules/generated/sklearn.decomposition.LatentDirichletAllocation.html> [↑](#footnote-ref-21)
22. <https://github.com/jeff1evesque/ist-736/blob/master/brain/algorithm/topic_model.py> [↑](#footnote-ref-22)
23. <https://github.com/jeff1evesque/ist-736/blob/master/resources/nlp_lecture_12-04-13.pdf> [↑](#footnote-ref-23)
24. <https://scikit-learn.org/stable/modules/generated/sklearn.decomposition.LatentDirichletAllocation.html> [↑](#footnote-ref-24)
25. <https://github.com/jeff1evesque/ist-736/blob/master/resources/research_exam09.pdf> [↑](#footnote-ref-25)
26. <https://www.quandl.com/> [↑](#footnote-ref-26)
27. <https://pypi.org/project/vaderSentiment/> [↑](#footnote-ref-27)
28. <https://github.com/jeff1evesque/ist-736/blob/master/brain/controller/topic_model.py> [↑](#footnote-ref-28)
29. <https://stackoverflow.com/a/22640362> [↑](#footnote-ref-29)
30. <https://github.com/jeff1evesque/ist-736/blob/master/brain/algorithm/peak_detection.py> [↑](#footnote-ref-30)
31. <http://www.statsmodels.org/stable/generated/statsmodels.tsa.stattools.grangercausalitytests.html> [↑](#footnote-ref-31)
32. <https://github.com/jeff1evesque/ist-736/issues/66> [↑](#footnote-ref-32)
33. <https://github.com/jeff1evesque/ist-736/tree/master/viz/analysis/chris--cboe_vx1/LizAnnSonders> [↑](#footnote-ref-33)
34. <https://github.com/jeff1evesque/ist-736/blob/master/brain/utility/stopwords.py> [↑](#footnote-ref-34)
35. <https://github.com/jeff1evesque/ist-736/blob/master/brain/algorithm/peak_detection.py> [↑](#footnote-ref-35)
36. <http://www.nltk.org/howto/stem.html> [↑](#footnote-ref-36)
37. <https://scikit-learn.org/stable/modules/generated/sklearn.feature_selection.chi2.html> [↑](#footnote-ref-37)
38. <https://en.wikipedia.org/wiki/Precision_and_recall> [↑](#footnote-ref-38)
39. <https://www.youtube.com/watch?v=Clo-t9eeEwg> [↑](#footnote-ref-39)
40. <https://scikit-learn.org/stable/modules/generated/sklearn.model_selection.KFold.html> [↑](#footnote-ref-40)
41. <https://github.com/jeff1evesque/ist-736/tree/master/viz/analysis> [↑](#footnote-ref-41)
42. <https://github.com/jeff1evesque/ist-736/blob/master/brain/algorithm/text_classifier.py> [↑](#footnote-ref-42)
43. <https://www.stat.berkeley.edu/~arturof/Teaching/STAT248/lab05_part2.html> [↑](#footnote-ref-43)
44. <https://en.wikipedia.org/wiki/Dickey%E2%80%93Fuller_test> [↑](#footnote-ref-44)
45. <https://www.researchgate.net/post/What_should_be_the_minimum_number_of_observations_for_a_time_series_model> [↑](#footnote-ref-45)
46. <https://en.wikipedia.org/wiki/Vanishing_gradient_problem> [↑](#footnote-ref-46)
47. <http://colah.github.io/posts/2015-08-Understanding-LSTMs/> [↑](#footnote-ref-47)
48. <https://github.com/jeff1evesque/ist-736/blob/master/brain/algorithm/lstm.py> [↑](#footnote-ref-48)
49. <https://scikit-learn.org/stable/modules/generated/sklearn.preprocessing.MinMaxScaler.html> [↑](#footnote-ref-49)
50. <http://people.duke.edu/~rnau/411arim3.htm> [↑](#footnote-ref-50)