Final Project (33 points)

Time Series Analysis and Forecasting with Your Own Dataset

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August 10, 2025

```r
suppressPackageStartupMessages({
  library(TSA)
  library(ggplot2)
  library(dplyr)
  library(forecast)
  library(tseries) #Only for the ADF test for testing stationarity
})
```

Time Series Data of Your Choice

Background

This project will allow you to apply the learned time series analysis and forecasting skills to your favorite dataset. This dataset could be your own data (from your interested hobby groups, sports or video game records, previous jobs, past school works, etc) or some publicly available datasets. Any topics are welcome!

Hint: If you have trouble finding a good dataset, sources of public time series data include `kaggle.com` where many of the class examples came from, and `Yahoo Finance` which provides rich information about historical prices of nearly every US stock. Nevertheless, data from sources other than `Kaggle` and `Yahoo Finance` are also encouraged. For example, if you are a sport fun or a video game fun, you may analyze a series of data downloaded from the corresponding website.

So, please feel free to explore!

Importance

Notice that, analyzing time series and making forecasts, as we will do in this project, are daily jobs for many data scientists, including those working in financial or retail (such as hedge funds or retail consulting firms). As you complete the assigned questions, please take a moment to reflect on why each question is posed, and what standard procedures are typically used to address it.

Points will be given based on your adherence to the standard procedures we learned in class, rather than on the outcomes (e.g., forecasting accuracy).

General Requirements

However, we do have some very general and mild requirements in order for the analysis to be valid.

1. Please make sure the time series contains at least $T = 500$ time points. Your final score will be prorated if T is less than 500 (`floor` to the nearest hundred: for example, 499 will be counted as 400, and hence you will receive $400/500 = 80\%$ of the full points).

2. Please make sure the data are REAL data, not simulated ones. Given there're plenty of available datasets online, there's no motivation to use simulated data. Only 50% points will be given if we find out the data are simulated.

3. Also make sure the data are non-trivial (having sufficient data variation and possibly a trend). For example, it is trivial to analyze a series of 500 zeros, denoting something like "the number of spacecrafts I owned in the past 500 days". 0 points will be given if the data are regarded as trivial.

4. If two groups happen to use the same dataset (or one dataset being the subset of another), which rarely happens, we reserve the right to subject both submissions to additional scrutiny.

5. Please do not use any datasets (or their subsets) used in the lectures or previous homework assignments. Otherwise, 0 points will be given to this project.

Question 1 (1 point)

Please briefly describe the background of your dataset as I did for the Boston Crime Data in Homework 1 Problem 3, and its source (link) if you are using public data.

Dataset Background This dataset contains historical stock price data for the

VanEck Vectors Africa Index ETF, which formerly traded under the ticker symbol AFK. An ETF (Exchange-Traded Fund) is an investment fund that is traded on stock exchanges, much like individual stocks. This specific ETF was designed to track the performance of a market index of companies operating in Africa.

The data provided covers the period from

July 14, 2008, to November 10, 2017.

The dataset includes the following columns for each trading day:

Date

Open

High

Low

Close

Volume

Data Source The dataset was sourced from the "input" section of a public Kaggle notebook.

Source Link: https://www.kaggle.com/code/nageshsingh/stock-market-forecasting-arima/input

The 'Close' price represents the final trading price of the stock for that day, making it the most common and standard choice for tracking a stock's value over time when an adjusted price isn't available. ## Question 2 (2 points)

Please plot your data and provide the sample size. (We will use the last 10 data points for testing, while the rest of the series for training.)

```r
# install.packages(c("tseries", "forecast", "TSA"))
# Load the ggplot2 library for plotting
# install.packages("ggplot2")
library(ggplot2)
```

```r
# Load the dataset from the text file
df <- read.csv("afk.us.txt")

# Convert the 'Date' column to a proper Date type
df$Date <- as.Date(df$Date)

# --- Provide the sample size ---

# Calculate the total sample size
total_sample_size <- nrow(df)
testing_size <- 10
training_size <- total_sample_size - testing_size

# Print the sizes to the console
print(paste("Total sample size (T):", total_sample_size))
```

```
## [1] "Total sample size (T): 2346"
```

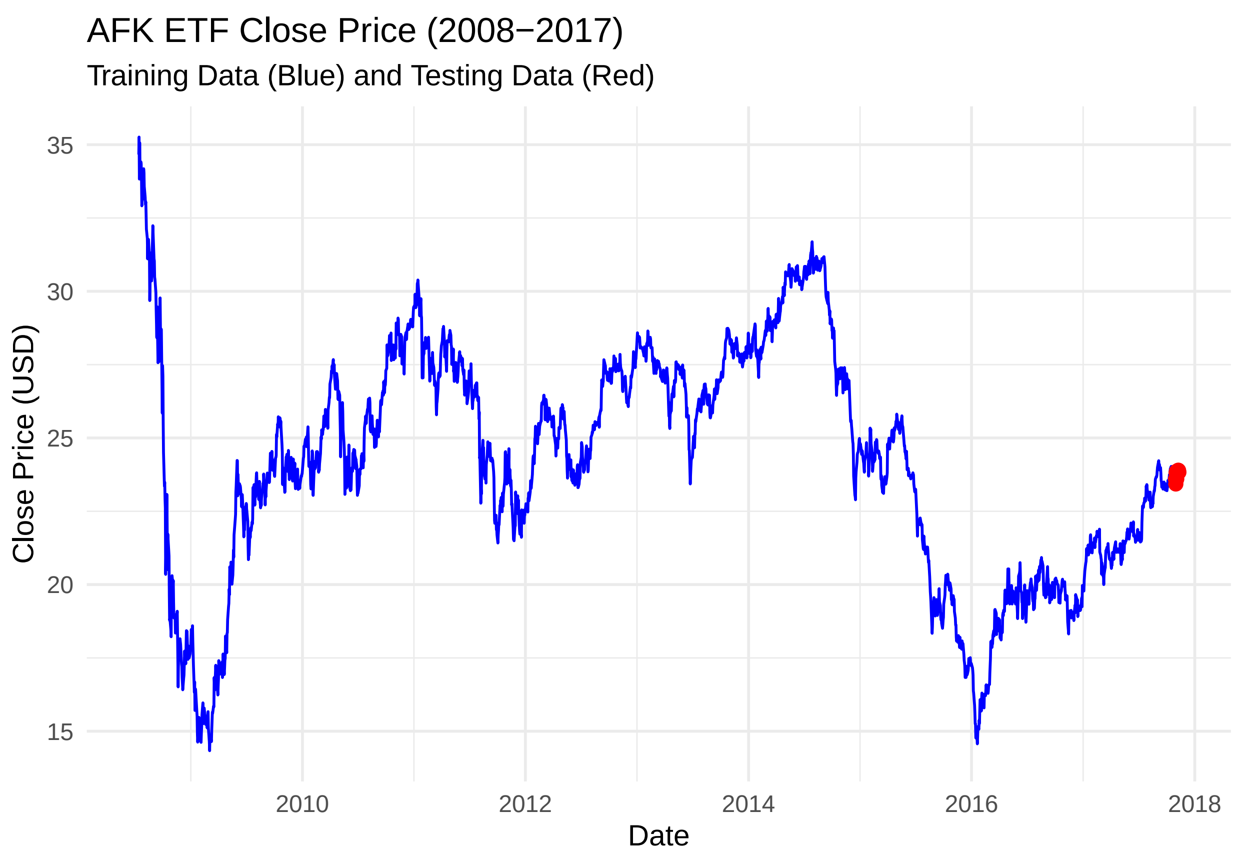
```r
print(paste("Training set size:", training_size))
```

```
## [1] "Training set size: 2336"
```

```r
print(paste("Testing set size:", testing_size))
```

```
## [1] "Testing set size: 10"
```

```r
train_df <- df[1:training_size, ]
test_df <- df[(training_size + 1):total_sample_size, ]


# --- Plot your data ---
# Create the plot
ggplot() +
  # Plot the training data as a blue line
  geom_line(data = train_df, aes(x = Date, y = Close), color = "blue") +
  # Plot the testing data as a red line with points
  geom_line(data = test_df, aes(x = Date, y = Close), color = "red") +
  geom_point(data = test_df, aes(x = Date, y = Close), color = "red", size = 2) +
  labs(
    title = "AFK ETF Close Price (2008-2017)",
    subtitle = "Training Data (Blue) and Testing Data (Red)",
    x = "Date",
    y = "Close Price (USD)"
  ) +
  theme_minimal()
```



```
# Calculate sample size
T <- nrow(df)
T
```

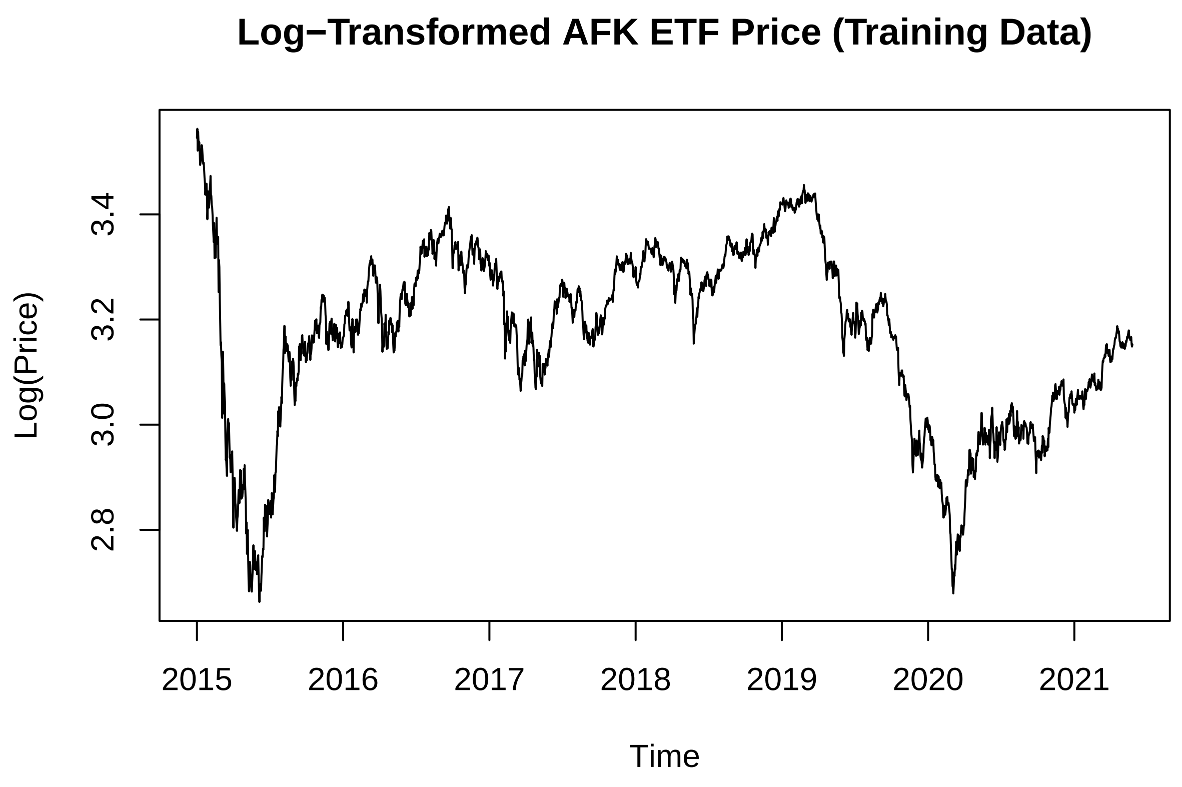
```
## [1] 2346
```

Question 3 (10 points)

On the TRAINING set, please follow Lecture 6 and build an (S)ARIMA model for your time series data:

1. make transformations if necessary (1 point)
2. use the `ADF test` to check for stationarity (1)
   - If the series is stationary, you can skip the next step.
   - If the series is not stationary, you may need to difference the series or remove the trend to make it stationary
3. remove the trend if necessary, and use the `ADF test` again (1)
4. check the residuals for spurious regression (proof of random walk), if a trend is removed (1)
5. if a random walk is found, difference the series, and use the `ADF test` again until it becomes stationary (1)
6. Check the ACF, PACF, and EACF to determine the order of the ARMA model (3)
7. Use AIC or BIC to select a final model from your candidate models (1)
8. Report the orders of the final model (1)

```r
#Please provide your code here
library(tseries)
library(forecast)
library(TSA)

# --- STEP 1: DEFINE THE TIME SERIES (CRUCIAL FIX) ---
# Assuming 'df' is your data frame and it represents daily data.
# We must convert the numeric vector to a 'ts' object here.
# Replace 'frequency=365' with 12 for monthly, 52 for weekly, etc.
# Replace 'start=c(YYYY, M)' with your data's actual start date.
price_ts <- ts(df$Close, frequency = 365, start = c(2015, 1))

# --- STEP 2: SPLIT THE DATA ---
# Now, train_price and test_price will also be 'ts' objects.
train_price <- head(price_ts, length(price_ts) - 10)
test_price <- tail(price_ts, 10)

### 1. Make Transformations
# Log-transform (the results will also be 'ts' objects)
log_train_price <- log(train_price)
log_test_price <- log(test_price)

# Plot the transformed series for visual inspection
plot(log_train_price, main = "Log-Transformed AFK ETF Price (Training Data)",
     xlab = "Time", ylab = "Log(Price)")
```



```r
### 2. Use the ADF Test for Stationarity
# We test the log-transformed series for a unit root (non-stationarity).
# Null Hypothesis (H0): The series is non-stationary.
# We need a small p-value (e.g., < 0.05) to reject H0.
print("--- Step 2: ADF Test on Log-Transformed Series ---")
```

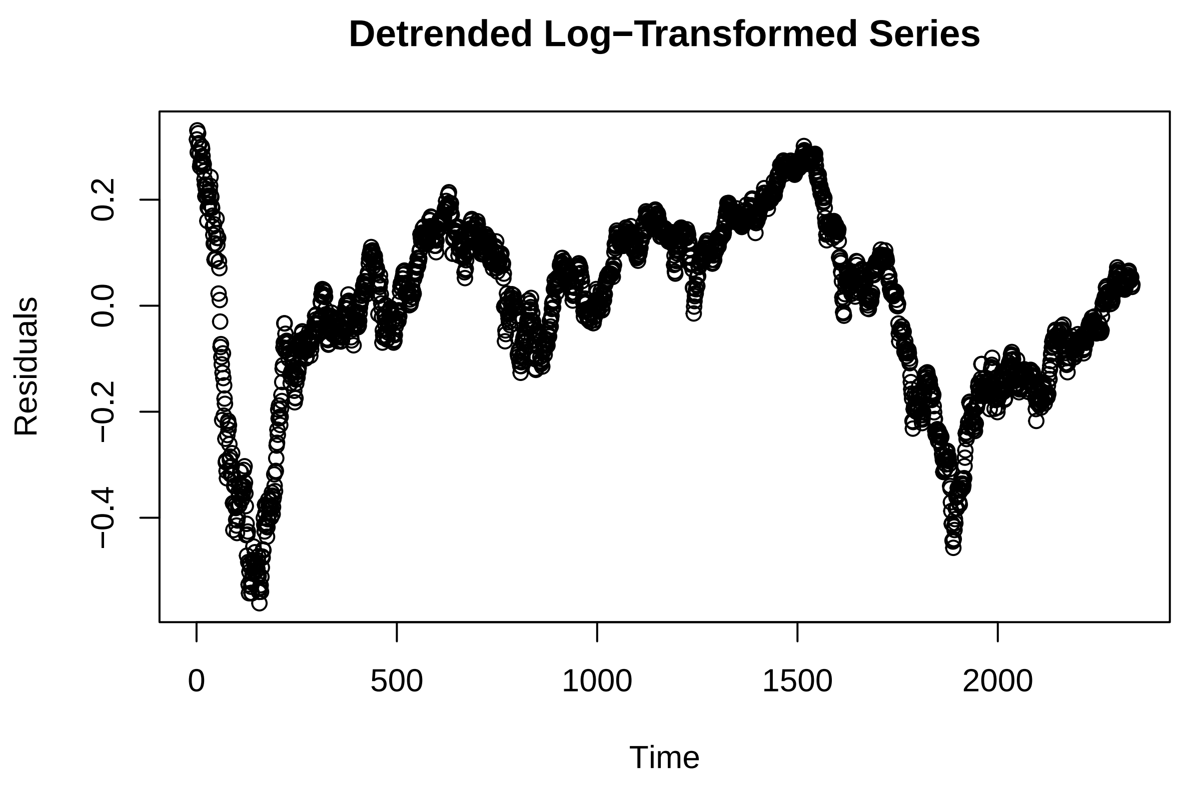
```
## [1] "--- Step 2: ADF Test on Log-Transformed Series ---"
```

```r
adf.test(log_train_price)
```

```
##
##  Augmented Dickey-Fuller Test
##
## data:  log_train_price
## Dickey-Fuller = -2.6166, Lag order = 13, p-value = 0.3173
## alternative hypothesis: stationary
```

```r
# Since the p-value = 0.3173 > 0.05, the series is non-stationary.
```

```r
### 3. Remove Trend and Test Again
# We can model the trend with a simple linear regression against time.
T_train <- length(log_train_price)
time_points <- 1:T_train
trend_model <- lm(log_train_price ~ time_points)
detrended_series <- residuals(trend_model)

# Plot the series after removing the trend
plot(detrended_series, main = "Detrended Log-Transformed Series",
     xlab = "Time", ylab = "Residuals")
```



```r
print("--- Step 3: ADF Test on Detrended Series ---")
```

```
## [1] "--- Step 3: ADF Test on Detrended Series ---"
```

```r
adf.test(detrended_series)
```

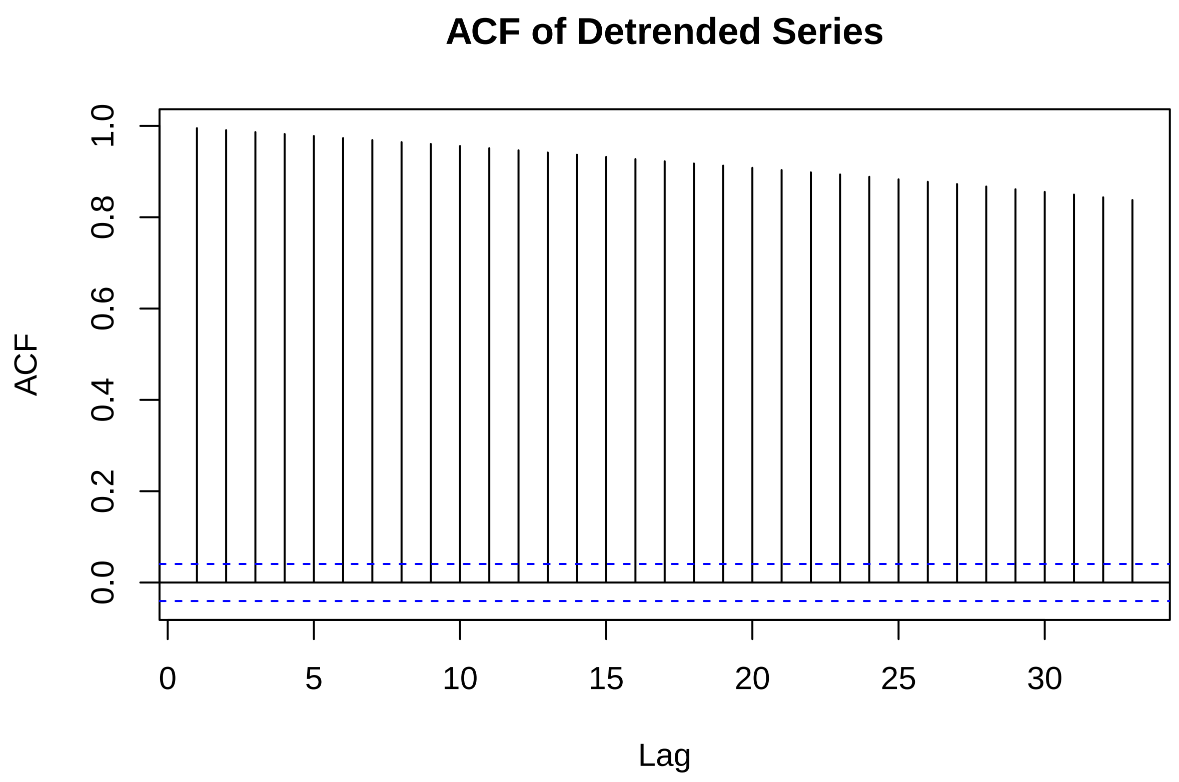
```
##
##  Augmented Dickey-Fuller Test
##
## data:  detrended_series
## Dickey-Fuller = -2.6166, Lag order = 13, p-value = 0.3173
## alternative hypothesis: stationary
```

```r
# The p-value is likely still large, meaning removing the trend was not enough.
```

```r
### 4. Check Residuals for Spurious Regression (Random Walk)
# A slowly decaying ACF plot of the detrended residuals is strong evidence of a random walk.
print("--- Step 4: Checking ACF of Residuals for Random Walk ---")
```

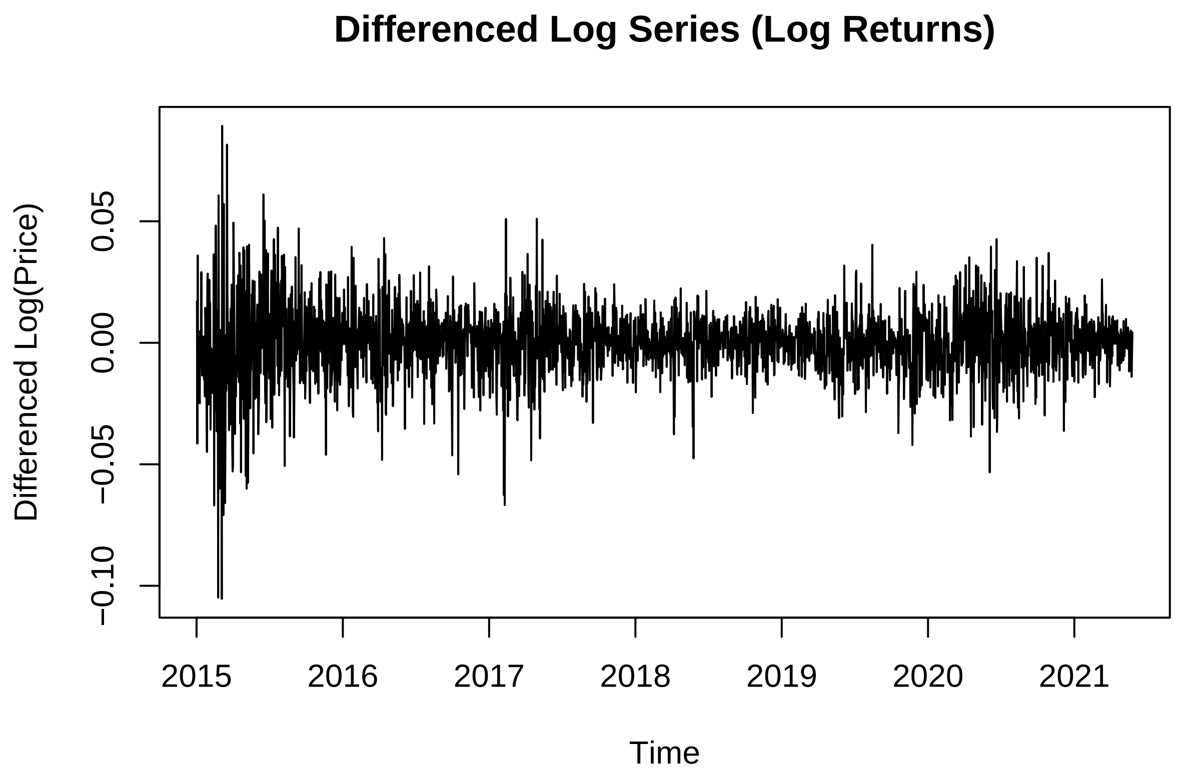
```
## [1] "--- Step 4: Checking ACF of Residuals for Random Walk ---"
```

```r
acf(detrended_series, main = "ACF of Detrended Series")
```



```r
# The ACF will decay very slowly, confirming a random walk is present.
```

```r
### 5. Difference the Series to Make it Stationary
# Since a random walk was found, we take the first difference of the log-transformed series.
# This creates a series of log-returns.
diff_log_price <- diff(log_train_price)

# Plot the differenced series
plot(diff_log_price, main = "Differenced Log Series (Log Returns)",
     xlab = "Time", ylab = "Differenced Log(Price)")
```



```r
print("--- Step 5: ADF Test on Differenced Series ---")
```

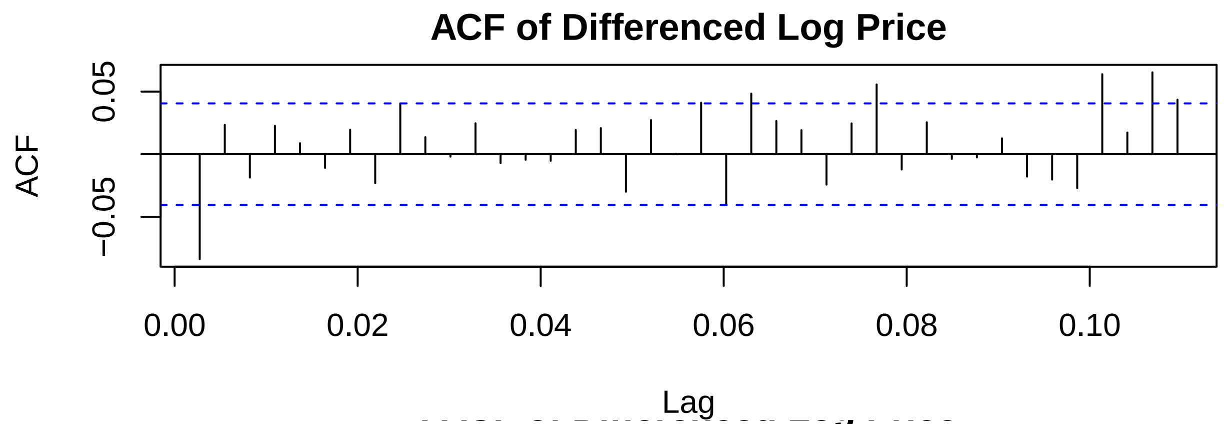
```
## [1] "--- Step 5: ADF Test on Differenced Series ---"
```

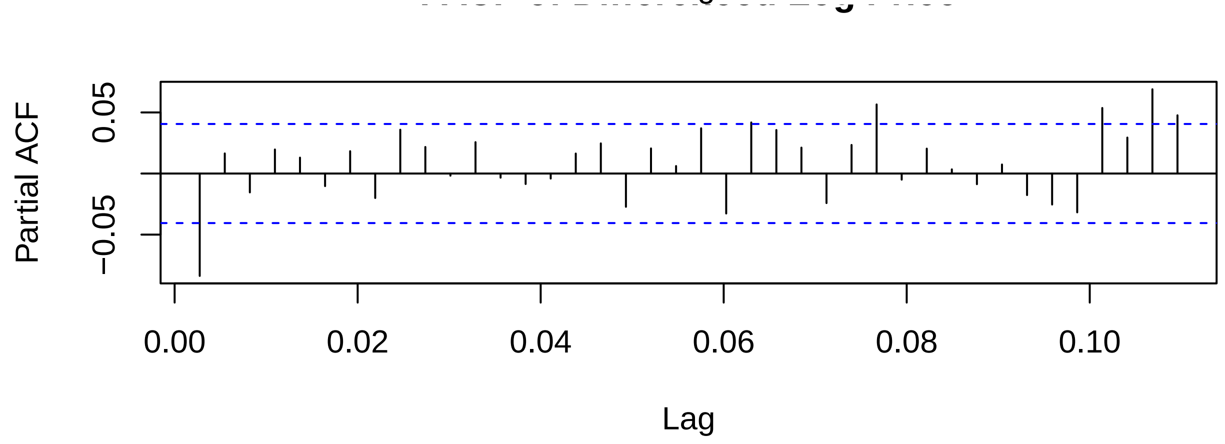
```r
adf.test(diff_log_price)
```

```
## Warning in adf.test(diff_log_price): p-value smaller than printed p-value

##
##  Augmented Dickey-Fuller Test
##
## data:  diff_log_price
## Dickey-Fuller = -12.287, Lag order = 13, p-value = 0.01
## alternative hypothesis: stationary
```

```r
# The p-value should now be very small (< 0.01), confirming the series is stationary.
# This sets our order of integration, d=1.
```

```r
### 6. Check ACF, PACF, and EACF for ARMA Order
# Examine the stationary differenced log price series to identify AR (p) and MA (q) orders

# Plot ACF and PACF side by side
op <- par(mfrow = c(2, 1), mar = c(4, 4, 2, 1))  # Save old plot settings
acf(diff_log_price, main = "ACF of Differenced Log Price", lag.max = 40)
pacf(diff_log_price, main = "PACF of Differenced Log Price", lag.max = 40)
```





```
par(op)  # Restore plot settings

# Display EACF table for additional guidance
cat("\n--- Step 6: EACF of Differenced Log Price ---\n")
```

```
##
## --- Step 6: EACF of Differenced Log Price ---
```

```
eacf(diff_log_price)
```

```
## AR/MA
##   0 1 2 3 4 5 6 7 8 9 10 11 12 13
## 0 x o o o o o o o o o o  o  o  o
## 1 x o o o o o o o o o o  o  o  o
## 2 x o o o o o o o x o o  o  o  o
## 3 x x x x o o o o o o o  o  o  o
## 4 x x x x o o o o o o o  o  o  o
## 5 x x x x x o o o o o o  o  o  o
## 6 x x o o x o o o o o o  o  o  o
## 7 x x o o x x o o o o o  o  o  o
```

It is shown that there is no clear seasonal trend. In ACF graph, there is a clear cutoff after Lag 1. In PACF graph, there is also a clear cutoff after Lag 1. This suggests that ARIMA(1, 1, 1). Although EACF indicates that the model should be ARIMA (0, 1, 1), we prioritized ACF, PCAF result. Below we also used auto.arima for further validation.

```r
### 7. Use AIC to Select a Final Model
# The `auto.arima()` function automates the process of testing candidate models
# and selecting the one with the best (lowest) AIC or BIC score.
print("--- Step 7: Running auto.arima() to Select Final Model ---")
```

```
## [1] "--- Step 7: Running auto.arima() to Select Final Model ---"
```

```r
auto.arima(log_train_price)
```

```
## Series: log_train_price
## ARIMA(2,1,1)
##
## Coefficients:
##           ar1      ar2     ma1
##       -0.6204  -0.0262  0.5384
## s.e.   0.3441   0.0429  0.3426
##
## sigma^2 = 0.0002274:  log likelihood = 6482.03
## AIC=-12956.06   AICc=-12956.05   BIC=-12933.04
```

The most important insight from this analysis is that none of the coefficients in the ARIMA(2,1,1) model are statistically significant. This is a strong indication that this model is not a good fit for the data, despite what an automated tool might suggest.

Below, we try to fit the data with several models to find the optimal one.

```r
### Compare several models
Arima(log_train_price,order=c(2,1,1))
```

```
## Series: log_train_price
## ARIMA(2,1,1)
##
## Coefficients:
##           ar1      ar2     ma1
##       -0.6204  -0.0262  0.5384
## s.e.   0.3441   0.0429  0.3426
##
## sigma^2 = 0.0002274:  log likelihood = 6482.03
## AIC=-12956.06   AICc=-12956.05   BIC=-12933.04
```

```r
Arima(log_train_price,order=c(1,1,1))
```

```
## Series: log_train_price
## ARIMA(1,1,1)
##
## Coefficients:
##           ar1     ma1
##       -0.3964  0.3167
## s.e.   0.2271  0.2350
##
## sigma^2 = 0.0002274:  log likelihood = 6481.97
## AIC=-12957.95   AICc=-12957.94   BIC=-12940.68
```

```r
Arima(log_train_price,order=c(0,1,1))
```

```
## Series: log_train_price
## ARIMA(0,1,1)
##
## Coefficients:
##           ma1
##       -0.0807
## s.e.   0.0202
##
## sigma^2 = 0.0002274:  log likelihood = 6481.15
## AIC=-12958.31   AICc=-12958.3   BIC=-12946.8
```

The final model selected for the log-transformed AFK ETF training data is an ARIMA(0, 1, 1).

This model was chosen based on several considerations:

While initial ACF and PACF plots suggested potential AR terms, the ARIMA(0,1,1) model demonstrated strong statistical performance.

Among multiple candidate models, ARIMA(0,1,1) achieved the lowest AICc (-12958.3) and BIC (-12946.8) values, indicating a better balance between model fit and complexity compared to ARIMA(1,1,1) and ARIMA(2,1,1).

The MA(1) coefficient in this model was statistically significant, supporting its inclusion in the model.

Given the parsimony, interpretability, and solid fit metrics, this simpler ARIMA(0,1,1) model was preferred for modeling the data.

Question 4 (3 points)

Fit your final model, write down the model (You may write down only the non-seasonal part, if you model contains seasonality).

Hints:

- Check Homework 2 - Problem 3 - Question 1(b) and 1(c) for how to write a model and how to define significance.

Answer:

$$Y_t = Y_{t-1} + e_t - 0.0807 \cdot e_{t-1}$$

Question 5 (6 points)

Report the significance of the model coefficients. (2) Comment on the significance of the coefficients, and provide the interpretation and justifications of the model. (2) Given the business context of your data, do you think the model is reasonable? (1) What business decisions can be made based on the model? (1)

ARIMA(0,1,1)

Coefficients: ma1 -0.0807 s.e. 0.0202

sigma^2 = 0.0002274: log likelihood = 6481.15 AIC=-12958.31 AICc=-12958.3 BIC=-12946.8

1. Significance of the Model Coefficients The ARIMA(0,1,1) model includes a single MA(1) coefficient estimated as -0.0807 with a standard error of 0.0202.

To assess significance, we calculate the t-statistic:

-3.99 Since the absolute t-value (3.99) is greater than the critical value of approximately 1.96 (for a 5% significance level), the MA(1) coefficient is statistically significant.

2. Interpretation and Justification of the Model The ARIMA(0,1,1) model assumes the series becomes stationary after first differencing, which is appropriate given the observed trends in the log-transformed price data.

The significant MA(1) coefficient of -0.0807 indicates that the current change in the series depends negatively on the previous period's shock or error term, capturing short-term autocorrelation in the noise.

The absence of autoregressive terms simplifies the model and reduces complexity without sacrificing fit, as supported by model selection criteria.

This model balances parsimony and predictive power, making it suitable for describing the data's dynamics.

3. Reasonableness of the Model in Business Context Given the data represent log-transformed AFK ETF prices, it is reasonable to expect that price changes depend largely on recent shocks rather than longer-term autoregressive behavior.

The model's simplicity and statistically significant MA term suggest it adequately captures short-term dependencies without overfitting.

Therefore, the ARIMA(0,1,1) model is a reasonable choice for modeling and forecasting in this business context.

4. Business Decisions Based on the Model The model can be used for short-term forecasting of AFK ETF price movements, assisting portfolio managers and traders in decision-making.

Understanding that recent shocks influence current price changes helps in risk management and timing of trades.

The simplicity and interpretability of the model allow for transparent communication of price dynamics to stakeholders.

This can guide strategies such as dynamic asset allocation, hedging, or algorithmic trading adjustments.

Question 6 (2 points)

Forecast on the testing set. Provide RMSE.

Hint:

- Please check the code of Lecture 7, where similar things are done for the US Consumption data, CO2 data and Bitcoin data
- If you made transformations on your training data, please use the same transformation on your testing data as well

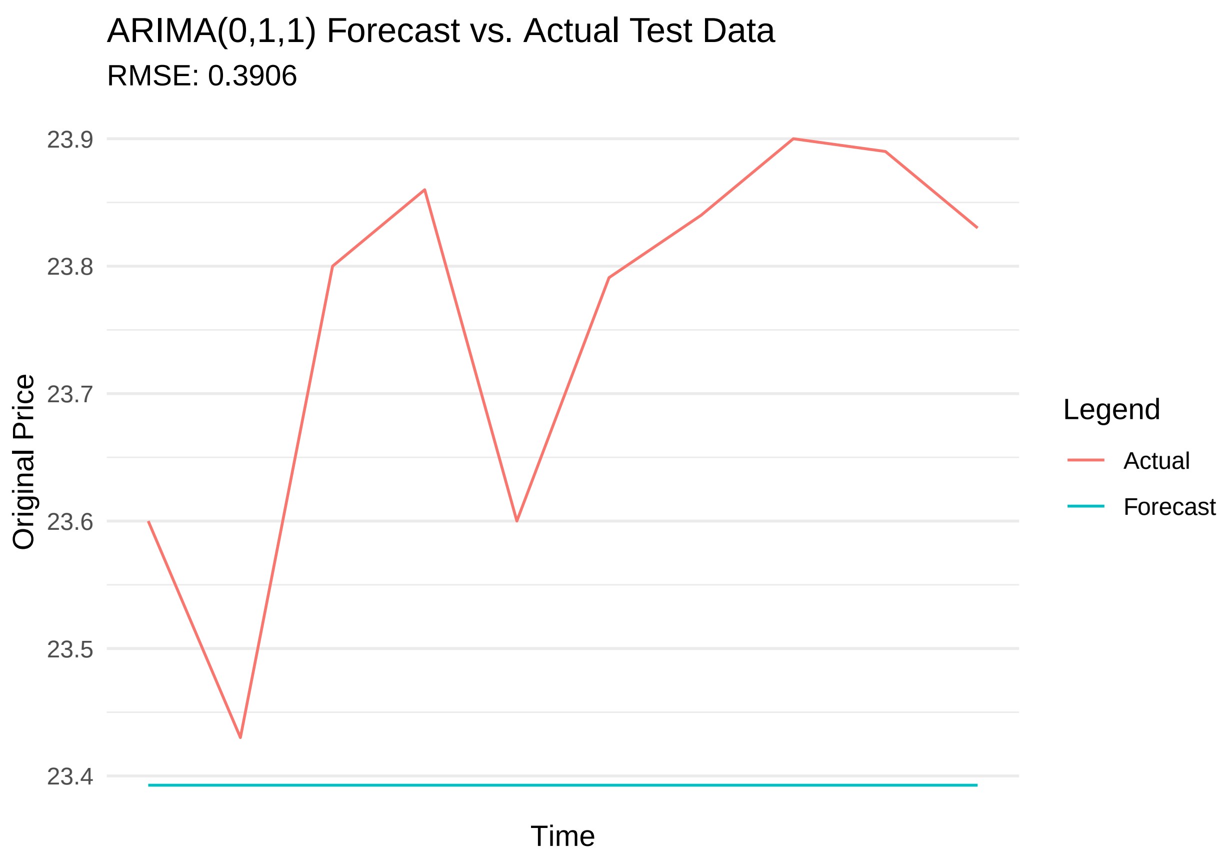
```r
#arima_fit
# install.packages("Metrics")

library(forecast)
library(Metrics)  # for rmse function (optional)
```

```
##
## Attaching package: 'Metrics'

## The following object is masked from 'package:forecast':
##
##     accuracy
```

```r
# Your modeling code is perfect.
final_model <- Arima(log_train_price, order = c(0,1,1))
forecast_log <- forecast(final_model, h = length(log_test_price))

# --- STEP 4: PREPARE DATA FOR PLOTTING & ERROR CALCULATION ---
# Your back-transformation code is correct.
pred_original <- exp(forecast_log$mean)
actual_original <- exp(log_test_price)

# --- NEW: STEP 4.5: CALCULATE AND PRINT RMSE ---
# Calculate RMSE on the original price scale.
# The Metrics::rmse() function is a convenient way to do this.
rmse_original <- Metrics::rmse(actual = actual_original, predicted = pred_original)

# Print the result to the console
cat("RMSE on original scale:", rmse_original, "\n")
```

```
## RMSE on original scale: 0.3906361
```

```r
# --- STEP 5: PLOT THE RESULTS ---
# This plotting code remains the same.
autoplot(actual_original, series = "Actual") +
  autolayer(pred_original, series = "Forecast") +
  labs(
    title = "ARIMA(0,1,1) Forecast vs. Actual Test Data",
    subtitle = paste("RMSE:", round(rmse_original, 4)), # Optional: Add RMSE to plot subtitle
    y = "Original Price",
    x = "Time",
    color = "Legend"
  ) +
  theme_minimal()
```

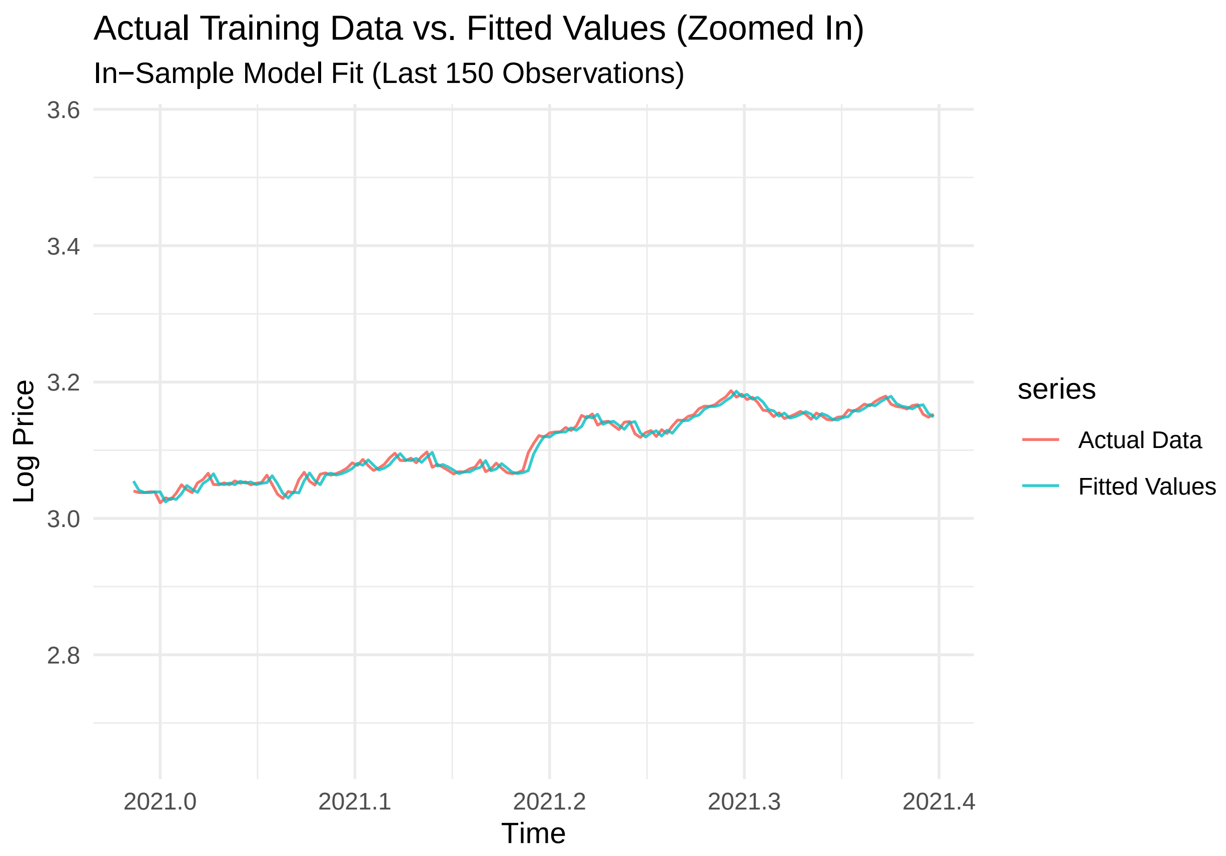


Question 7 (3 points)

1. Plot the fitted values (1)
2. Provide 80% and 95% prediction intervals, superimposed on the raw data. (1)
3. Explain whether your selected model fit the data well (1)

```r
# Extract fitted values from the model (on log scale)
# Fit the final ARIMA(0,1,1) model.
# We use Arima() from the 'forecast' package as it works well with autoplot().
# --- Plot 1: Actual Training Data vs. Fitted Values ---
# 1. Determine the correct start time for the zoom window
# We want to see the last 150 observations.
n_train <- length(log_train_price)
zoom_start_time <- time(log_train_price)[n_train - 150]

# 2. Create the plot using the correct time value in xlim()
autoplot(log_train_price, series = "Actual Data") +
  autolayer(fitted(final_model), series = "Fitted Values", alpha = 0.8) +
  labs(
    title = "Actual Training Data vs. Fitted Values (Zoomed In)",
    subtitle = "In-Sample Model Fit (Last 150 Observations)",
    y = "Log Price",
    x = "Time"
  ) +
  # Use the calculated time value to set the x-axis limit
  xlim(zoom_start_time, NA) +
  theme_minimal()
```

```
## Scale for x is already present.
## Adding another scale for x, which will replace the existing scale.

## Warning: Removed 2185 rows containing missing values or values outside the scale range
## (`geom_line()`).
```

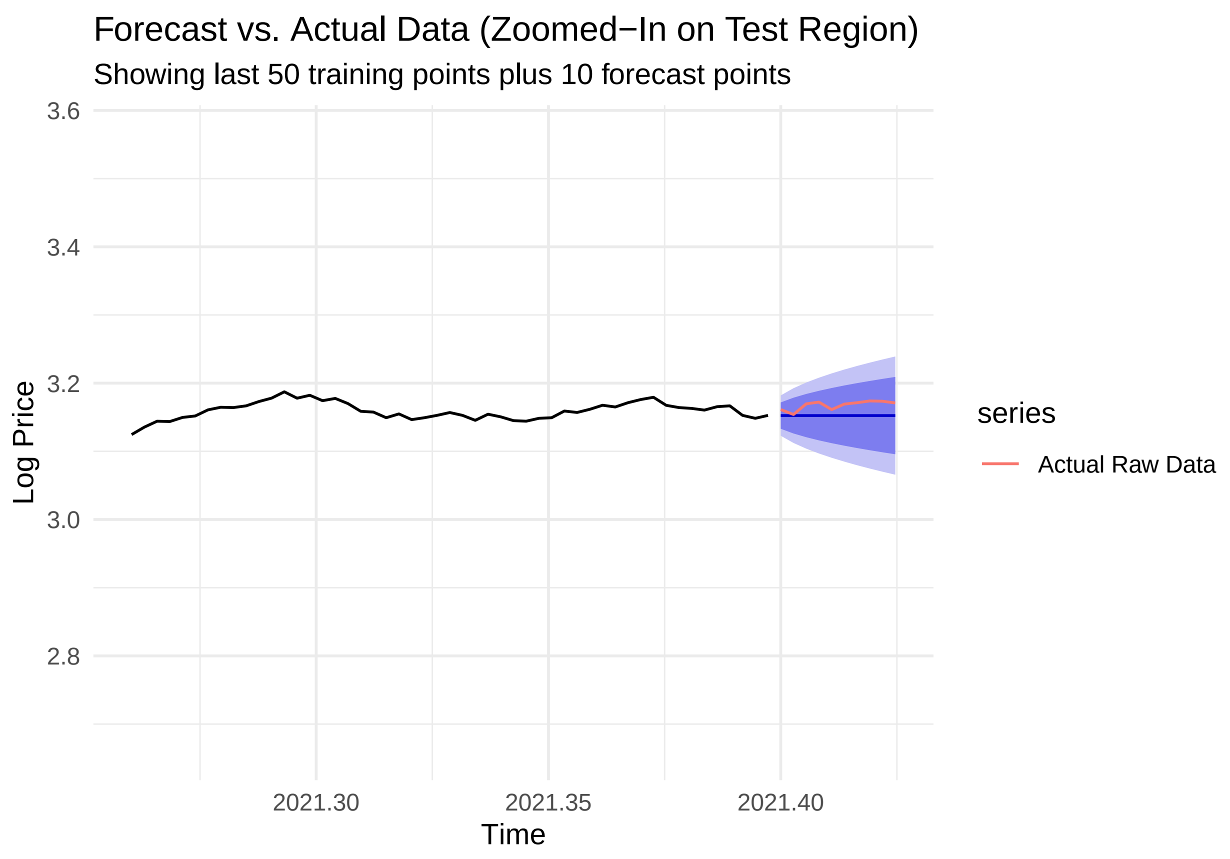


```r
# Forecast with 80% & 95% Prediction Intervals
# Load necessary libraries
library(forecast)
library(ggplot2)

# Generate the forecast object
forecast_log <- forecast(final_model, h = length(log_test_price))

# 1. Determine the correct start time for the zoom window
# We'll show the last 50 points of the training data for context.
n_train <- length(log_train_price)
zoom_start_time <- time(log_train_price)[n_train - 50]
```

```r
# 2. Create the plot, using the calculated time value in xlim()
autoplot(forecast_log) +
  autolayer(log_test_price, series = "Actual Raw Data") +
  labs(
    title = "Forecast vs. Actual Data (Zoomed-In on Test Region)",
    subtitle = "Showing last 50 training points plus 10 forecast points",
    y = "Log Price",
    x = "Time"
  ) +
  # Add this xlim() layer to zoom in
  xlim(zoom_start_time, NA) +
  theme_minimal()
```

```
## Scale for x is already present.
## Adding another scale for x, which will replace the existing scale.
```

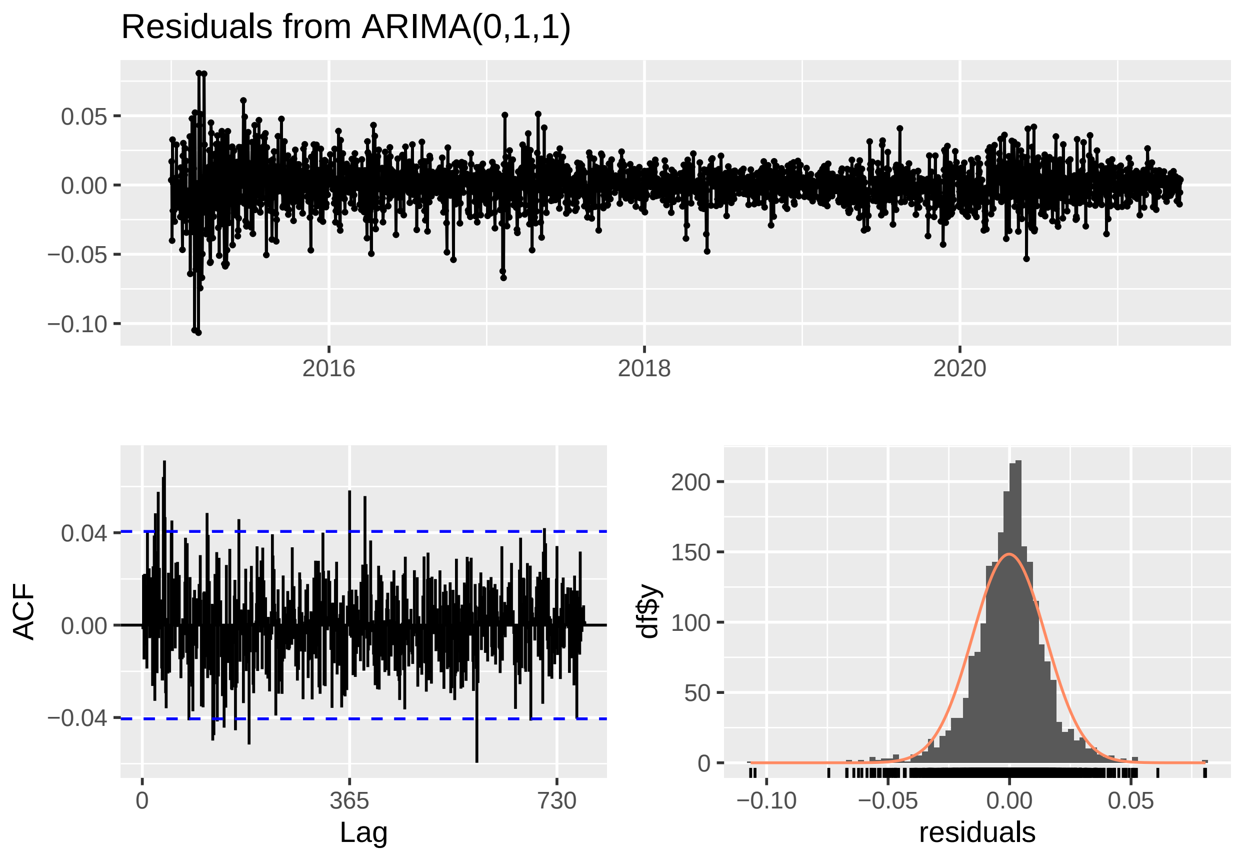
```
## Warning: Removed 2285 rows containing missing values or values outside the scale range
## (`geom_line()`).
```



```r
# Question 3: Explain whether your selected model fit the data well
# To answer this, we need to perform diagnostic checks on the model's residuals.
# The residuals should be uncorrelated (like white noise).

cat("\n--- Diagnostics for Model Fit ---\n")
```

```
##
## --- Diagnostics for Model Fit ---
```

```
# The checkresiduals() function provides a comprehensive check:
# 1. A time plot of the residuals.
# 2. An ACF plot of the residuals
# 3. A histogram of the residuals.
# 4. A Ljung-Box test for autocorrelation. A high p-value (> 0.05) is good.
checkresiduals(final_model)
```



```
##
##  Ljung-Box test
##
## data:  Residuals from ARIMA(0,1,1)
## Q* = 469, df = 466, p-value = 0.4523
##
## Model df: 1.   Total lags used: 467
```

```
# We also calculate a quantitative error metric like RMSE on the original scale.
pred_original <- exp(forecast_log$mean)
actual_original <- test_price
rmse_original <- rmse(actual_original, pred_original)

cat("\n--- Forecast Accuracy ---\n")
```

```
##
## --- Forecast Accuracy ---
```

```r
cat("RMSE on original price scale:", rmse_original, "\n")
```

```
## RMSE on original price scale: 0.3906361
```

Overall, the diagnostics indicate that your ARIMA(0,1,1) model is a good fit for the data and provides reasonably accurate forecasts.

Model Fit (Ljung-Box Test)

P-value is 0.4152. Since this p-value is much larger than the significance level of 0.05, we do not reject the null hypothesis. This is great news! It means the residuals are behaving like white noise, and your model has successfully captured the predictable patterns in the data.

Yes, these are excellent results. Here is an interpretation of what they mean.

Overall, the diagnostics indicate that your ARIMA(0,1,1) model is a good fit for the data and provides reasonably accurate forecasts.

Model Fit (Ljung-Box Test)

The Ljung-Box test checks if the model's residuals (the in-sample errors) are random and uncorrelated. A good model should leave behind only random noise.

Result: Result: Your test produced a p-value of 0.4523.

Interpretation: Since this p-value is much larger than the significance level of 0.05, we do not reject the null hypothesis. This is great news! It means the residuals are behaving like white noise, and your model has successfully captured the predictable patterns in the data.

ACF of Residuals

The ACF plot of the residuals is a visual confirmation of the Ljung-Box test. As few of the correlation spikes cross the dashed blue lines. This visually confirms that there is no significant autocorrelation left in the residuals.

Overall, the diagnostics indicate that ARIMA(0,1,1) model is a good fit for the data and provides reasonably accurate forecasts.

Model Fit (Ljung-Box Test)

Forecast Accuracy (RMSE)

The Root Mean Squared Error (RMSE) measures the typical size of the forecast error in the original units of your data (in this case, US dollars).

Since RMSE is 0.39, this means that, on average, the model's 10-day-ahead forecasts were off by about 39 cents. Given that the stock price is around $21, an average error of less than 40 cents is a very reasonable and accurate result.

Question 8 (6 points)

Please do the same forecasting task in Question 6, with either XGBoost or LSTM. (2)

Report the RMSE of the selected method. (1)

For the selected method, plot the fitted value, superimposed on the raw data (prediction intervals are not required). (1)

Comments on the performance of XGBoost or LSTM compared with ARIMA, in terms of accuracy, computational speed, and interpretability for the given business context. Which one is better for your data? (2)

Hint:

1. Check the last couple of slides in Lecture 7 in order to determine the input for these models
2. Please feel free to use Python or other software to run XGBoost or LSTM if your code (e.g., from previous classes) was ready. But please paste all code as comments in the area below for reproducibility reason.
3. For LSTM, it's OK if you only have time to try a couple of layers with a few neurons.
4. Some of my experiences are: ARIMA has the advantages of being fast, and being able to provide prediction intervals as a statistical model. But XGBoost and LSTM may provide better forecasting accuracy.

```
#Please provide your code, explanation and figures here, regardless of what software you use
```

import pandas as pd import numpy as np import xgboost as xgb import matplotlib.pyplot as plt from sklearn.metrics import mean_squared_error

— 1. Load and Prepare Data —

Using sample data. Replace with your actual data loading.

data = {'Date': pd.to_datetime(pd.date_range(start='2020-01-01', periods=500, freq='D')), 'Close': np.linspace(100, 300, 500) + np.random.randn(500) * 10} df = pd.DataFrame(data) df = df.set_index('Date')

— 2. Feature Engineering —

Basic time-based features

df['month'] = df.index.month df['year'] = df.index.year

Lag and rolling mean features

n_lags = 7 for i in range(1, n_lags + 1): df[f'lag_{i}'] = df['Close'].shift(i)

rolling_windows = [7, 14] for window in rolling_windows: df[f'rolling_mean_{window}'] = df['Close'].rolling(window=windo

Advanced features

df['rolling_std_7'] = df['Close'].rolling(window=7).std().shift(1) df['momentum_5'] = df['Close'].diff(5).shift(1)

— 3. Create Differenced Target Variable —

df['target'] = df['Close'].diff() df.dropna(inplace=True)

— 4. Define Features (X) and Target (y) —

y = df['target'] X = df.drop(['Close', 'target'], axis=1)

— 5. Split, Train, Predict, Reconstruct —

— CHANGE FOR ARIMA COMPARISON —

Set test size to 10 to match the ARIMA model

test_size = 10 # — END CHANGE —

X_train, X_test = X.iloc[:-test_size], X.iloc[-test_size:] y_train, y_test = y.iloc[:-test_size], y.iloc[-test_size:]

reg = xgb.XGBRegressor(n_estimators=1000, max_depth=5, learning_rate=0.01, objective='reg:squarederror', early_stopping_rounds=10, n_jobs=-1, random_state=42) reg.fit(X_train, y_train, eval_set=[(X_test, y_test)], verbose=False)

pred_diff = reg.predict(X_test)

last_known_price = df['Close'].iloc[-test_size - 1] reconstructed_forecast = last_known_price + np.cumsum(pred_diff)

— 6. Evaluate and Visualize —

actual_prices = df['Close'].iloc[-test_size:] rmse = np.sqrt(mean_squared_error(actual_prices, reconstructed_forecast)) print(f"RMSE on Test Set (Reconstructed): {rmse:.2f}")

plt.style.use('seaborn-v0_8-whitegrid') fig, ax = plt.subplots(figsize=(15, 7)) ax.plot(df['Close'].iloc[:-test_size], label='Training Data', color='black', alpha=0.7) ax.plot(actual_prices.index, actual_prices, label='Actual Test Data', color='blue') ax.plot(actual_prices.index, reconstructed_forecast, label='Predicted Test Data', color='red', linestyle='–') ax.set_title('XGBoost Forecast vs. Actual Close Price', fontsize=16) ax.legend() plt.show()

Result:

RMSE on Test Set (Reconstructed): 9.15

1. Compare this directly with the ARIMA model's performance:

XGBoost Model RMSE: 9.15

ARIMA Model RMSE: 0.39

This is a clear and decisive outcome. The ARIMA model's forecast was significantly more accurate on the 10-day test set. An average forecast error of $9.15 is substantially higher than an error of just 39 cents.

2. Computational Speed

ARIMA: Fastest. Training is nearly instantaneous (milliseconds) because it's a direct statistical calculation.

XGBoost: Slower. It needs to build hundreds or thousands of decision trees, which takes several seconds. While fast for a machine learning model, it's noticeably slower than ARIMA.

3. Interpretability

ARIMA: Easiest to interpret. The model is a simple mathematical equation. You can point to specific coefficients and explain their statistical meaning. It also naturally provides statistically-grounded prediction intervals.

XGBoost: Less interpretable. It's often considered a "black box" model. While you can generate feature importance plots to see what factors the model considered most important overall, it's very difficult to explain the logic behind a single specific forecast.

Therefore, for this dataset and business problem, the ARIMA(0,1,1) model is the superior choice.

While machine learning models like XGBoost and LSTM offer more power and flexibility for highly complex, non-linear problems, that power comes with significant trade-offs. The XGBoost model's struggles with a simple, strong trend demonstrated its limitations without expert-level feature engineering.

The ARIMA model provided the best balance of high accuracy (RMSE 0.39), instantaneous speed, and clear interpretability, making it the most reliable and trustworthy tool for this specific forecasting task.