

Machine Learning Engineer Nanodegree

Capstone Project

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I. Definition

Project Overview

Regarding it as a stochastic process, on any given day, there is approximately a 50% chance that the stock market will increase and a 50% chance that the stock market will decrease. If a trader is able to predict the moving direction of the market with a probability significantly greater than 50%, then there will be a significant competitive advantage.

There are several indices for monitoring the performance of the US stock market. In this project, we will use the S&P500 index, which measures the performance of the stock prices of 500 of the largest publicly traded companies, and the CBOE's Volatility Index, known by its ticker symbol VIX, which is a popular measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).

Historical data for the S&P500 is widely available. For this project, over 23 years of historical S&P500 [1] and Vix [2] data was downloaded from Yahoo! Finance.

Problem Statement

A trader that is able to predict the direction of the market has a competitive advantage over the other traders that use common sense and intuition (or, should we rather say, random guesses).

The objective of this project is to determine whether machine learning techniques can be used to predict the directionality (i.e. **up** or **down**) of the S&P500 stock market index on any given day, based on the market opening price and an assortment of historical market data.

In the context of this project, we are framing this challenge as a classification problem where directionality is defined as a '1' for an increase in market value and as a '0' for a decrease in market value. The directionality is defined relative to the opening value.

We will apply several supervised learning classification techniques, namely Decision Tree, Gaussian NB, SVM, Random Forests, and neural networks. Briefly,

the methodology is as follows: using market price, market volume and market volatility data, various data features will be ‘engineered’. These features will primarily focus on relative returns and relative differences between the trading days, across various data columns. Using these features, a classifier will be trained and optimized to predict the label for any given day, where the label is a ‘1’ if the market is predicted to close higher that day and a ‘0’ otherwise.

Metrics

The stock market has historically increased slightly more than it has decreased (roughly 54% of days are increases). Therefore, rather than randomly choosing up or down as the benchmark, with a 50% probability of either, a more suitable benchmark is always predicting an increase (i.e. always choose a directionality of ‘1’), since this will typically be correct 54% of the time.

The accuracy of the machine’s predictions will be compared to the accuracy of the benchmark case. Accuracy is defined as follows:

$$\text{Accuracy} = (\text{True Positives} + \text{True Negatives}) / \text{Total Population}$$

In addition, the F1 Score of the benchmark and the model will be compared, since F1 provides the added insight of precision and recall. The F1 Score is defined as follows:

$$F1 = 2 \times (\text{Precision} \times \text{Recall}) / (\text{Precision} + \text{Recall})$$

where

$$\text{Precision} = \text{True Positives} / (\text{True Positives} + \text{False Positives})$$

$$\text{Recall} = \text{True Positives} / (\text{True Positives} + \text{False Negatives})$$

As a final metric for assessing the models, the classifier will be used to make stock trading predictions, to determine whether any increase in accuracy versus the benchmark can be exploited for trading profit. Specifically, the daily profit from the benchmark and the machine learner will be tallied to generate a cumulative profit over the test period, allowing one to assess whether the recommendations of the model can be converted into a useful trading strategy. Since the ultimate objective of a stock trader is to make profitable trades, using cumulative profit is a justified metric to convert accuracy results into trading performance.

II. Analysis

Data Exploration

The data used in this project is historical market data from January 29th, 1993 to September 29th, 2016 (at the time of writing, the python libs to access Yahoo Finance data no longer work...). The start date was chosen based on this date

being the earliest date for which volatility (VIX) data was available via Yahoo! Finance.

The raw data is included in the ‘SP500_historical.csv’ file provided as part of the project submission. The raw data file contained 10 fields:

The 10 raw data fields are as follows: - Date: calendar date for any given data row - SP_Open: opening value (recorded at 9:30ET) for the S&P500 - SP_High: highest value on any given day for the S&P500 - SP_Low: lowest value on any given day for the S&P500 - SP_Close: closing value (recorded at 16:00ET) for the S&P500 - SP_Volume: number of shares of S&P500 components traded - Vix_Open: opening value for the VIX index - Vix_High: highest value on any given day for the VIX index - Vix_Low: lowest value on any given day for the VIX index - Vix_Close: closing value for the VIX index

To give an idea about the values for the different fields, below is a concise summary of the dataset:

```
RangeIndex: 5962 entries, 0 to 5961
Data columns (total 10 columns):
>Date          5962 non-null datetime64[ns]
SP_Open        5962 non-null float64
SP_High        5962 non-null float64
SP_Low         5962 non-null float64
SP_Close       5962 non-null float64
SP_Volume      5962 non-null int64
Vix_Open       5962 non-null float64
Vix_High       5962 non-null float64
Vix_Low        5962 non-null float64
Vix_Close      5962 non-null float64
dtypes: datetime64[ns](1), float64(8), int64(1)
memory usage: 465.9 KB
```

Furthermore, below are descriptive statistics that summarize the central tendency, dispersion and shape of a dataset’s distribution, excluding NaN values.

SP_Open	SP_High	SP_Low	SP_Close	SP_Volume	Vix_Open	Vix_High	Vix_Low	Vix_Close
count	5962	5962	5962	5962	5962	5962	5962	5962
mean	1.2e+03	1.2e+03	1.2e+03	1.2e+03	2.3e+09	20	21	19
std	4.3e+02	4.3e+02	4.3e+02	4.3e+02	1.8e+09	8.2	8.7	7.7
min	4.3e+02	4.3e+02	4.3e+02	4.3e+02	1.5e+07	9.2	9.6	8.9
25%	9.2e+02	9.3e+02	9.1e+02	9.2e+02	7.1e+08	14	14	13
50%	1.2e+03	1.2e+03	1.2e+03	1.2e+03	1.7e+09	18	19	17
75%	1.4e+03	1.4e+03	1.4e+03	1.4e+03	3.6e+09	24	24	23
max	2.2e+03	2.2e+03	2.2e+03	2.2e+03	1.1e+10	81	90	73

Note that there are gaps in the date for weekends and holidays, and this may

influence the classifier. For that matter, we will compute a feature that indicates whether the day after is a trading one or not.

Exploratory Visualization

We have collected information for 5,962 trading days. Figure 1 presents a plot of the S&P500 and VIX closing value for each of these days.

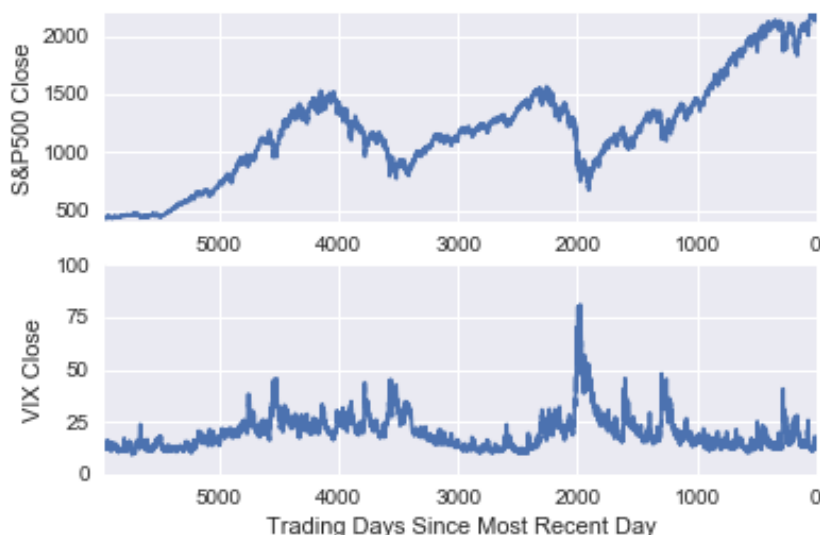


Figure 1: Close values

The S&P500 has generated considerable up and down movement over the 23 years, but has an upwards looking general trend. Given that there is significant range in values, the data oughts to be normalized prior to machine learning analyses, so that relative data can be used to identify relevant trends across such a wide time range.

In contrast, the VIX index does not generally trend upwards. As said before, it indicates the level of volatility in the market, and thus can spike and then subside. For example, the massive spike in the VIX from around 2,000 trading days ago corresponds to the ‘Great Recession’ of 2008.

The trends seen for the other S&P500 and VIX related data (opening, high and low values for each) are very similar to those shown in the plots. The only other data in the raw data file is the S&P500 trading volume per day, as shown in Figure 2.

The S&P500 trading volume has generally trended up with time, although it

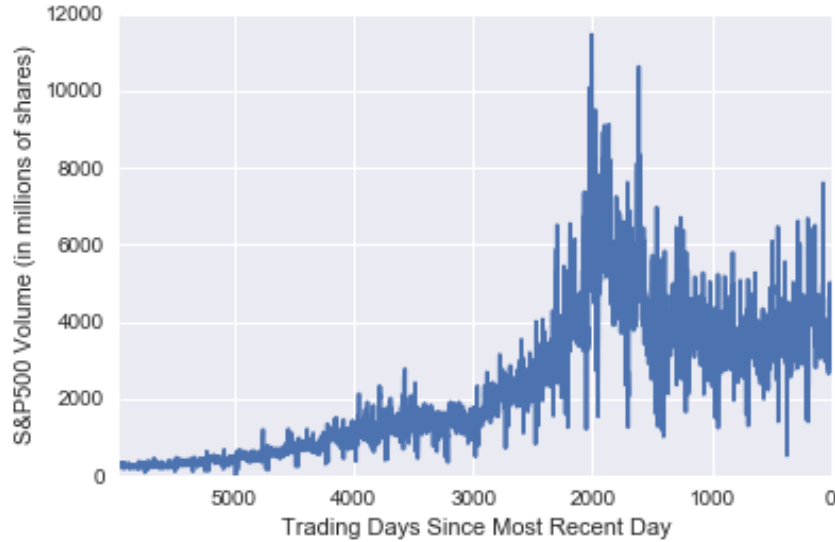


Figure 2: S&P500 Trading Volume per day

peaked around the time of the ‘Great Recession’ and appears to have come down and stabilized since then. Given the properties of the raw data, normalization steps will be used for transforming all of the data to percentage changes relative to other days, as will be discussed in detail in the Methodology portion of this report. This type of normalization is required given the huge differences in absolute values for each of these data sets over the 20+ years under consideration here. In addition to normalization, new features will be ‘engineered’, based on various calculations conducted on the raw data set, ultimately arriving at 20 features for the machine learning algorithms.

Algorithms and Techniques

Five supervised learning techniques were applied in this project: - Decision Trees (DT) - Naïve Bayes (NB) - Support Vector Machines(SVM) - Random Forests (RF) - Neural Network (NN)

The first four techniques are available in the Python scikit-learn (sklearn) module. The NN was built using TensorFlow. Next we will motivate the usage of these techniques and give further details about the techniques.

These four approaches were chosen since, except Decision Trees and Random Forests, they are significantly different from each other. I had the need to try different techniques because my quest was to find the best performing one in

this context. The amount of data available also played an important role in deciding to try these techniques out.

Decision Trees (DT)

Decision trees are a logic-based algorithm and are generally applicable to problems with discrete or categorical features, since the tree structure is based on learning simple decision rules from the features. Strengths of DTs are the speed of training and classification, relatively high tolerance to missing or irrelevant attributes and the relative ease with which the model and the model parameters can be understood and interpreted. Weaknesses of DTs include relatively low accuracies compared to other models, a tendency to overfit and the possibility of instability, since small variations in the data might result in a completely different tree being generated.

Naïve Bayes (NB)

Naive Bayes is a probabilistic based algorithm and has proven to be generally applicable to document classification and spam filtering problems. Strengths of NBs are that they require relatively small data sets and are extremely fast learners and classifiers. Like DTs, they are also relatively easy to understand and interpret, especially for people accustomed to thinking in terms of probabilities. Weaknesses include low accuracy in broader applications (i.e. beyond document classification) and low tolerance to highly interdependent attributes.

Support Vector Machines(SVM)

Support vector machines are generally applicable to learning problems with continuous attributes (not discrete ones). Strengths of SVM include relatively high accuracy and a high tolerance to irrelevant, redundant or interdependent attributes. Weaknesses of SVM include the requirement for large data sets, slow learning speed, risk of overfitting and models that lack intuitive understanding, making them hard to understand, interpret or explain to others (i.e. they are very “black box” in nature).

Random Forests (RF)

The main disadvantage of DTs is that they can overfit. And that is where ensemble methods like random forests (or boosted trees) come in for the rescue. Plus, random forests are often the winner for lots of problems in classification (usually slightly ahead of SVMs, I believe), they’re fast and scalable, and one does not have to worry about tuning a bunch of parameters like you do with SVMs, so they seem to be quite popular these days.

Neural Network (NN)

Neural networks are a powerful technique based on the workings of brain neurons. Their advantages include impressive results in many domains and also broad applicability. The disadvantages include their ‘black box’ nature, making it difficult to determine the impact of individual features, the large amount of

data often needed, the large number of hyper parameters requiring tuning and also the significant run time often required to achieve good results.

Benchmark

Over the 252 trading days (roughly one year), which serves as the test set for the classifiers, the S&P500 closed higher on approximately 53% of the days. Therefore, the most reasonable prediction for any given day would be that the market would increase. If the model were to make this prediction on the test set used, it would have an accuracy of 53% and an F1 score of 0.69. These values are used as the benchmark.

For further information on how to compute these values, refer to the accompanying IPython notebook.

III. Methodology

Data Preprocessing

A significant amount of data processing and feature engineering was carried out on the raw data set, to transform the 10 data info into one label and 21 features. There were several reasons for these transformations. First, as discussed previously using absolute values for the various data fields would likely not be productive, given how much the S&P500 index has grown (over 5X) in the 23 years worth of data considered. Therefore, fields needed to be turned into relative values (e.g. relative returns, relative volumes) to make it possible to compare data points on the same page.

Second, a fair amount of domain knowledge is needed to be built into the models. I have spoken with several friends that are on the finance domain about predictive features of stock movements. The one label that was calculated for the project was called 'Intraday_Increase'. 'Intraday_Increase' takes on the value of '1' if the S&P500 closed higher than it opened on any given day and '0' if it closed at or below the opening value. This is determined by taking 'SP_Close' minus 'SP_Open' and assigning a '1' if the value is positive and a '0' otherwise. The objective of the machine-learning algorithm is to predict **this label**.

The 21 features that were calculated are:

- Days_Since_Open: a measure of how many days it has been since the market was last open. On a regular week, Tuesday, Wednesday, Thursday and Friday will have a value of '1' whereas Monday will have a value of '3'. A day following an intraweek holiday should have a value of '2' and a Monday or Tuesday following a long weekend should have a value of '4'. In rare circumstances (e.g. following the September 11, 2001 terrorist attacks) the market could be closed for even longer and this duration

will be reflected in 'Days_Since_Open'. 'Days_Since_Open' was calculated by subtracting the dates between two adjacent rows. The rationale for including this feature is that the markets might behave differently depending on whether traders have had a long break to digest news. Also, market moving information is routinely released over weekends (e.g. very large mergers, government bailouts etc.).

- Break_Coming: a Boolean measure of whether or not a weekend or holiday is approaching. On a regular week, Monday, Thursday will have a value of '0' whereas Friday will have a value of '1'. On a holiday week (e.g. Thanksgiving Thursday), a regular weekday (Wednesday in this example) should have a value of '1'. 'Break_Coming' values were derived by shifting 'Days_Since_Open' by one row and looking for instances where 'Days_Since_Open' values exceeded '1', since these indicate weekends or holidays. The rationale for including this feature is that traders' moods and outlook are possibly dependent on pending breaks.
- Overnight_Return: a measure of the percentage return when comparing 'SP_Open' of day n to 'SP_Close' of day n-1. It represents whether the market has opened higher (if 'Overnight_Return' is positive) or lower than the previous close. Since the opening price (SP_Open) is the last and most recent piece of data that the machine will have prior to having to predict whether the market will move up or down from there, using it in various features is critical.
- Overnight_VIX: same as before but for the VIX Index instead of the S&P500 Index. An increase in the VIX overnight might be taken as indication that the market will be more volatile that day.
- O2O: a measure of the percentage return when comparing 'SP_Open' of day n to 'SP_Open' of day n-1. It represents whether the market has opened higher (if is positive) or lower than the previous day's open. A positive 'O2O' value could indicate market optimism and resilience and provides yet another opportunity to incorporate the crucial 'SP_Open' value into a feature.
- 1d_Ret to 252d_Ret: These are all trailing return indicators. For example, '1d_Ret' measures the market return for trading day n-1 compared to trading day n-2, by calculating the percentage change in 'SP_Close' between the two days. This provides a very short-term indication of how the market has performed on the most recent historical day. Similar calculations were done looking back 2, 3, 4, 5, 21 (1 month), 63 (3 months), 126 (half year), 189 (9 months), and 252 (year) trading days. By including a wide range of trailing returns, the classifier can gain insight into a wide range of recent market performance, from the very short-term to the fairly long-term.
- 1d_VIX and 5d_VIX: derived by using 'Vix_Close' values and performing the same type of trailing return calculations as described above for the

S&P500 index. These two features measure whether market volatility is trending up or down in the very short-term and short-term.

- `1d_Rel_Vol`: a measure of whether the most recently available volume data (i.e. the data from day $n-1$) is above or below average compared to the previous four days before it. It takes the day $n-1$ volume, divides it by the rolling average of the 4 days prior (days $n-2$ through $n-5$), and then subtracts 1 from the result. Thus, if the value is above zero, the most recent day has relatively high volume compared to the prior 4 days. The rationale for including this feature is that it seems important for the machine learning algorithm to know whether trading volume on the most recent day was relatively heavy, relatively unchanged or relatively light compared to the previous four days.
- `5d_Rel_Vol`: similar measure to ‘`1d_Rel_Vol`’ but it looks at volume data over a longer period. It takes the rolling average of the previous 5 days of volume data and compares it to the rolling average of the 21 days prior to those 5 days. In other words, it is effectively determining whether the most recent week of trading volume is heavy compared to the prior month (since a typical trading week is 5 days and a typical month is 21 days). This feature could be an important indicator of whether the market is experiencing a busy or quiet period, and hence a useful feature in predicting movements.
- `1d_PtT`: the only feature that makes use of the ‘`SP_High`’ and ‘`SP_Low`’ data in the raw data file. ‘PtT’ stands for peak to trough. This feature is an indicator of how much the previous trading day moved from its peak (‘P’) to its trough (‘T’). To derive this value, one takes the previous day’s high value (‘`SP_High`’) and subtracts the previous day’s low value (‘`SP_Low`’) and then divides the result the average opening and closing prices (‘`SP_Open`’ and ‘`SP_Close`’). On days where the difference between peak and trough are small, this feature will approach zero, but on days with significant differences between the peak and trough, this value could be well above zero. The rationale for including this feature is that it allows the machine learner to know whether the previous trading day experienced significant swings in market value or not.
- `1d_VIX_PtT`: performs an identical calculation to that discussed for ‘`1d_PtT`’ except that VIX raw data is used instead of S&P500 data.

After the feature engineering step, several rows of data needed to be discussed. First, any row with a ‘nan’ value was discarded. These ‘nan’ values were an expected outcome of the feature-engineering step. Specifically, the 252-day trailing return calculation could not be properly done on the first 253 data points, since there were no historical data on which to base the calculations. So, this was discarded, yielding a data set consisting of 5,709 rows.

Second, it was observed that for a large number of the older data points (those points past approximately 8 years ago), the ‘`SP_Open`’ value on day n was iden-

tical to the 'SP_Close' value on day n-1. Since the probability of the S&P500 opening on any given day at a value exactly equal to the former day's close is essentially zero, this data was considered unreliable. It is possible that the previous close was simply being pasted in as the new open for a large chunk of the data, due to a data generation anomaly. Therefore, any data row where the SP_Open was exactly equal to the previous day's SP_Close field was discarded.

After discarding the data, the final data set consisted of 2,678 entries.

Implementation

Five supervised machine-learning classifiers were used: - Decision Tree Classifier from sklearn - Gaussian Naïve Bayes from sklearn - Support Vector Machine SVC from sklearn - Random Forest Classifier from sklearn - Neural Network using TensorFlow

The data was split as follows: 252 days (approximately one year) was used as the test set. The balance (2,426 rows) was used as the training set. In the case of the neural network, the training set was further split into a training set (1,922 rows) and validation set (504 rows). It should be emphasized that the data was **not** shuffled prior to splitting between the test, validation and training sets. The reason for doing so is that the data set is a time series, so the most recent days are segregated for testing purposes, to avoid any risk of letting the classifiers see 'the future', which would be a risk if the data set was shuffled up and the test set was derived from some data that occurred earlier in time than the training set (This approach is recommended in the Udacity 'Machine Learning for Trading' Course [3]). Note that the validation set (504 rows) comes after the training set.

The sklearn algorithms were initially implemented using the default settings. They were tested against different training set sizes, to gauge the impact of data set size on the various model's performances. Later, grid search cross validation (GridSearchCV via sklearn) was conducted on the DT and SVM models, in order to optimize the hyper parameters.

The neural network model was loosely based on the TensorFlow based MNIST assignment from the Udacity 'Deep Learning' course. Prior to running the model, all features were scaled (mean = 0; standard deviation = 1) and 1-hot encoding was conducted on the label data. The neural network consisted of 3 layers, containing 10, 5 and 2 nodes respectively. The layers weights were initialized with a mean of zero and standard deviation of 1. L2 regularization was added, with a lambda value of 10e-5. Learning rate used exponential decay, with a starting learning rate of 0.05, a decay_steps setting of 100,000 and a decay_rate of 0.98. Dropout was incorporated, with a default drop probability of 0.5 for each of the three layers. The default number of steps used was 10,000. Later, these various hyper parameters were tuned to improve the model's performance.

Refinement

We now describe the results of the classifiers using the default parameters. Given the complexity and the so many trial and errors of the NN, we only present the tuned parameters.

Model	Accuracy (%)	F1 Score
baseline	51.21	0.6774
DT	56.07	0.5766
NB	60.19	0.6918
SVC	51.21	0.6774
RF	61.31	0.6230

Except for SVC, the classifiers are able to slightly improve over the baseline. The the standard parameters, we found that RF and NB are the most promising techniques, improving almost 10 points over the baseline predictions. F1 scores however remain identical.

To improve on these results, grid search cross validation was performed on the DT, RF, and SVM classifiers. The following summarizes the results:

Model	Accuracy (%)	F1 Score	Parameters
DT	63.36	0.6763	{‘splitter’: ‘random’, ‘criterion’: ‘entropy’, ‘max_depth’: 7}
SVC	64.30	0.7066	{‘kernel’: ‘linear’, ‘C’: 12, ‘gamma’: 1e-06}
RF	62.99	0.6667	{‘max_features’: ‘auto’, ‘n_estimators’: 50, ‘oob_score’: True, ‘criterion’: ‘entropy’}
NN	61.90	0.6335	discussed below

The best performing method are SVC, with higher accuracy and F1 score when compared to the baseline. Albeit promising, NN suffer from the amount of data problem, as there may not be enough data for the NN to properly learn how to classify. Actually, after 7,000 steps, over fitting starts to become a problem, as seen in Figure 3. The training accuracy continues to improve, it is a fact, but the validation and test results start to decline – an indication of overfitting.

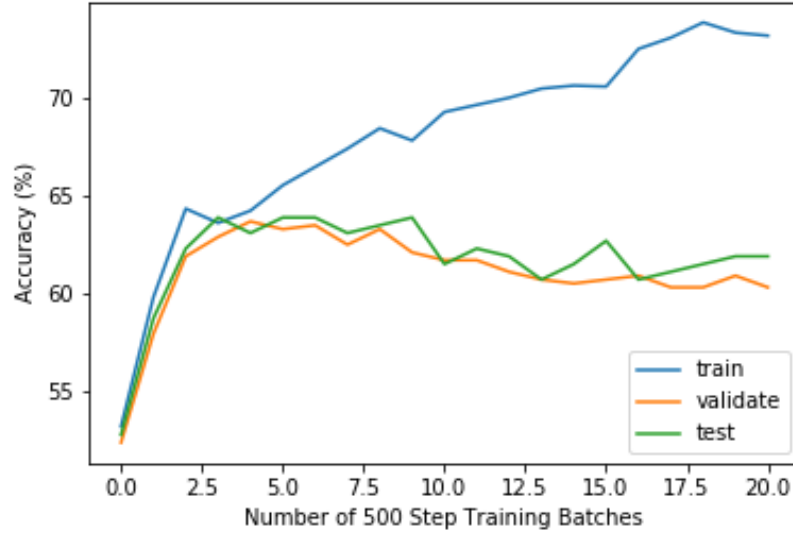


Figure 3: Training Steps of NN

Given these results, I suggest to proceed with the **SVC** classifier with the following parameters **{‘kernel’: ‘linear’, ‘C’: 12, ‘gamma’: 1e-06}**: - kernel = linear: Specifies the kernel type to be used in the algorithm. - C = 12: The C parameter tells the SVM optimization how much you want to avoid misclassifying each training example. - gamma = 1e-06: Kernel coefficient. This can be ignored because it turns out that the best kernel is learn. This parameter is the kernel coefficient for the ‘rbf’, ‘poly’ and ‘sigmoid’ kernels.

The analysis in the next section are obtained using SVM.

IV. Results

Model Evaluation and Validation

The purpose of classifier model is to predict whether the S&P500 will close higher than its opening price, on any given day. Ultimately, the goal would be

to make profitable trading decisions using the model’s insights.

By simply always guessing that the market will close higher, one would be correct 52.78% of the time for test set, whereas the RF based model would allow one to be correct 65.87% of the time. The question is whether this improvement in accuracy can be turned into a profitable trading strategy or not.

To address this question, a simulated trading scenario was conducted. If the model predicted a day would close lower, then the S&P500 index was sold at the opening price at the open of the market and bought at the closing price at the close of the market (i.e. short sell), leaving the trader with the cash difference between the two prices. The reverse strategy would be used if the model predicted a day would close higher. This strategy was then repeated everyday for the 252 day test set. Two different benchmark scenarios were used. In one benchmark scenario, the trader always bought the index at the open and then sold the index at the close. In the other benchmark scenario, the trader bought the index on day 1 and then held the index until the end of the test period (day 252), finally selling the index at the closing price on the last day.

The trading scenario was simulated and the resulting cumulative is displayed in Figure 4, when trading using the SVM model.

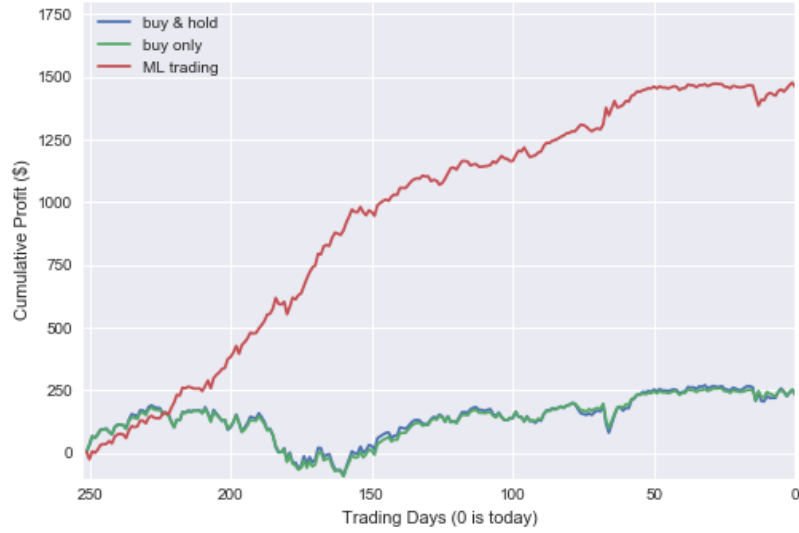


Figure 4: Cumulative Earnings using SVM

Justification

The difference between the benchmark strategies is promising. By the end of the 252-day test period, the SVM trading strategy has a cumulative profit of \$1,459, roughly 6.5 times higher than the benchmarks (\$231, \$235). The strengths of SVM predictions do not become apparent until after the first month or so (approximately look back day 230 on the chart), when the market starts to decline and the buy only based strategy stagnates or declines. At this point, there is a big reward for being able to accurately guess which days will see declines in value, and selling at the open, which is often what the neural network model is able to achieve.

V. Conclusion

In this project, a SVM classifier has been developed that predicts whether the S&P500 will close higher or lower than the opening price. The model exceeds the benchmark of assuming the market always closes higher, increasing the accuracy from 51.21% to 64.30%. This information can be used to drive a powerful trading strategy, allowing the trader to capitalize on both the up and down movements inherent to the stock market. To demonstrate the model's potential, we have created a simulator to show the gains when using a machine learning-based trader.

Free-Form Visualization

The following plot demonstrates the potential of the classifier developed in the context of this project:

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Reflection

Attempting to predict the daily movement of the stock market can be reduced to a regression problem (e.g. trying to predict the actual price at which a stock or index will close) or a classification problem (e.g. trying to predict whether the market will close higher or lower, without too much concern for the actual final value). This project has attempted to tackle the problem in the classification form, as this is a question that has long been of interest to me in my professional career as an equity options trader, where directionality is often of more interest than the actual magnitude of the movement.



Figure 5: Cumulative Earnings using SVM

In order to address this question, a collection of powerful machine learning classification methods have been utilized here. This collection included three ‘off the shelf’ classifiers available via the Scikit-learn (sklearn) machine learning library, namely DecisionTreeClassifier, GaussianNB Random Forest, and SVM. With these models, GridSearchCV was utilized to perform a search over the machine learning parameter space, which led to optimal accuracy results. These results exceeded the benchmark accuracy by a meaningful amount and could be used to power successful trading strategies.

The effort was taken a step further, by building a neural network ‘deep learning’ model using the TensorFlow machine learning library. The model was manually tuned and ultimately delivered the best accuracy and F1 Scores relative to the benchmark case. This model was stress tested by evaluating its performance when trained (and not tuned) on a much larger set of market data. Under these conditions, it still performed well above benchmark and could power a trading strategy that delivered far superior profitability compared to a buy only strategy.

One particularly interesting aspect of the results was that relatively modest gains in accuracy (53% benchmark vs. 64% fully tuned SVM) could lead to dramatic gains (6.5 times) in cumulative trading profitability over the course of the one-year test set. The final model exceeded my expectations for this problem. Improvements relative to the benchmark had been expected, but the

magnitude of the improvements was pleasantly surprising.

Improvement

Albeit achieving interesting results, the model is not yet ready for real trading, but it already provides an interesting framework to pave the way to use classifiers in real trading scenarios. I think that one dimension that needs improvement is feature engineering: there might be other set of features with predictive power freely available online (news, twitter sentiment analysis, etc). Also, it might be a good idea to include other features such as MACD and RSI. I also plan to plot them using financial plots from matplotlib (https://www.youtube.com/playlist?list=PLQVvva0QuDc2QjQOkZ4rtLYZVl_sZFZ).

The neuronal network is perhaps not well optimized at this point. My future plans are to try to better engineer the neuronal network in order to achieve better gains. In particular, I plan to study the accuracy of the Recurrent Neural Network as it would probably be more suitable here, as these are ideal for time series data.

I would also like to further explore different parameters and a wide range of possible values to tune the classifiers. Again, the framework is set, now one only needs to put let machines do their work to find the best configuration possible.

Another improvement is to use a lib that downloads the historical data at run-time. All Python libs are currently deprecated, and that limits the applicability of the current approach.

I actually plan to improve the current state of the classifiers and build an short-selling trader and connect it with, e.g., RobinHood (when they make their API available).

References

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