

Mutual Fund Style Classification from Prospectus

In our class, we have seen an example to use the mutual fund prospectus to classify whether a fund uses derivatives. In this project, we will apply the similar method to learn the investment style of a mutual fund.

From the NLP application in class, we have two datasets: 1) a collection of mutual fund summaries, 2) a CSV form on “Mutual Fund Labels”. In the later file, there is a column on “Investment Strategy”, each fund uses “Balanced Fund (Low Risk)”, “Fixed Income Long Only (Low Risk)”, “Equity Long Only (Low Risk)”, or Long Short Funds (High Risk).

Goal and Tasks:

Goal of this project is to use the mutual fund summaries to predict which investment strategy each fund uses.

1. Split the data into training and testing.
2. Following the NLP application in class, use the skip-gram model to build a word embedding dictionary from the mutual fund summaries in the training set.
3. Design a strategy to build knowledge bases associated to aforementioned four investment strategies.
4. Measure distance of each summary to each knowledge base. Design a classification algorithm to predict the investment strategy of each fund.
5. Apply your classification algorithm to predict the investment strategy of each fund in the test data.

Note that there are only four “Long Short Funds (High Risk)” funds in the data set. You need to keep some such funds in the training and remaining in the test set. Given that there are only 4 observations of such investment strategy, your model prediction for such class may not perform well. Can you come up other strategies to distinguish this investment strategy from the rest, such as outlier detection?

Report:

1. Submit a research report as if you are a consultant team presenting your results to the company who hire your team to do the analytic works.
 2. Document your discussion from tasks above and summary them into a final report.
- Sample format of report can be the following

- Executive Summary
- Present your results and discussions
- Methodology
- Appendix
- Who have done what in this project

It is important that everyone needs to contribute equally in the project. Everyone needs to write part of code. Please include a short paragraph on who did what at the end of the report.

Be succinct and concise on your write-up. Keep the main document within 8 pages and leave all the details in Appendix (no limit on Appendix), but ensure you segment the Appendix into separate sections and refer to the corresponding sections in Appendix from the main document.

Grading criteria:

Quality of the write up, discussion of results, the rigorousness of outlier detection or other methods to detect “Long Short Funds (High Risk)” funds. All team members will get the same grade on the final project, if all members contribute equally.

This is a group project. Please restrict your group members to be no more than 4. For small groups, grading will be compensated.