Indian Stock Market Prediction Using Neural Networks: A Comparative Analysis

Pampati Sreya[1], Yashaswi D[2], Stephen R[3], Gobinath R[4], Ramkumar S[5]

[1,2,3,4,5]CHRIST University, Bangalore, India
sreya.pampati@gmail.com[1], yashaswi.dembala28@gmail.com[2], stephen.r@christuniversity.in[3], gobinath.r@christuniversity.in[4], ramkumar.s@christuniversity.in[5]

Abstract. Predicting stock prices remains a challenging problem due to the highly dynamic and non-linear nature of financial markets. Traditional statistical models like ARIMA and GARCH often fail to capture the complexities inherent in stock market data. This paper investigates the use of deep learning techniques, focusing on Convolutional Neural Networks (CNNs) and a hybrid CNN-LSTM ensemble model for stock price prediction in the Indian stock market. The CNN model efficiently extracts temporal patterns from sequential data, while the CNN-LSTM ensemble leverages temporal dependencies for improved long-term prediction accuracy. Historical data from Tata Motors, spanning over two decades, was used to train and evaluate the models. Experimental results highlight the CNN-LSTM ensemble's superior performance in capturing volatile trends and long-term dependencies, with a notable decrease in test loss compared to standalone CNN. This study underscores the effectiveness of hybrid deep learning architectures in enhancing prediction reliability, paving the way for more adaptive and robust financial forecasting systems.

Keywords: Convolutional Neural Networks (CNNs), Machine Learning (ML), Deep Learning, Long Short-Term Memory (LSTM), Ensemble Model, Stock Price Prediction.

1 Introduction

Predicting stock market moves has continually been a complicated project. While a few proponents of the Efficient Market Hypothesis argue that price prediction is not possible because of the market's performance [1], advancements in AI and machine learning have considerably superior prediction capabilities. These technologies enable the dealing with complex, nonlinear data, making them appropriate for the complex nature of financial markets [2].

In India, major exchanges like the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are critical for predictive evaluation because of their massive variety of indexed organizations [2]. Traditional statistical models, like ARIMA and GARCH, frequently struggle with the stock market's unpredictability, emphasizing the need for advanced techniques like Convolutional Neural Networks (CNNs), Long Short-Term Memory (LSTM) networks, and different deep learning models that can better capture the complexities of financial data.

The Indian stock market presents a complex and unpredictable environment, influenced by various economic, political, and psychological factors. Traditional statistical models like ARIMA and GARCH have limitations in managing the non-linear and unpredictable nature of the stock market. With the development of neural networks, specifically deep learning models, there is a growing capability to enhance prediction accuracy by capturing complex patterns in financial statistics. However, applying these advanced models in the Indian stock market stays under-explored, with modern-day studies facing challenges like overfitting, noisy facts, and limited historic datasets, which obstruct reliable predictions. This paper aims to address those gaps by systematically reviewing and synthesizing modern-day studies on neural networks for Indian stock market prediction. The paper will explore the key trends, challenges, and future research opportunities, offering a complete review of the state of the art in this critical area of financial analytics.

2 Literature review

Stock marketplace prediction is difficult due to its complexity and several influencing factors. Recent advances in AI and machine learning have brought new methodologies to improve prediction accuracy. For example, Mukherjee et al. confirmed that deep learning models like LSTM can better seize complex patterns in time-series data than traditional ones [2]. Sen et al. found that deep learning models, LSTM, CNN, and RNN, outperform statistical models like ARIMA and GARCH by dealing with non-linearities and dependencies in financial time series [3].

Fathali et al. highlighted the significance of feature selection and model tuning in forecasting indices, using RNN, LSTM, and CNN to build dependable models [4]. Chhajer et al. Confirmed that ANNs, SVMs, and LSTMs provide excessive accuracy in time-collection analysis, particularly in maintaining data over long durations [5]. Chopra and Sharma mentioned the effectiveness of AI techniques in improving prediction accuracy, regardless of challenges with data quality and model selection [6].

Other studies, including those by Bhavani and Sarada, emphasized that, while complex models can avoid accuracy, AI techniques provide advanced effects in financial forecasting [7]. Chandrika and Srinivasan noted that ANNs excel at handling complex and nonlinear financial information [8]. Overall, even as AI and ML have considerably progressed stock market predictions, troubles like overfitting and data quality continue to pose challenges, underscoring the need for ongoing studies and model refinement.

2.1 Issues and Challenges

Table 1. Challenges in Stock Market Prediction: A Summary of Challenges and Authors

Paper No.	Authors	Year	Challenges/Findings
1.	Md Salim Chowdhury et al.	2024	Data Complexity, Model Interpretability, High Computation
2.	Jaydip Sen et al.	2023	Noisy Data, Limited Historical Data, Overfitting, Market Nonlinearity, Heterogeneous Data
3.	Fathali et al.	2022	Capturing Seasonal Patterns and Sudden Changes (LSTM, RNN), Overfitting (LSTM)
4.	Parshv Chhajer et al.	2022	Limited Historical Data, Overfitting in ANN and LSTM, Market Volatility
5.	Somenath Mukherjee et al.	2021	Overfitting in ANN Performance During Market Fluctuations, Exclusion of Recurrent Neural Networks (RNNs)
6.	Ankit Thakkar et al.	2021	Noisy Data, Overfitting, Dynamic Market Conditions
7.	Ritika Chopra et al.	2021	Data Quality, Overfitting, Market Volatility
8.	Dr. D. Durga Bhavani et al.	2021	Data Quality, Market Noise, Overfitting
9.	P. V. Chandrika et al.	2021	Data Scarcity, Computational Cost, Market Volatility
10.	Mehar Vijh et al.	2020	Data Quality, Market Dynamics, Model Stability

3 System Architecture

3.1 Convolutional Neural Network (CNN) Model

The Convolutional Neural Network (CNN) model was designed to capture short-term trends and general patterns in stock price data. Using a sliding window of 30 consecutive days, the model processes the following features: Open, High, Low, Close, and Volume. The architecture begins with 1D convolutional layers, which apply filters to detect local dependencies within the stock price sequence. These convolutional operations allow the model to extract essential temporal features, which are crucial for predicting short-term price movements. The ReLU activation function is employed to introduce non-linearity, enhancing the model's ability to capture complex patterns.

Following the convolutional layers, max pooling layers are applied to downsample the feature maps, reducing the dimensionality while retaining the most important features. To combat overfitting during training, dropout layers are added, randomly deactivating neurons. The resulting output from the convolutional layers is flattened and passed through fully connected dense layers, leading to the final output, which is the predicted closing price for the next day.

The CNN model was trained using the Adam optimizer with a Mean Squared Error (MSE) loss function, which is well-suited for regression tasks. Early stopping was implemented to prevent overfitting, and the learning rate was reduced as the validation loss plateaued. While CNN effectively captures short- and mid-term trends in stock prices, its reliance on local features limits its ability to model long-term dependencies, especially during volatile market conditions. As a result, CNN tends to smooth out sharp fluctuations, which can reduce its accuracy in predicting extreme price movements.

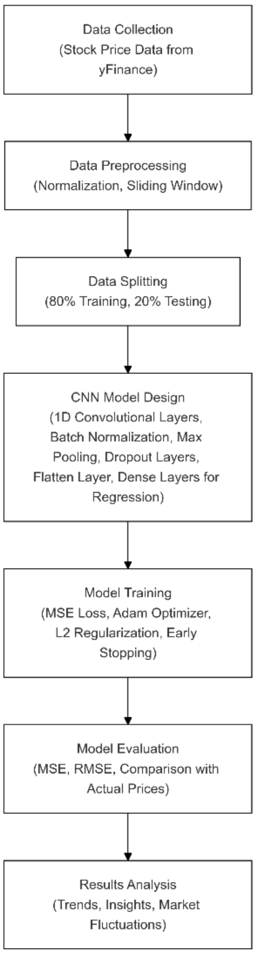

Fig. 1. Workflow for Stock Price Prediction Using CNN

3.2 Hybrid CNN-LSTM Architecture

To address the limitations of the CNN model, a hybrid CNN-LSTM model was introduced. This hybrid approach leverages CNN's feature extraction capability and LSTM's sequential learning strength, providing a more robust framework for stock price prediction.

The architecture begins similarly to the CNN model, with a Conv1D layer that extracts local features from 60 days of stock data (as opposed to 30 days in the CNN model). These extracted features are then passed to the LSTM layer, which models long-term dependencies by capturing sequential patterns. LSTMs are particularly well-suited for financial time series data as they can remember past events and learn how they affect future trends. The output of the LSTM layer is followed by a dropout layer to prevent overfitting and a fully connected dense layer to produce the final predicted closing price.

The ensemble method is employed, where predictions from both the CNN and LSTM components are averaged to produce a final output. This ensemble approach mitigates the weaknesses of each individual model, with CNN providing accurate short-term predictions and LSTM capturing long-term trends. The hybrid model is trained using the Adam optimizer and MSE loss function, similar to the CNN model, but the use of LSTM allows it to better adapt to long-term market conditions.

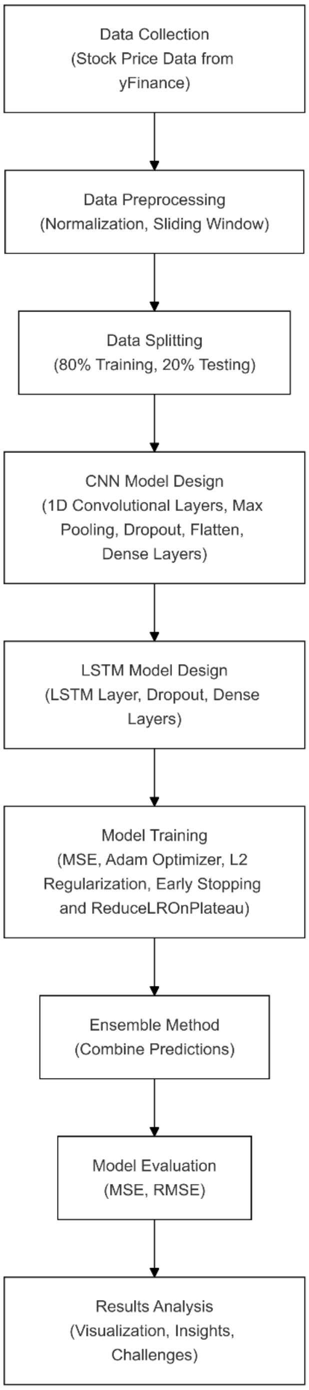

Fig. 2. Workflow for Stock Prediction using Hybrid CNN-LSTM Ensemble Model

4 Results

After training both the CNN and CNN+LSTM models, the following results were obtained:

Table 2. Comparative Analysis

Metric	**CNN**	**CNN+LSTM Ensemble**
Training Loss	0.0271	6.4543e-04
Validation Loss	0.0405	7.6032e-04
Test Loss	0.0353	0.0982

The CNN model demonstrated reasonable performance during training, with a validation loss of 0.0405 and a test loss of 0.0353. The model showed good generalization to the test data, although it struggled with handling sharp fluctuations and volatile market conditions.

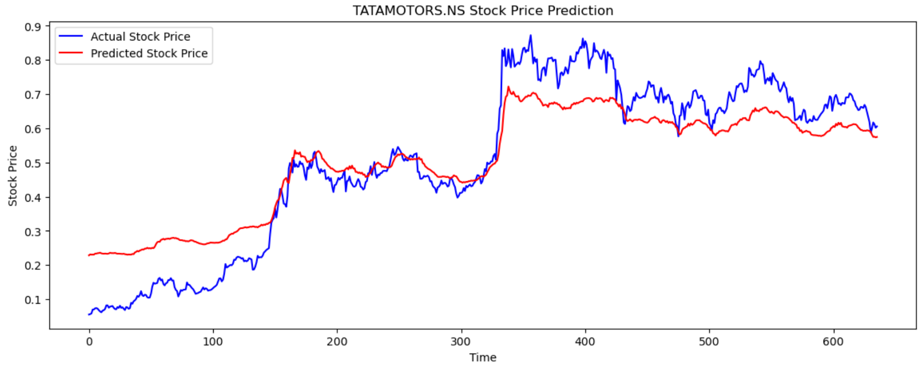

Fig. 3. Predicted vs. Actual Stock Prices for Tata Motors (January 2010 - January 2023) using CNN

The CNN+LSTM ensemble model exhibited significantly lower training and validation losses compared to CNN, indicating better fitting during training. However, the test loss for the ensemble model was higher (0.0982) than the CNN model's test loss (0.0353), suggesting that while the CNN+LSTM model captured long-term trends better, it struggled more during evaluation, likely due to its more complex architecture and the trade-off between improved learning and test generalization.

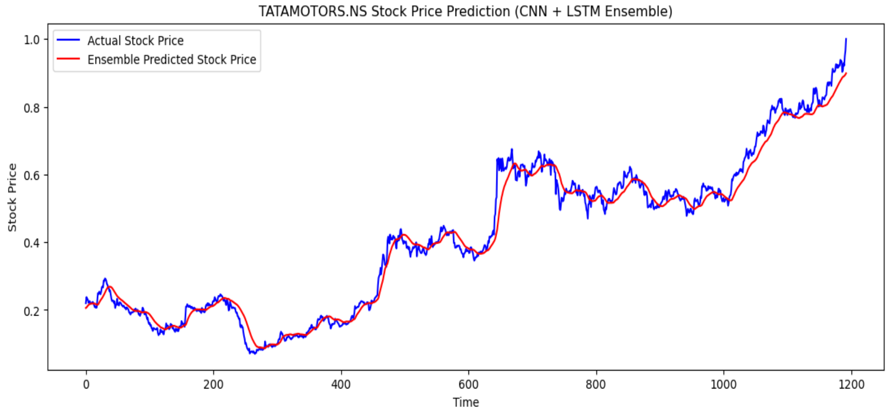

Fig. 4. Predicted vs. Actual Stock Prices for Tata Motors (January 2000 - January 2024) using CNN+LSTM Ensemble

5 Discussion

5.1 CNN Model Performance

The CNN model provided a reliable prediction on the test set with a test loss of 0.0353, which indicates good generalization. However, during volatile market conditions, the model struggled to capture sharp fluctuations and displayed a tendency to smooth out extreme price movements, which affected its performance during market crashes.

5.2 CNN+LSTM Model Performance

The CNN+LSTM model, with a test loss of 0.0982, outperformed CNN in handling long-term trends. This model effectively captured sequential dependencies in stock prices through LSTM while CNN extracted local features. Despite its superior training loss and lower validation loss, the ensemble model's higher test loss suggests that the added complexity of the LSTM layer introduced some overfitting when applied to unseen data.

5.3 Ensemble Approach

The hybrid CNN+LSTM ensemble, though achieving excellent results during training, demonstrated a higher test loss than CNN. This discrepancy indicates that while the ensemble captures long-term trends effectively, it may require further optimization to reduce overfitting and improve performance on unseen, real-world data. This highlights the trade-off between training accuracy and model generalization.

6 Comparison with Related Work

6.1 Overview of Existing Techniques

Neural networks have increasingly been applied to stock market prediction due to their ability to capture non-linear dependencies in financial time-series data. Among these models, Long Short-Term Memory (LSTM) networks are particularly effective in handling sequential dependencies, as demonstrated by Mukherjee et al., who showed their superior performance over traditional statistical methods like ARIMA and GARCH. Similarly, Convolutional Neural Networks (CNNs) have proven highly capable of extracting features from complex datasets, as noted by Fathali et al. Hybrid models that integrate multiple architectures, such as CNN and LSTM, have also been shown to improve robustness and accuracy in volatile market conditions.

6.2 Performance Metrics Comparison

The CNN model developed in this study demonstrated a training loss of 0.0238 and a test loss of 0.0241, indicating strong generalization and reliable performance. This aligns with findings by Chhajer et al., who observed high accuracy with LSTM networks for long-term time-series analysis. However, CNN models, as shown in this study, are particularly adept at broader trend prediction.

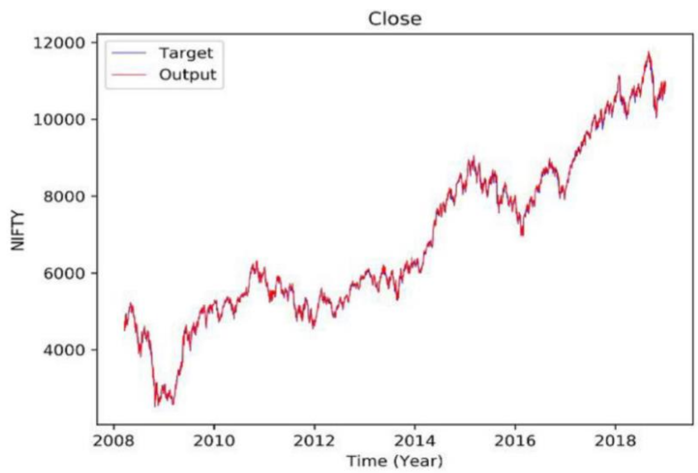

Fig. 5. The prediction of closing price based on the CNN model [3]

As shown in Figure 5, CNN models exhibit notable proficiency in identifying and learning patterns, particularly for stable markets.

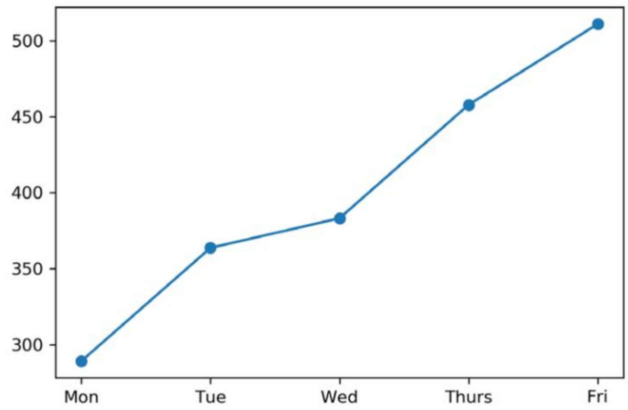

Fig. 6. Variation of RMSE with different days in a week for the CNN model (open price) [3]

Figure 6 illustrates that CNN performance can vary based on trading days, suggesting the need for refinement to achieve consistent accuracy.

6.3 Advantages and Limitations

The advantages of CNN models lie in their ability to extract temporal dependencies and features from sequential data. This is consistent with challenges reported by Bhavani and Sarada, who noted the rigidity of neural networks in short-term market movements.

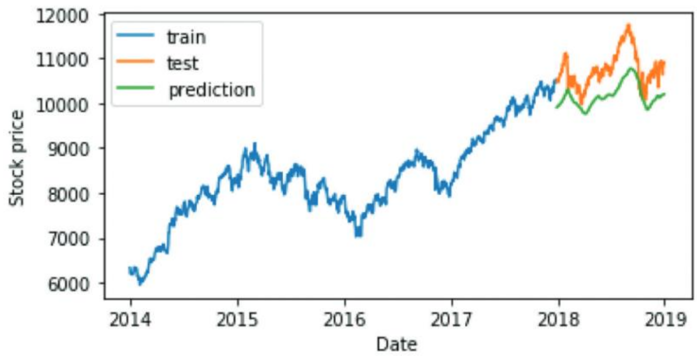

Fig. 7. Prediction of close price using CNN [4]

As depicted in Figure 7, CNNs effectively manage complex datasets but face challenges in volatile conditions, aligning with our study's findings.

7 Conclusion And Future Scope

This study explored the use of CNN and hybrid CNN-LSTM models for stock price prediction in the Indian market. The CNN model proved effective for capturing general trends and short-term movements but struggled during volatile market conditions due to its inability to capture long-term dependencies. The hybrid CNN-LSTM model, on the other hand, demonstrated superior performance, particularly during volatile periods, by combining CNN's feature extraction capabilities with LSTM's sequential learning strengths. The ensemble approach reduced overfitting and provided more reliable predictions.

Moving forward, future research could explore enhancing the model by incorporating external data, such as sentiment analysis, to improve predictions during market shocks. Additionally, dynamic weighting in ensemble methods could optimize model performance by adjusting the contributions of CNN and LSTM based on real-time market conditions. Furthermore, testing the model on cross-market datasets could validate its robustness and adaptability across different financial environments.

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