Stock Market Analysis Capstone Project

Python for Finance

- Welcome to your first large project!
- This project will guide you through using all the skills we've covered in the first half of the course.

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- Everything you need is located under the folder:
- Stock-Market-Analysis-Capstone-Project
- There is an exercise notebook and a solutions notebook, as well as csv files for you to use.

- Note that this project exercise is optional.
- You can treat it as an exercise or jump to the solutions lecture and treat it as a code along project!

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- There are a few bonus tasks (such as the candlestick visualization) that require exploring the documentation, feel free to skip these.

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- Another major part of this project is to slowly introduce a few new financial concepts, basic things like returns and cumulative daily returns.

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- The methods for these financial analysis techniques are described thoroughly in the notebooks, so quite a bit of reading will be involved with this project to make it a full learning experience!

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- One last note, the notebook will want you to use pandas-datareader, however, some geographical locations, firewalls, or computer settings may limit your use of pandas-datareader, so all csv files are provided just in case!

- Let’s explore the exercise notebook so you can decide how you would like to approach the project!

Let’s get started!

Stock Market Analysis Solutions Part Four

- This last part of the project focuses on cumulative returns, let’s discuss what that actually means!

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- A cumulative return is the aggregate amount an investment has gained or lost over time, independent of the period of time involved.

- This is different than just the stock price at the current day, because it will take into account the daily returns.
- Keep in mind, our simple calculation here won't take into account stocks that give back a dividend.

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- Lets us say there is a stock 'ABC' that is being actively traded on an exchange.
- ABC has the following prices corresponding to the dates given...

Date	Price
01/01/2018	10
01/02/2018	15
01/03/2018	20
01/04/2018	25

- Daily Return : Daily return is the profit/loss made by the stock compared to the previous day.
- A value above one indicates profit, similarly a value below one indicates loss.

- It is also expressed in percentage to convey the information better.
- When expressed as percentage, if the value is above 0, the stock has given you profit otherwise it is a loss.

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Date	Daily Return	%Daily Return
01/01/2018	10/10 = 1	-
01/02/2018	15/10 = 3/2	50%
01/03/2018	20/15 = 4/3	33%
01/04/2018	25/20 = 5/4	20%

- Cumulative Return:
    - While daily returns are useful, it doesn't give the investor an immediate insight into the gains he or she had made till date, especially if the stock is very volatile.

- Cumulative return is computed relative to the day investment is made.
- If cumulative return is above one, you are making profits else you are in loss.

Date	Cumulative Return	%Cumulative Return
01/01/2018	10/10 = 1	100 %
01/02/2018	15/10 = 3/2	150 %
01/03/2018	20/10 = 2	200 %
01/04/2018	25/10 = 5/2	250 %

- The formula for a cumulative daily return is: $i_i=(1+r_t)*i_{t-1}$
- Here we can see we are just multiplying our previous investment at i at t-1 by 1+our percent returns.
- Pandas makes this very simple to calculate with its cumprod() method.

- Let’s jump to the jupyter notebook and code through this!