



SOUTHERN ADVENTIST UNIVERSITY

SENIOR PROJECT

Algorithmically Trading like a Human with GPT-J

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Abstract

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CONTENTS

I	Introduction	2
I-A	Background	2
I-B	Intent	2
I-C	Problem Statement	2
II	Related Works	2
II-A	Previous Methods	2
II-B	Relevance and Novelty	2
III	Execution Plan	2
III-A	Requirements & Goals	3
III-A1	Functional requirements (user stories)	3
III-A2	Non-functional requirements	3
III-B	Dataset Gathering	3
III-B1	Stock Price Data	3
III-B2	SEC Filings	3
III-B3	News	3
III-B4	Social Media	3
III-C	Testing & Evaluation Methods	3
III-C1	Media Release Correlations	3
III-C2	GPT-J Model prediction accuracy	4
IV	Implementation	4
V	Conclusion	4
	References	4

LIST OF FIGURES

1	Execution Flow	3
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LIST OF TABLES

I	News Sources	3
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I. INTRODUCTION

A. Background

Algorithmic trading has become the dominant way of buying and selling securities. In the U.S. stock market, algorithms account for 70-80% of trading volume [1]. The current generation of trading algorithms now use neural networks to improve prediction accuracy. However, some believe neural networks are incapable of inventing novel trading ideas and therefore can only increase trading efficiency by 10% [2]. On the other hand, we propose that recent increases in the scale of neural networks can unlock the ability to algorithmically invent winning trades.

Specifically, we propose that large-scale natural language processing models such as OpenAI's GPT-3 [3] have captured a large enough understanding of the world, that given the proper input, they can generate novel, winning trades. Transformer networks of this type are designed to both ingest and output text. We propose that by properly engineering our input text prompts, we can leverage the massive amount of real-world knowledge encoded in the network's weights.

Because of the complications inherent in working with OpenAI and licensing GPT-3, we have instead chosen to use the open-source project GPT-J [4]. GPT-J is a transformer network [5] that has been trained on an 825GiB language modeling data set called The Pile [6]. Compared to GPT-3-Davinci's 175 billion network parameters, GPT-J's 6 billion parameters seems small, however it has proved itself to be capable enough to outperform GPT-3 in some tasks such as code generation [7]. Therefore, we believe that GPT-J will be sufficient to explore the viability of our novel approach to trading.

B. Intent

We propose that with adequate fine-tuning and well engineered prompts, GPT-J can learn to trade like a human by reading the news, social media, and other sources such as SEC filings.

We will first implement a trading algorithm based on GPT-J. Then we will evaluate the algorithm's prediction accuracy and compare it to the accuracy of similar algorithms. Optimizing our algorithm will involve multiple iterations of fine-tune network training, prompt engineering, and accuracy analysis. Finally, we will conduct a profitability analysis of our algorithm using back-testing and live data.

C. Problem Statement

In summary, as algorithmic traders seek to employ increasingly competitive and complex trading algorithms, we intend to evaluate the viability of using GPT language models to drive trading decisions. To achieve this goal we must first implement a trading algorithm based on GPT-J, then evaluate the accuracy of the algorithm's predictions, and finally evaluate the real-world profitability of the algorithm.

II. RELATED WORKS

A. Previous Methods

Many neural network structures and methods have been used to create trading algorithms. Some types include:

- Recurrent neural networks (RNNs) & Long short-term memory (LSTMs) [8][9].
These are the most widely used network architectures for trading [10]. An LSTM trained on 900,000 sequences of length 30 days of Chinese stock market data yielded an improvement of 12.9% in prediction accuracy over a random guess [11].
- Convolutional Neural Networks (CNNs) [10]
CNNs can be used by converting time-series data into images [12]. Or they can be used to extract sentiment features from text [13].
- Deep reinforcement learning (DRN).
 - Deep Q-learning [14] [15].
 - Deep robust reinforcement learning [16].
- Conventional deep learning [17].
- Transformer networks [18].

Most relevant to our work are methods that incorporate sentiment analysis of news sources. [9] evaluated sentiment analysis methods and found that LSTMs could correctly classify news tweets as indicative of positive or negative price movement with an accuracy of 92%. [15] found that adding sentiment analysis to a Deep-Q learning algorithm could improve the Sharpe Ratio (a measure of profit as compared to risk) of the agent by a factor greater than 2 in their test cases.

B. Relevance and Novelty

By our estimation, the vast majority of previous works involving sentiment analysis used a pre-processing step to extract sentiment from the news, and then embedded those features into a time-series dataset. News sources were often limited to headlines, tweets and small snippets because of the memory limitations of RNN sentiment classifiers. With the introduction of large transformer networks [5], capable of processing large amounts of text like OpenAI's GPT-3 [3] or Wang & Komatsuzaki's GPT-J [19], we believe a new class of trading network can be created. Readily available implementations of GPT-J allow for inputs with up to 2048 input tokens or words. Our method will encode the current world state in a large text-input which combines sentiment, real-world facts, and stock price data into a single input. We believe that combining rich input information with the network's pre-existing understanding of the world, the network will be able to produce significantly better trading signals than previous methods.

III. EXECUTION PLAN

To guide our execution, we have outlined the goals, requirements, steps, and processes we intend to implement.

A. Requirements & Goals

1) Functional requirements (user stories):

- As finance researchers, we want to quantify the ability of news releases, SEC filings, and social media posts to move stock prices.
- As AI researchers, we want to evaluate the viability of using GPT-J as a stock movement indicator so that we can understand the power of GPT-J to understand complex real-world interactions.
- As algorithmic traders, we want to evaluate the viability of using GPT-J as a stock movement indicator so that I can make more-informed trading decisions.

2) *Non-functional requirements*: Our overall flow of execution as outlined in figure 1 is as follows:

- We will evaluate the correlations between the following items:
 - a) The release of SEC filings for company X and large movements in the stock price of company X.
 - b) The release of news stories mentioning company X and large movements in the stock price of company X.
 - c) The posting of tweets or other social media posts mentioning company X and large movements in the stock price of company X.
- We will evaluate the best ways of formatting prompts for GPT-J to increase output accuracy and consistency across varying inputs. Some options might include:
 - a) Providing a form for GPT-J to fill out appended to the end of the input data.
 - b) Asking GPT-J a direct question appended to the end of the input data.
 - c) Appending a universe current stock prices to the beginning of the input.
 - d) Appending multiple news stories from the past days and weeks at the beginning of the input.
- We will deploy the best model from my previous evaluations and test it on live stock market data. We will compare the model's performance against market indices like the S&P 500.

B. Dataset Gathering

1) *Stock Price Data*: We plan to use the publicly available Yahoo Finance API [20] to gather general technical information about a given ticker symbol. For historical price data, we will use the Alpaca Data API v2 [21]. This API gives access to 5 years of historical data for training and live price data for live model inference testing.

2) *SEC Filings*: The SEC provides public access to their EDGAR database of public company filings [22]. The EDGAR API can be used to download the most recent SEC filings for a given company for live trading. Or for training, bulk datasets are available for download. The release dates of each filing can then be labeled with the stock prices of the company before and after the filing.

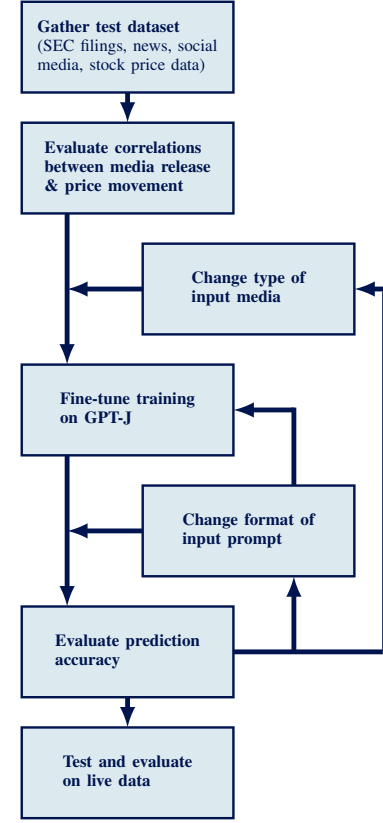


Fig. 1. Execution Flow

3) *News*: We will scrape financial news websites for a large set of historical articles. We intend to create a backlog of articles from the sources listed in Table I.

TABLE I
NEWS SOURCES

Source	URL
Bloomberg	www.bloomberg.com
CNBC Finance	www.cnbc.com/finance
Reuters	www.reuters.com
Forbes	www.forbes.com
CNN Business	www.cnn.com/business
Yahoo Finance	www.finance.yahoo.com/news
Wall Street Journal	www.wsj.com/

4) *Social Media*: We will focus on Twitter for our social media data. The Twitter API [23] will allow us to gather timely opinions on a given ticker symbol. After filtering for a specific time period, tweets can be added to our training dataset.

C. Testing & Evaluation Methods

1) *Media Release Correlations*: To measure the correlation between the release of a media item such as an SEC filing or news story, we will use the standard event study method as detailed in [24]. This method uses abnormal returns in a given period to calculate the effect of a certain event on a stock's price. Abnormal return for a given day is defined as

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}) \quad (1)$$

for firm i at time t where α_i and β_i represent the relationship between a given stock and its reference market. And where $R_{m,t}$ is the return of the actual reference market. This method uses the historical relationship of a stock to its reference market to estimate normal returns. Abnormal returns are therefore the difference between the actual return of the stock and the normal return of the stock.

We can then take large sample of media release events of the same type and calculate the average abnormal return as follows:

$$AAR = \frac{1}{N} \sum_{i=1}^N AR_{i,t} \quad (2)$$

Finally, we can measure the total impact of the event over a given period of time by using cumulative abnormal return:

$$CAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t} \quad (3)$$

where t_1 and t_2 are the start and end dates of the event window.

Because we are limited in the granularity of data we have access to and can easily process, our research will focus on day-by-day events, returns, and correlations.

2) *GPT-J Model prediction accuracy*: To evaluate the accuracy of our model given different input data, we will use two metrics. First is a simple ratio of well-formed, parseable outputs to malformed outputs. This first metric we refer to as format-correctness.

$$F_c = \frac{N_{parseable}}{N_{malformed}} \quad (4)$$

The second metric is a simple ratio of the actual stock price to the predicted stock price. This second metric we refer to as price-accuracy.

$$P_a = \frac{P_{actual}}{P_{predicted}} \quad (5)$$

We will use the price accuracy metric as our loss-function in fine-tune training of GPT-J. The format-correctness metric will be used to evaluate the reliability and robustness of our prompt. We may experiment with using the format-correctness metric as a weighted portion of our loss function.

IV. IMPLEMENTATION

V. CONCLUSION

The conclusion goes here.

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