Stock Market Trend Estimation Using Digital Signal Processing Techniques

Project Members:

Hüseyin Baş
Yiğit Okur
Hakan Hamza Uğur

Problem Statement

Stock market data is inherently noisy and exhibits complex patterns due to various market dynamics. Traditional statistical methods struggle to effectively analyze such data for trend estimation and noise reduction. This project aims to utilize digital signal processing (DSP) techniques to analyze stock price data, remove noise, and identify underlying trends and periodic behaviors.

Introduction

Stock market trend estimation has been a significant area of interest for financial analysts and researchers. Traditional approaches often rely on techniques such as moving averages or advanced methods like machine learning. However, digital signal processing (DSP) techniques, including Fourier analysis, filtering, and wavelet transforms, offer a novel perspective by treating stock prices as time-series signals. Applying DSP techniques can help uncover periodic trends, reduce noise, and enhance the clarity of financial data. These methods enable a deeper understanding of the underlying patterns in stock price movements, which are otherwise challenging to detect using conventional statistical tools.

Methodology

Data Collection

We will start by gathering historical stock price data from sources such as Yahoo Finance or Alpha Vantage. Once the data is retrieved, it will be formatted as discrete-time signals to make it suitable for processing with digital signal processing techniques.

Preprocessing

To prepare the data for analysis, we will:

1. Resample it to ensure uniform sampling intervals, which is crucial for consistent analysis.
2. Normalize the data so that all values are within a comparable range, making it easier to process and interpret.

Signal Processing Steps

After preprocessing, we will apply various DSP techniques to analyze the stock data:

1. **Noise Reduction**: Low-pass filters will be implemented to eliminate high-frequency noise, helping us focus on the meaningful trends.
2. **Frequency Analysis**: Using Fourier Transform, we will identify any periodic trends in the stock prices, such as weekly or monthly cycles.
3. **Trend Extraction**: Moving averages or wavelet transforms will be applied to capture and highlight long-term trends in the data.

Trend Prediction

To estimate future stock trends, we will:

- Use autocorrelation techniques to detect repeating patterns in the data.
- Apply extrapolation methods to predict future price movements based on the identified patterns and trends.

Finally, we will validate our findings by comparing the predicted trends with the actual stock performance. This comparison will allow us to assess the accuracy and reliability of our methodology.

Time Schedule

Task	Duration
Data Collection	1 week
Data Preprocessing	1 week
Implementation of Filters	2 weeks
Fourier and Trend Analysis	2 weeks
Validation and Testing,	1 week
Writing Report	1 week

References

1. J.G. Proakis & D. Manolakis, *Digital Signal Processing*, Prentice Hall.
2. Okpor, M. D. (2020). Digital Signal Processing for Predicting Stock Prices. *International Journal of Computer Applications, 175*(26), 15-19.